FINANCE – GENERAL

1990

APRIL

SA Trust provides R1,2bn for homes

CHARLOTTE MATHEWS

SINCE its inception three years ago, the SA Housing Trust (SAHT) has contracted for R1,2bn which it estimates will provide about 50 000 houses and 46 000 serviced stands over the next few years.

Trust market development manager Mike Fowlds said in an interview that at the end of December the trust had built 13 941 houses and was able to provide 23 388 serviced stands.

Through bond financing division Khayalethu Home Loans, which acted as a lender of last resort, the trust had led the huge financial institutions to the point where commitment had now been given to granting loans in this market as low as R12 500.

"We welcome this move as that is where the greatest accommodation need is," Fowlds said.

Assists

He said the encouragement of black construction companies by the trust and the Urban Foundation was one of several routes the organisations were following to address SA's critical housing shortage.

The trust assists with training and bulk buying for the entrepreneur and one of its protégés in the Western Cape has won his first contract for 50 houses.

Through the Contractor Development Agency, a new project for the Urban Foundation, black construction entrepreneurs are helped with advice and to raise the finance to make them able to handle bigger projects.

Only about 700 000 houses are owned by the black community in SA at present and there is demand for another 800 0000.

It is estimated that to eliminate the backlog and provide for growing demand, about 300 000 accommodation units a year need to be built for the next 10 years.

"The possession of a home gives a man dignity within his own community," Fowlds said.

"A man who owns a home becomes a part of the economy. He has an asset as security for getting HP and other credit financing. It creates a middle band of economically viable people.

The trust has embarked on a pilot project north of Evaton where it can provide a serviced stand, but without electricity, and an incremental house for R8 500.

"The trust's thought at this stage is that as the home-owner earns more money over time he can add to the house. We could register an initial bond of R20 000 so that he does not have to re-register each time he wants additional capital.

"We are also investigating other financial packages," he said.

An Urban Foundation spokesman said until recently only 10% of blacks who needed housing had been able to afford what was available, namely loans of R35 000 or more from building societies.

The Loan Guarantee Fund, an initiative by the Urban Foundation and the Mortgage Lenders Association of SA, would be launched soon. It was an insurance fund to enable building societies to give low loans.

The foundation was urging government to move away from the present policy of subsidising the interest rate on home loans to providing a once-off capital subsidy up front for serviced sites.

☐ Barlow Rand chairman Mike Rosholt is to succeed Jan Steyn as chairman of the Urban Foundation's board of directors.

Endowment stays a steady favourite

S/Day 1/4/90 (58) (000)

DESPITE the wave of new investment products in recent years, there seems to be good reason why more people continue to invest in the growing number of endowment options.

The main reason, major life assurers claim, is they are beating inflation. The endowment policy options are also considered safe investments over 10 years or longer.

Old Mutual Financial Advisory Services consultant and Ilpa member D'Arcy Krogh says these products are flexible. They also provide certain guarantees, including offering a tax-free return after 10 years or more.

"In the long term, one has to go for growth, and endowments fit the bill as most of the major companies provide returns that easily beat inflation, some averaging as high as 21% a year," says Krogh.

When life cover is added there is a guaranteed payout to dependents well in excess of total premiums paid in the events of the policyholder's premature death.

Endowments need not go through an estate in the event of death and may be nominated to one's dependents, thus saving time and executor fees, he says.

Liberty Life consultant Syd Carlisle says a number of endowment investment options exist, providing variations in terms of flexibility, risk and rate of return.

Examples available from Liberty Life are its Managed Portfolio (returning 19% pa over 10 years), a property linked endowment (14,5% pa), the Balanced Portfolio (16,5% pa over three years), the Variable (linked to share market and gilts, returning 24,5% pa since it was launched a year ago).

Although returns are tax-free after 10 years, premiums are no longer tax deductable — something retirement annuity policies enjoy.

Any withdrawal of benefits within the first 10 years are also tax free, but only provided the premiums are less than R4 000 a year.

Non-standard

"Should a company own the policy on behalf of an employee, it is regarded as non-standard policy and the company pays tax when the endowment reaches maturity," says Carlisle.

Known as a deferred compensation plan, an employer takes out a policy in lieu of awarding a pay increment if the employee is at his maximum marginal tax rate of 44%.

He says the longer the endowment policy is kept in force through regular premium payments, the greater the investor's return. After the initial mandatory 10 years, any extension period can be agreed between the parties.

Submitting an example of the financial benefits which accrue from continuing the policy after the 10-year period, he uses a 40-year-old person who pays R100 a month into a Liberty Life Managed Portfolio endowment.

Using a bonus rate of 15% a year and no life cover linkage, the following returns could be expected:

- ☐ At the age of 50 years the policy holder would receive R24 362;
- ☐ This jumps up at R57 091 at age 55; and
- ☐ At 60 years his payout would rocket further to R122 920.

Carlisle says endowments are also flexible. The initial starting premium may be doubled in the first 10 years and quadrupled in the 11th.

The type of endowment one should opt for depends on individual circumstances and other investments. On face value, the equity-linked option looks the most attractive.

Carlisle says this has been the case in the past, but cautions that what could happen to local and world equity markets over the next 10 years is anybody's guess. Presumably, good shares will continue to outstrip even high rates of inflation.

Moreover, he says a recent development which could uplift equity linked endowments is government's removal of the prescribed assets requirements.

"This means the prescribed portion of any life assurer's funds that previously had to be invested in low-yielding gilts may now be re-invested in higher yielding shares and in property options. This should improve the rate of return on all types of policies," he says.

Options to provide high income and capital gains

B Day. 2/4/90

AA LIFE has launched two investment options which, it claims, provide high capital gains and high income.

Known as Easi-Income and Easi-Wealth, the products are low-risk and hedge against erosion of lump sums by inflation, says AA Life broker division assistant GM Luc Orlando.

Easi-Income combines as life assurance policy with an immediate annuity for regular monthly income and preservation of the capital investment.

"This plan opens the route for older people with capital available for investment to take advantage of the higher than ordinary yields they can secure through life assurers," says Orlando.

Here the individual invests a capital amount and an income dependent on age is then made payable to the investor.

Some of the other benefits of the Easi-Plan include a guaranteed monthly income for 10 years and an element of tax relief.

LUC ORLANDO

Orlando says, previously, on death the capital lump sum invested was lost to the estate and heirs, but Easi-Wealth rectifies this.

The policy comprises two elements — a 10-year annuity and a 10-year endowment which are linked to tax-effective high income funds.

Here a lump sum is invested in an annuity that pays an income over 10 years. This in turn is used to fund the premium payments on an endowment for a similar period.

"After 10 years, the immediate annuity expires and the endowment provides a handsome after-tax maturity benefit to the investor."

Orlando says a higher than average yield on the lump sum plus tax-free growth assures unchanged income for 10 years.

After 10 years the proceeds from the endowment are tax free while the option then exists to draw the full capital amount or a tax-free income from partial maturities of the endowment for the remainder of the investor's life.

Inflation can make things go backward

BIDay 2/4/90

RISK takes many forms, but one of the surest ways to lose money is to invest in something that does not give a return at least equal to the rate of inflation.

This is one point made by Prospur Portfolio Managers when suggesting everyone — not just the government — should have a five-year plan with professional input.

Succeeding in financial markets is like winning in any other field of endeavour. Sometimes it is false economy to blunder around the markets and it would be cheaper to entrust investments to a professional manager.

Backwards

Inflation, says Prospur director John van Zyl, is one of the least understood investment phenomena which makes most things go backwards. But risk cannot be avoided if one expects to beat it.

"There is no SA investment without some form of risk," he says. "In order to earn a positive *real return* the risk should be fairly obvious to anyone who is reasonably aware of the investment market."

For the private investor, this realisation has some very real implications, probably the most important being that unless he becomes competent at managing investments that carry risk he cannot afford to stop working, or his capital will decline.

Few investors calculate the real return on fixed interest investments.

This means that if inflation is 15% a year and one's investments earn 18,5%, the *after-tax* return may be as low as 10% net — depending on the individual's marginal tax rate.

That ends up as a negative real return of 5% a year and a steadily lower standard of living.

Thus, for example, he cautions that fixed interest investments may not seem risky, but they rank among the safest way to lose money, because they provide low interest rates which are mostly taxable.

"With double digit inflation here to stay we need to plan our future," he says.

For instance, many people think when they retire their pensions will be sufficient to live on, but most pensions do not make adjustment for inflation.

One may retire on R10 000 a month, yet with inflation at 15% in five years one will need R20 113 a month to maintain the standard of living at the same level as when retirement commenced.

"However, if inflation is higher — say 25% (some economists say 25% is closer to the real inflation rate) — then one would need R30 517 in five years to simply break even.

"It is therefore vital that all excess cash should be invested in growth assets, such as equities."

Thus in buying shares one should limit investments to quality counters, like companies that are profitably managed and have strong balance sheets, a solid history and a promising future.

Above all, the share price should represent good value when compared with the underlying assets one is purchasing, he says.

"Equities have historically yielded growth better than either cash or property. Recent declines in the JSE offer excellent opportunities to buy some good shares at reasonable prices."

Van Zyl suggests any good financial manager should be able to provide professional advice on such matters as:

Adequate

- Retirement planning. Whether the client will have adequate proceeds to retire on and which will also ensure a continuation of that person's normal standard of living;
- Estate planning to minimise duty payable on large estates to ensure one's will is properly structured;
- Business planning, which includes buy and sell agreements that prevent a surviving partner from paying a large sum to the executor, action against serious financial problems arising from the death of key personnel and coverage against large liabilities on load accounts.
- Investment planning, which is tax efficient and caters for the financial objectives of the individual and his family, including reasonable financial goals.

Balance income and growth investments

BALANCE between income-bearing and growth investments will continue to be the formula for optimum return over five years or longer.

Unfortunately, this factor is still commonly overlooked by people inheriting money, says Old Mutual's Johannesburg financial advisory services consultant D'Arcy Krogh.

He cites large pension and assurance payouts to widows as often creating a false impression of security.

"By ignoring the right investment balance many suffer the consequences later on."

Krogh supposes that at the time of his death a husband was earning R3 000 a month. His annual increase of 12% would then push this up to R16 420 a month15 years later.

This means the widow would have to invest carefully through an income-bearing investment and a growth investment to maintain a good monthly income.

The former sum would supplement the widow's pension or give her a monthly income to live on. A growth investment with its higher, inflation beating return after tax is deducted, would be needed over the longer term.

"It stands to reason that the capital from which income is derived will reduce in value according to the inflation rate," he says.

Assuming an inflation rate of 12%, the buying power of R100 000 today would be reduced to R18 269 in 15 years' time.

Even if the interest earned is reinvested, this type of investment does not keep up with inflation.

"Invested at 14%, and taxed at 35%, the net after-tax interest rate would be only 9,1%," he says.

Business Day SURVEY

Inflation, taxation and security are three fundamental concerns when it comes to an individual's investments. In addition, SA is entering a particularly uncertain period in its history. The answer for the would-be investor is to seek specialist advice. **LYNN CARLISLE** *reports.*

Planning to retain maximum returns

PERSONAL financial planning is your lifeboat in a sinking economy and should be a matter of priority done with the aid of financial experts.

Coopers & Lybrand tax consultant Pascale van der Elst says certain guidelines must be complied with to ensure maximum retention of income and returns from investments.

Personal financial planning (PFP) is a means of structuring your financial affairs in the most beneficial and tax-effective way. Van der Elst says the first step in implementing such a plan is to review your assets and liabilities, and then ask yourself three questions:

☐ What is your short to medium-term cash flow situation like — is it enough to meet *growing* commitments, or must it be supplemented?

B/Day 2/4/90 (58)

Possibilities

☐ What about retirement — are you secure, do you have an *adequate* pension and what about alternative retirement possibilities and insurance?

☐ With regard to long-term goals, do you have an emergency fund and savings and what if you have to replace a car, fridge etc?

Thus PFP is divided into various categories:

☐ Tax planning to reduce personal income tax and tax on investments, as well as ways to maximise fringe benefits;

☐ Project planning for specific projects, such as a house, children's education, post-graduate studies etc;

☐ Investment planning to increase investment income, protect capital from inflation and achieve an investment balance;

☐ Retirement planning which includes provident and pension funds, deferred compensation and insurance;

☐ Estate planning to reduce estate duty payments;

☐ Protection planning for bond cover, possible key-man insurance, partnership insurance and sickness and disability protection.

Profits feel the pressure

BDay 24/4/90 LINDA ENSOR (58)

UNDERWRITING profits will come under pressure this year because of the continued pressure on rates and the rise in the cost of claims and expenses, says SA Eagle MD Peter Martin in his annual review for the year to end-December.

Chairman Fred Haslett said strict control of expenses would be exercised to ensure maximum efficiency and productivity.

Martin said the value of SA Eagle's investments increased by R313,9m (70,5%) last year above book value and stood at R759m. About R29m was invested in blue chip equities at the beginning of 1989 and this contributed to the 18,5% rise in investment income.

Shareholders' funds increased by 22% to R158,9m (R130m) and total assets by 12% to R622m (R554m). The solvency margin improved from 59,6% to 93,4%.

Last year there was a substantial motor account loss, with the high number of stolen and hijacked vehicles contributing to the adverse situation.

However, the fire department produced a surplus and certain sections of the accident account produced satisfactory surpluses in spite of rate reductions in the commercial and industrial sector, static domestic rates and the increased cost of claim settlements.

The closed marine and aviation accounts also produced surpluses.

Martin said SA Eagle's computerisation project was proceeding and should be fully operative in 1992.

D/Dan 2/4/90

Bond exchange 'unnecessary'

(58)

ROBERT GENTLE

THE formal bond exchange being set up in the JSE Annexe has been described by Discount House group chairman Colin Dunn as expensive, unnecessary and likely to reduce market liquidity.

In the 1989 annual report, Dunn says that while the need to control the highly geared, high-risk public derivative markets is fully accepted, certain initiatives on the bond market are of concern.

"It is hoped that the authorities, through the Financial Markets Advisory Board, will carefully monitor these developments."

Elaborating on these remarks on Friday, Dunn said: "We've had a decent bond market for years without the need for expensive structures."

The new bond exchange, with its clearing house and guarantee system, could end up reducing jobbing activity, he said, and encourage participants to bypass the market and deal directly with one another.

The bond exchange was supposed to have started operating at the same time as the formal SA Futures Exchange (Safex) in a few months' time, but delays have pushed its likely start-up date to later this year.

Meanwhile, Dunn says in the annual report that the Discount House group, in keeping with the changing financial environment, will continue to diversify into other activities in the financial services sector.

One such area is securitisation — the converting of non-negotiable debt into marketable securities.

Futures brokers get go-ahead to go on screen

BDay 2/4/90

ROBERT GENTLE

IN A key development in the run-up to the formal market, futures brokers have been given the green light to quote prices on the Reuters screen, a medium hitherto restricted to a handful of financial institutions.

The immediate result of this move, which came into effect last week, has been an increase in competition and an attendant lowering of trading prices for would-be clients.

This is because there is now a greater range of prices to choose from, which has produced a narrowing of the spread or double (the difference between bid and offer).

(58)

As on the JSE, a narrower spread means the market has a shorter distance to move before a profit can be made. Clients are therefore more willing to jump in and out, stimulating trade and enhancing liquidity.

The futures broking firms now displaying bid-offer prices on Reuters are First Financial Futures, Holcom Futures, National Futures & Options and Cape-based SA Futures & Options.

An SA Futures & Options trader said the increased competition had already led to some of the narrowest doubles seen on screen for some time.

A spokesman for Greenwich Futures, the major player in the local market and, now the only futures broker still off screen, said it suited the company's present strategy to continue trading this way.

☐ SA Futures & Options will, from April 9, be known by a new name, Davis Ralph Sadleir (DRS), because of confusion in the public mind between it and Safex (SA Futures Exchange).

Credit cards can offer a wide range of services

Blom 24/90 (58)

FROM their origins as a basic charge card, bank credit cards have evolved to offer a range of sophisticated card-based financial services that warrant renewed consideration.

As charges, interest and link-ups may vary, it is interesting to compare what high income earner credit cards have to offer from the two leading banks.

Along with most banks, First National Bank (FNB) and Standard Bank offer ordinary and special credit cards for high income earners.

While Standard's Gold MasterCard holders may withdraw up to R1 000 daily, FNB's Premier card allows for up to R500 to be withdrawn. However, Premier clients may withdraw and be paid their entire credit balance by a free cheque.

The cards from both banks operate from all ATM networks and all of Standard's accounts can be linked to its card.

Thus one can request balances on all linked accounts through the ATM, including the credit cards, as well as transfer money from one account to another via Standard's AutoBank network.

Electronically

Through the Gold MasterCard link-up, personal accounts can also be paid electronically using Standard's Bank-by-Phone facility.

Revolving credit and budget plan facilities are also available to FNB's Premier cardholders who are offered the following extra services free of charge:

- ☐ Lost card protection;
- ☐ Flight insurance up to R400 000 (may be increased to R1m for an extra R25);
- ☐ Medical costs covered up to R1m;
- ☐ PetroCard link-up.

Free emergency travel assistance is provided through GESA Assistance which covers emergency medical treatment, transfer to or between medical facilities and payment of medical expenses outside of SA, repatriation after treatment, repatriation of companions and legal assistance for events such as the loss of passports.

Gold MasterCard also provides revolving credit and budget plan facilities, free lost-card protection, free flight insurance and its Bank Garage Card link-up.

Cash advances up to $100 are available to Gold MasterCard holders while travelling abroad.

However, Premier cardholders overseas may receive up to $1 500 (Visa FirstCard $100) a day at banks and 40 000 ATMs overseas.

On credit limits, Standard's Gold MasterCard "prestige package" credit is R10 000 minimum. FNB's Premier is R15 000.

Minimum

While the branches assess who qualifies for any type of card, an applicant for a Gold MasterCard must normally have a minimum annual income of R75 000 plus assets worth R100 000 to qualify for the prestige package.

Premier Card qualifications are simply an annual income of R100 000.

Interest charged by Standard on debit balances is 29,5% for ordinary MasterCard and 23% for Gold MasterCard. No interest is charged if the account is paid within 25 days of the statement date.

FNB also charges 29,5% with free credit provided for up to 55 days if the account is settled in full before the due date.

While Premier's interest on credit balances is 15% up to R100 000, interest earned on Gold MasterCard credit balances under R1 000 is 9,5%, but ranges to 16% for balances up to R100 000.

All cards offer other ancillary perks.

Standard's ordinary MasterCard provides for cash withdrawals up to R200 from bank branches and R500 daily from ATMs.

It provides all the revolving credit, budget plan and link-up facilities that the Gold MasterCard provides, however, lost card protection is not free, while free flight insurance is slightly less in some instances.

Growth in black insurance

LINDA ENSOR

THE black life insurance market has shown strong growth over the past few years, with Sanlam's black business rising by 262% over four years to end-September 1989. BDay 2/4/90

Old Mutual estimates that about 30% of its 4-million life-policy holders are black, if allowance is made for inaccuracies arising from double counting of members having several portfolios.

The growth in the market, insurers say, is related to the growth in personal disposable incomes, the breakdown of the extended family network, urbanisation and the growing awareness of the benefits of life insurance.

While most insurance companies do not keep separate statistics for black people, regional and area figures indicate a growing market.

Black people represent about 70% of the approximately 6,5-million policy-holders of Sanlam's subsidiary company Metropolitan Life.

Southern Life's 80%-owned African Life specialises in the low income market, offering products with a premium of between R30-R50. Between end-March 1986 and end-March 1989, the number of policies written has increased 161% to reach 37 474, and annualised recurring premium income has risen 285% from R4,1m to R15,7m.

African Life MD Bill Jack says the black market is big, but there are limits as a large proportion of the population — the 50% living in rural areas and the large proportion below the age of 18 years — do not need life policies.

Liberty Life also reports a growing interest in life policies among the black community. (58)

New Era is another player in the black market. It has raised its premium income by an average 25,9% since 1986.

MD Nick Gebhardt says growth at the lower end of the black market is almost totally nullified by the high lapse rate during economic downturns.

Another problem, he says, is the difficulty of collecting premiums from low-income people who do not have savings accounts and whose employers are reluctant to deduct premiums from wages.

FINANCE

Banks face cold winter of discontent and tight policy

M Day 24/4/90

A LONG cold winter of discontent is facing the banks — unless their advances, in absolute terms, can be reduced. There is no sign of the Reserve Bank relaxing the constrictions of its monetary policy, nor is there any likelihood of it yielding to bankers' pleas for a rise in the Bank rate.

Indeed, there is no reason for Bank rate to rise higher than it is at present if pressure is maintaining banks' profits by keeping high their costs of funding by restricting the flow of liquidity into the market.

The banks were under continual pressure last month although their debt to the Reserve Bank never dropped lower than R3,3bn, reaching as high as R4,7bn as March drew to a close. It was assumed about R3,5bn was a comfortable level of indebtedness to the central bank because the borrowing was effected at Bank rate, covered by liquid assets.

But apparently this was a misconception because the banks did not have about R3,5bn of surplus liquid assets — only about R2,5bn and the balance of about R1bn had been borrowed from the Bank at the penal rate of 22,75%.

This miscalculation of the banks' total surplus of liquid assets arose from not taking into account that the

IN THE MONEY MARKETS

Harold Fridjhon

banks had had to increase their cash deposits at the Reserve Bank by between R300m and R400m because of their swollen holdings of notes and coins during the December/January period. This became apparent when their February returns were made to the central bank.

In addition, the banks lost liquid assets when the 1990 stock was redeemed and the supply of Land Bank bills had diminished.

Wisely, the banks did not cover their shortage by raising additional call deposits in the market. This would have jerked up wholesale rates. Big Money call rates were held below 18,5% for most of the month, rising to 19,5%-19,75% only on the closing days of the month.

The Reserve Bank has been canny in its dealing. It has been mopping up dollars in the forex market — to hold down the rand rate — and has been sponging up the consequent inflow of rands by open market operations.

Trading rates for negotiable certificates of deposit (CDs) have been hardening. Twelve-month paper is being quoted at about 19,5% from 18,5%, six months at 19%-19,15% and three to four months about 19,55% from 19,40%.

Investors are seeking paper, but the banks, so far, are not issuers; they are hanging back, although most have been raising their retail rates for six-month and 12-month deposits, probably to attract smaller investors in the light of the new Budget dispensation on interest rates.

But while the tendency is for rates to harden, the major exception is the Treasury bill (TB) rate which has come down by 10 points in the last three weeks to 17,9% from 18% in tenders which are attracting an increasing volume of money. On Friday, R86m was bid for the R40m worth of bills on offer.

While some banks might be buyers, reports from the market suggest that there has been some offshore interest, with buyers using the financial rand. This is a luscious investment, a return of about 28%.

And the authorities do not mind a falling TB rate because in the prevailing climate nobody will regard that as a sign of falling rates.

B/Day 2/4/90 (58)

Beware the grey areas in home loans

INDIVIDUALS may get into deep water — or institutions find themselves under attack by their clients — over new generation home loans.

Innovative unit trust-linked and endowment-linked home loans appear to offer attractive returns on maturity compared with conventional bonds. But certain grey areas exist, say independent consultants.

Advantages claimed for these mortgage bond options, currently marketed by some building societies and other financial institutions, over conventional home loans, are:

- They offer attractive short and long-term advantages over other bonds;
- They provide real savings where 25-year bonds are concerned as well as over much shorter periods;
- The borrower only has to service the interest on the loan through his monthly bond repayments; and
- This results in the original cost (capital liability) of the home being normally repaid only at the end of the 25-year bond period — unless the buyer wants to pay it earlier.

Thus with these options money from monthly instalments on the bond is invested in either an endowment policy or in unit trust certificates — instead of reducing the capital portion of the home loan.

Surplus

Income on maturity with either type of investment covers the original cost of the home, leaving a capital surplus, which *may* be free of tax for the borrower.

On unit tust-linked bonds, the theory is that when the capital amount is finally due under the bond, the unit trusts may have grown sufficiently to provide a capital sum large enough to liquidate the debt.

But unlike an endowment-linked bond, it does not guarantee any minimum payout.

Ernest & Young partner David Clegg says while such unit trust-linked schemes may, on the face of it, meet the required financial objectives, there could be tax risks involving any capital gains.

"The length of time for which an investment is held is still an important factor in determining whether gains on realisation are of a tax-free (capital) or taxable (declining) nature — the longer, obviously, the better."

However, in the end, the shareholder's (or bond borrower's) intention, usually at the time of acquisition but in some cases later on, is critical and the period of holding does no more than support or cast doubt on it.

"Although the statement by Finance Minister Barend du Plessis in his Budget speech provides safe haven rules for JSE-listed securities held for more than 10 years, this does not necessarily assist investors in unit trusts (which are not listed) or those who link to shares, but whose loans mature in less than 10 years."

Clegg says the difficulty with the new unit trust scheme is it almost inevitably presupposes the unit trust certificates will be realised to pay off the debt, and this intention exists at the moment of purchase.

"This seems to be a case in which even a very long holding period (20 years) after the first purchases would not provide any protection against an attack by the Receiver.

Defend

"In the case of certificates bought nearer the bond maturity date, not even the hand of time would help defend the 'capital' argument," he says.

It has been suggested that holdings in unit trusts are different from investments in quoted shares and that gains, or losses, are inherently of a capital nature.

"If so, that would put an end to the concerns raised above. But unfortunately, that is not the case," says Clegg.

In the only recorded court decision on the point, it was held that a farmer who bought unit trust certificates during the bull market of 1969 did so with the intention of making a profit on resale.

As it happened, he made a loss!

But the court's decision meant that the Receiver had to grant that loss as a deduction in determining his income from other sources. In other words, he was a "dealer" in unit trusts.

Certainly, it is possible the Receiver will not raise the question when a bond is repaid and that a simple note that the realisation of unit trust certificates was on capital account will be accepted. But this is unlikely — given the probable amount involved.

On the other hand, an extension of Du Plessis "safe haven" statement, or a practice note by the Receiver acknowledging that unit trusts are equivilent to listed shares, would go some way to removing the concern.

Endowment-linked bonds, which give borrowers the opportunity for bond-based money management while providing a tax haven (in the form of an appreciating asset from the bonded property) appear also to have shortcomings.

Inflexibility in the light of findings by building societies, which suggest SA's white yuppies sell their homes every five years on average, is the main problem.

Because no endowment policy has a term, or guarantee, under 10 years (otherwise there are severe tax penalties for endowments), the bond holder is virtually locked in for this minimum period.

Return

Maritzburg-based Surelink Consultants broker David Turner says the average bond rate during the past five years has been around 17%.

Yet, the historical performance return on endowments is 18% "at best" over 10 years. This excludes bond cover costs. He sees no saving for about eight years if bond interest rates remain above 19%.

Turner says if the average term of a bond is five years then five-year term life cover is all that is required.

"The early surrender value, of say five years, of an endowment is an adverse factor due to the insurer's life cover and commission charges," he says.

If terminated prematurely, the endowment-linked bond investment is made "paid up," resulting in a surrender value considerably less than what the borrower has paid in, and with tax penalties within the first 10 years.

But should the borrower see out the 10 years or longer the endowment-linked bond guarantees repayment of the bond on expiry of the home loan term, or on the death of the borrower.

If the client elects to continue the policy for the full term of the bond he could also receive a large, tax-free lump sum over and above the guaranteed amount required to cover the capital liability under the bond.

BDay 2/4/90

HOUSE prices in many instances are achieving all-time highs, and the residential property market is at its best, says Eskel Jawitz JHI Real Estate MD Eskel Jawitz.

There is a shortage of good quality homes for sale and strong (in terms of numbers), though apprehensive (in terms of where interest rates are going), buyer demand.

"The market is displaying this resilience and buoyancy in the face of rampant inflation, interest rates almost at their previous peak and high GST and personal tax."

Market enthusiasm has been further curbed by Reserve Bank Governor Chris Stals' determination to stem domestic over-expenditure.

Entreaties

Jawitz ascribes positive sentiment for property to South Africans having become inflation-oriented as well as finding it difficult to save — despite certain entreaties by the authorities.

As savings returns cannot keep pace with inflation, people consider it better to buy now, despite high interest rates, believing the cost of credit will remain lower than ever-spiralling costs.

"People are acquiring assets wherever and whenever they can, with residential property certainly considered an asset. Their home is their one tangible asset, which accounts for the market being as strong as it is."

He believes interest rates could rise further and this raises the issue of affordability.

ESKEL JAWITZ

Indeed, high interest rates overseas — 15% in the UK and 10% in the US — have caused problems for property, placing housing in the doldrums in both countries.

While economists contend SA's real rate of interest is low compared with certain overseas countries (based on the difference between interest rates and that of inflation), it is open to contention as the ordinary consumer battles to cope with his declining disposable income.

However, the upper income market appears to be buoyant as local financial institutions vie for greater market share of this more lucrative sector by offering attractive home loan incentives.

Notwithstanding another hike in interest rates, which could cause a downward adjustment in the home market, it would be inadvisable to wait for such before buying a house.

"One buys residential property for the security of owning one's own home and as a hedge against inflation: its value is determined not by when one buys, but by when one sells," he says.

Stricter AIDS test planned

Bdcy 2/4/90

58

LINDA ENSOR

OLD Mutual is to apply stricter AIDS screening procedures as from June 1 this year when all applicants for life policies in which the sum assured is R100 000 or more will have to undergo a test.

At present, the figure is R150 000 or more.

Old Mutual's development actuary, Peter de Byer, says the step is necessary because the AIDS epidemic is spreading and it is expected that the number of HIV positive cases will double each year.

De Byer estimates that since November 1988, when the Life Offices Association (LOA) introduced a testing limit of R200 000, one HIV carrier has been found in every 1 000 of the total of about 20 000 people tested throughout the industry.

Pension fund an important investment

AN employees's pension fund is a most important investment.

But pensions are taken for granted and seldom appraised or reviewed, which can hurt later on in life.

When a change of employment is made one should ensure that any loss of pension fund contributions is weighed against the respective merits of the prospective job.

This advice is supported by Pensions Institute of Southern Africa executive director Willie van Niekerk.

"Based on normal pension fund contributions of 5%-7,5% it takes a working lifetime to build a reasonably good pension."

Relatively few workers know the income tax laws permit them to voluntary contribute R1 800 a year, fully tax deductible, to an approved fund in respect of previous periods of employment when they did not contribute to a pension fund.

This voluntary contribution is over and above the contribution made in terms of the fund's rules.

"If pension is not adequate then plan for additional provision, such as a retirement annuity policy or policies taken out at various stages of your working career, as needs dictate and funds permit," says Van Niekerk.

Stable sectors can provide a hedge

B/Day 2/4/90

NERVOUS investors with little spare cash tend to avoid putting it on the stock exchange, but there are sectors that are quite stable and a hedge against inflation.

Among these are listed property company shares and property trusts. Both offer participation in the equity of an institution that owns a large number of varying types of property.

Marketable

Based particularly on commercial and industrial property, the Board of Executors (BoE) says an equity type investment in property provides real returns and is also highly marketable.

BoE Cape Town GM (client services) Brian Bechet says the combination of the quality of the underlying property and the steadily increasing income yield normally results in the overall value of the investment improving.

While linked to the fortunes of property, these two sectors do not generally behave with the same volatility as the rest of the JSE, he says.

BRIAN BECHET

"They can thus be viewed by the normally nervous investor as a sound and secure avenue for investment of smaller amounts of money for long-term capital protection."

There are 32 companies listed in the JSE property sector and 15 listed property trusts.

An example of a property unit trust is Apex, listed last November by Anglo American Fund Managers. Valued at R205m, it comprised a public offer of more than 82-million units at 250c a unit.

Apex offers investors a portfolio of prime commercial property in Cape Town and the PWV area, says Anglo American Property Services (Amapros) MD Gerald Leissner.

Spearheaded

It has R51m in cash and its initial properties, valued at R155m, are spearheaded by some leading retail centres and supported by established office developments.

National retailers account for 32% of the portfolio, banks, building societies and government departments 20%, major tenants 9%, while 39% is let to minor tenants.

Apex is projecting a dividend yield of 11,13% for 17 months. Additionally, there is capital growth arising from any re-rating of this share by individual and institutional investors.

Property-linked plans should be in every portfolio

BARRY KALKHOVEN

A SELECTION or combination of the various types of property-linked investments should form part of every individual's investment portfolio, say investment managers.

Starting out with investment in the family home, one can expand into more exciting and often more profitable areas such as listed property investments, participation mortgage bonds and property syndications.

While the home is rarely considered as an investment at time of purchase, and may have certain limitations, the other options not only bolster income but provide critical protection against inflation.

Largest

Buying a home is usually the largest single investment the individual or family makes, but is often conducted without the application of the criteria which would normally apply to a large investment.

Critical to this investment is timing. Those who had the courage to buy after political disturbances have done extremely well, says Metboard GM Barry Kalkhoven. However, many South Africans buy at the wrong time.

Board of Executors (BoE) Cape Town GM (client services) Brian Bechet says one should not be blinded by "socio-emotional" reasons and remember a home does not provide one with an income yield.

"Property experts tend to favour the theory that the best possible investment is the most affordable site in the best possible position," he says.

Kalkhoven adds that for many, buying a second home appears to be a natural extension of one's property exposure, but this route may turn out to be far from ideal.

"There are many problems associated with a second house, not the least of which is having all your eggs in one basket.

"A house is also an investment that is difficult to get out of in a hurry. It is also difficult to find the right tenant and there is no such thing as a long lease on the market."

Though rent from a second home is taxable, the Receiver may disallow a tax deduction on any interest paid on the bond which exceeds income from the rent, where it appears unlikely that the house will ever generate a profit.

An investment in participation mortgage bonds, normally placed through a reputable institution which identifies secure properties that require loan finance, is a loan of a fixed amount for five years.

Interest is normally paid quarterly in advance with the rate being market driven. Part bonds should, however, probably be seen as an "income sweetener" in post-pension periods.

Gaining popularity are property syndications. But being the newest form of long-term property investment makes them the least understood by the small investor, says Bechet.

"He seems to perceive syndications as being for the mega-rich, but they are not."

Bechet says the BoE will have as many as 90 investors with a single investment being as little as R20 000.

A share in a syndication means an investment in a single identifiable property, rather than a portfolio of various properties.

"Properties selected generally represent blue chip sites and an investor can be reasonably certain of his starting yield and of how it is likely to escalate over time."

Average

He says the average starting yield is likely to be 11% a year and will usually increase by 10% compounded a year.

Metboard says its property syndications in the last year have all been sold out in short time.

It says the level of investment in shareblocks can be in denominations of R10 000 — which is much less than needed for a second home.

Experts select commercial properties located in busy business districts with a tenant mix carefully evaluated to ensure they are capable of meeting their rental obligations.

Kalkhoven says the benefits of property syndications are exceptional returns: over five years, cumulative income and capital can be as high as 140% on an ungeared basis — where the purchaser pays cash.

Where gearing is involved, returns of up to 200% are achieved. In Metboard's scheme, automatic gearing for property syndications is available, meaning the investor need not go through the process of credit approval as it automatically guarantees financing.

Return is twofold. Rental from tenants in the building, less running expenses leaves net income, which is divided among syndicate members.

Capital return from syndicates is achieved when one sells the investment — as with any share.

The value of the asset (property) should thus rise in line with any rental escalations that may occur from year to year at a specific percentage.

Clearly, a property syndication investor reaps the benefits of being a landlord without the problems associated with being one.

Bechet says while there is not generally a high turnover of investors in property syndications, should one wish to dispose of his investment the institution managing the project will normally have a pool waiting to acquire shares.

The institution also provides a regular indication of the value at which a syndication's shares last traded so that the investor can gauge the current value of his holding.

HAVE Y

BUSINESS DAY, Monday, April 2 1990

BDay 2/4/90

Taking a legitimate tax saving

DIRECTORS of private companies and members of close corporations (CC) can shelter as much as 30% of their gross remuneration with life assurance products.

Ilpa fellow and Bottom Line consultants joint-MD Faizel Mahomed says an often overlooked advantage of converting a sole trader, or partnership, into a private company or CC is the opportunity it allows for legitimate tax savings.

Ideal

"An ideal tax shelter is a vehicle that allows you to save your income from tax while at the same time providing an inflation beating return.

"Several insurance-related investment products take advantage of the Income Tax Act to provide such vehicles.

"These are not loopholes but have been available for many years and form part of a retirement plan."

Mahomed says such persons can shelter 30% of gross remuneration and save an additional R3 500 annually by investing in:

- A non-contributory provident fund which shelters up to 20% of gross remuneration;
- A deferred compensation scheme which shelters a further 10%;

Privately

- A retirement annuity (RA) for the R3 500 taken out privately by the individual.

Explaining how the 30% comes about, Mahomed says up to 20% of one's salary can be paid by the company or CC into the provident fund instead of to the director or member, while another 10% goes into a deferred compensation scheme.

"These payments would be deductible by the company or CC under section 11 of the Income Tax Act, and the tax saving will be calculated at the marginal rate of the director or member (up to 44% maximum)."

FAIZEL MAHOMED

He says at retirement, the situation will be:

- The provident fund and deferred compensation plans are paid as lump sums to the director/-member;
- One-third of the retirement fund will be paid as a lump sum while the balance of two-thirds must by law be invested to provide an annuity for life.

The tax-free amounts of the lump sums will be:

- R120 000 total for both provident funds and RA funds;
- R30 000 for deferred compensation schemes.

Thus the total tax-free amounts will be R150 000.

The balance of the RA funds and provident funds will be taxed at the average tax rate.

Marginal

In the case of deferred compensation schemes, up to three times the annual salary will be taxed at the average tax rate and the balance at the marginal rate.

In SA, individuals are taxed on the progressive tax tables — as your income increases over various thresholds each additional rand of income will be taxed at a higher tax rate (the marginal rate of tax).

Alternatively, the average rate of tax is the total tax paid divided by the total income.

A post-Budget example shows that if a married person's taxable income is R80 000, his marginal tax rate is 44%.

If he earns an extra R1 000 he will pay R440 tax on this.

His total tax on R80 000 income is R25 800, thus his average rate on R80 000 is 32%. On R40 000 taxable income, his marginal rate is 36% and his average rate 24%.

With careful planning, the average tax rate in the year of retirement can be reduced to, say, 14% by, firstly, retiring at the beginning of the tax year, preferably on March 1.

Arrears

Secondly, if any RAs are payable, elect to take these annually in arrears; for instance, the RA is then paid in the March of the following year.

Finally, the lump sum — in excess of the free portion — will be taxable.

However, Mahomed says 15% of these amounts can then be invested in a single premium RA.

"Such an investment will further reduce the taxable income in the year of retirement."

Stanbic's home loans increased to R4,5bn

(58)

BDay 3/4/90

BARRY SERGEANT

STANDARD Bank Investment Corporation (Stanbic) increased its home-loan book by more than 50% in the year to end-December to R4,5bn (R3bn), according to the annual report released today.

A further R700m worth of bonds — about the same as a year ago — were in the course of registration at year-end. Overall, Stanbic posted a 25,9% increase in earnings per share to 340c (270c), as dividends per share rose 17,9% to 112c (95c). Dividend cover was up from 2,7 to 3,0 times.

Total shareholders' funds increased 20% to R1,9bn (R1,6bn) while total assets reflected an increase of 25,8% to R37,3bn (R29,7bn). Return on shareholders' funds improved to 17,8% (16,8%), reflecting, according to CE Conrad Strauss, "the higher level of earnings achieved and improved utilisation of the group's capital base".

The crucial return on assets increased marginally from 0,90% to "0,92%.

Staff costs increased by 19,7%, "resulting from a 5,3% rise in personnel over the year and from continuing upward pressure on salaries due to severe competition for skilled people in the financial services market".

Other operating costs rose by 27,7%, "caused particularly by sharply higher depreciation charges and by heavy spending on redesigning and extending the group's electronic systems to add to their capacity".

Hi-tech spending (computer and office equipment) more than doubled to R137,7m (R65,2m). This was occasioned by "the need to increase on-line processing capabilities and to meet the demands of growth in business volumes".

In addition to 1 006 branches and agencies, Stanbic now has 112 AutoBank centres, 722 ATMs and 252 AutoPlus machines in service. Stanbic opened its first offshore branch, in Taipei.

Financials

Stanbic took material advantage of the moratorium granting exemption from the payment of stamp duties and transfer fees arising under group rationalisation schemes by reorganising its internal ownership of a large number of banking properties. The properties were acquired by Stanbic at "fair market values"; the surplus over book value of R82,7m was transferred to reserves.

In the financials, the all-important equity to asset ratio declined to 5,1% (5,4%). The 20% increase in shareholders' funds exceeded the inflation rate, but fell below the 25,8% growth in total assets. But the equity to asset ratio is ahead of regulations under phase-in.

The tax charge per income statement increased significantly to R216,5m (R159,6m), with the effective rate going to 41% (39%). Another feature in the financials is that the open market value of land and buildings, based on internal valuations undertaken during 1987, is estimated at R470,5m (R433,0m) — 17% more than the R401,3m book value.

The annual report lists Stanbic's four largest shareholders as Liberty Life (31,8-million shares, 37,9% of the total), SA Mutual Group (23,9%), Rembrandt Group (12,5%), and Gold Fields Group (12,3%). Out of 4 344 shareholders, 4 167 hold fewer than 5 000 shares.

Most operating subsidiaries recorded increases in operating profits: Standard Bank of SA (corporate banking, commercial market, bond and futures markets, small business, agriculture, home loans, personal market, electronic payments, Standard Fund Managers, Financial Services, international trade and foreign exchange markets) Standard Merchant Bank, Stanbo, Stanswa, and Diners Club.

The exception was Stannic, which recorded a decline in operating profit to R23,4m (R31,2m), but wrote R3,6bn worth of new business during the year.

Strauss concludes that the group is ready for the "competitive battle for market share" of which the market is acutely aware. "The group is ready for this and is confident that it can exploit the opportunities for organic growth and, if the conditions are right, for growth by acquisition also. . . ."

R1M FOR STAKE IN DISTRIKSBANK

HAROLD FRIDJHON

(58)

IN A R1m deal Securities Discount House Holdings (Sechold) is buying 49% of Boland Bank's wholly owned subsidiary Distriksbank, subject to the approval of the Registrar of Banks. BDay 3/4/90

One of the oldest operating banks in SA — it was founded in 1882 — Distriksbank is currently providing limited banking services in the Boland; the Sechold/Boland Bank partnership intends restructuring its business and transferring its activities to Cape Town.

Sechold MD Arthur Kelly said last night Distriksbank would be renamed and would concentrate on servicing corporate and financial sectors in the western Cape, participating in the bond, money and derivative instruments markets.

Sechold had an established base in the Cape but clients were not being efficiently serviced from Johannesburg. It was envisaged that a well-staffed permanent organisation in Cape Town would not only enhance present client relations with major institutions but would also develop new business among potential clients of substance, Kelly said.

The joint CEs of the bank, which will open its doors "as soon as possible" after June, will be "CN" Louw, of Sechold, and Edith Miehe, at present head of money market operations at the Board of Executors in Cape Town. Two experienced Sechold market dealers, Alan Hatchuel and Cassie Fourie, will also join the new bank.

Chairman will be Gert Liebenberg, vice-chairman and Boland Bank MD.

The agreement with Boland Bank will enable Sechold to increase its shareholding in the renamed Distriksbank to 70% from the present 40%, possibly after the enactment of the new Banks Act.

Equity market will be 'even more volatile than in 1989'

(58) LIZ ROUSE BDay 3/4/90

THE equity market will be characterised this year by even greater volatility than in 1989, with the overall trend being upward, says GuardBank Management Corporation chairman Donald Gordon.

Such conditions were ideal for the regular investor in unit trusts. GuardBank would continue to provide investors with one of the best opportunities to augment savings in real terms, Gordon said.

In comparison to the effect that political events would have on the equity market, the economic outlook paled into relative insignificance, he said.

However, in light of the various restrictive policies which would continue to be pursued by the authorities throughout the year, it was unlikely the economy would achieve a growth rate of 1% in 1990.

Accordingly, the high levels of profit increases which most companies had enjoyed during the past two years had to decline.

He said SA had moved forward in a direction from which there was no withdrawal.

"A major beneficiary will be the equity market because the prospect of the removal of sanctions, the opening up of many new markets and free access once more to the world's capital markets will offer opportunities to SA companies of such magnitude that the result would be breathtaking," Gordon said.

Last year the combined size of GuardBank's suite of three unit trusts, GuardBank Growth Fund, GuardBank Resources Fund and GuardBank Income Fund, grew to R914,2m from R584,7m, while the number of unit-holders increased to 63 900 from 50 300.

Sales of GuardBank units amounted to R203,8m, while repurchases amounted to R105,1m, resulting in a net inflow of R98,7m. This represented an increase of 161,8% over the net inflow of R37,7m in 1988, but nevertheless reflected a decrease of 33,2% over the record net inflow in 1987.

The higher level of repurchases over the past three years illustrated that the equity market collapse of 1987 was still fresh in the public's mind, he said.

have some misgivings," he said, "about the recent upsurge in gold

... in the mar the trading company ... the gold outright, or rai...

NBS fund grows 35%

B10 ... 3/4/90

LIZ ROUSE

MARKET value of the NBS Hallmark Mutual Fund grew by 35% in the quarter ended March as a result of a further good inflow of new funds as well as moderate growth in the portfolio. (58)

NBS Hallmark Management Company MD Ken Burns said the fund's liquidity was 19% at the end of March, plus 7% invested in Eskom 168 stock.

The fund managers increased the percentage of the equity portfolio invested in the mining and mining financial sectors from 47% to 53% in the latest quarter, Burns said.

The core holding of property trusts remained unchanged at 14%.

The equity holding of industrials fell from 39% to 33% over the quarter, according to Burns.

NBS Hallmark has declared an income distribution of 25,97c a unit for the six months to March.

This is an effective yield of 6,8% a year, among the highest yields of all the general equity unit trusts.

The latest dividend is 9,5% higher than the 23,72c a unit paid for the six months to March 1989.

JATE A
)FFER

Politics mauls the share market

CAM 71 4 P 3/4/90

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Own Correspondent

JOHANNESBURG. — The Stock Exchange was yesterday mauled by a combination of bearish factors, with sentiment being hardest hit by the ANC's cancellation of talks with Inkatha and President F W de Klerk.

News that the talks had been called off resulted in a wave of selling of SA shares from London. Then the second largest one-day fall of 6,6% on the Tokyo stock market caused a ripple of nervousness on the JSE.

The third negative factor in a depressing session of trading was the failure of the gold price to penetrate the $370 level. The metal closed unchanged in London from Friday's $369 after trading in a narrow band in featureless conditions.

The JSE overall index plummeted almost 4% or 129 points to 3 128 as a sharp 4,2% weakening in the finrand investment unit failed to stem the downward tide, with share prices substantially lower in dollar terms.

"Markets are driven by sentiment and yesterday we had not just one but a combination of three negative factors," a dealer said.

Analysts said the nosedive in political sentiment on the external front was reflected in the sharp downtrend of the finrand while, internally, sentiment could be measured by the Krugerrand's premium of almost 21% on the rand gold price.

The Krugerrand closed R3 lower at R1 187. Analysts said the differential with the rand gold price of R983 was high in historical terms and indicated uncertainty and unease at the current situation in SA.

The 5,2% (103-point) plunge in the JSE all gold index to 1 857 was seen as a belated reaction to last week's slump in the price of the metal to five-month lows.

Dealers said gold shares were now at more realistic levels after showing remarkable resilience last week when share prices recovered almost all of their initial losses by the weekend in the hope that the metal would at least recoup part of its $25 loss.

More depressing was the way leading industrial shares wilted under the weight of the negative factors, with the index shedding 3,2% or 96 points to 2 880.

Dealers said the only positive factor to emerge was the lack of heavy selling after London instigated the initial downturn. There was only selective offloading of shares by local institutions who also nibbled at some stocks on their way down.

● Finrand slump signals collapse in confidence — Page 12

Mr du Plessis . . . apartheid equivalent to socialism.

'High interest rates still necessary'

3/4/90

It would not be possible to bring down inflation unless high interest rates were maintained, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Replying to the first reading debate on the Budget, he said such interest rates were a nec essary pain.

Turning to disparities in State spending, he said while this Budget was the best the Government could have done at this stage, it was reviewing its five-year fiscal plan and would look at disparities again.

The State did not see its way clear to paying a bonus at this stage, but if ever it did, it would be directed at the elderly.

Referring to a statement that the Government's revenue was determined for it and not by it, Mr du Plessis said his colleagues regularly came to him to see how moves could be made within the Budget.

He had received no such representations from Ministers in the Houses of Representatives and Delegates, to which the Chairman of the Ministers' Council in the House of Representatives, Mr Allan Hendrickse, interjected: "We submitted a budget and you cut it."

Turning to privatisation, Mr du Plessis said its aim was to loosen available fixed capital for the socio-economic upliftment of all South Africans; for such capital to be used more efficiently and for the tax base to be broadened.

A mechanism had also to be found to deal meaningfully with any State surpluses.

Care had to be taken not to fall into the trap of ideology, so that wrong options could be prevented. — Sapa.

Peninsula now chief tourist destination

SEN 3/4/90 (58)

By Norman Chandler, Pretoria Bureau

The Cape Peninsula has overtaken Johannesburg as the main tourism area of South Africa favoured by foreign tourists, according to Central Statistical Services (CSS) figures.

In December last year and January this year, more visitors poured into the Peninsula than in the previous same two-month period, judging from the number of bed-nights sold by hotels.

The Cape attracted 23,4 percent and 22,4 percent, respectively, of foreign visitors during the two months while Johannesburg recorded 19,3 percent and 21,4 percent for the same period. Last year, Johannesburg was more than 3 percent higher (26,3 percent) during January.

Apart from the Peninsula and Johannesburg, the most popular holiday destinations were the Durban-Umhlanga area, the Garden Route, the rest of Natal, the Transvaal, eastern Transvaal, the Cape in general, the Boland and the Port Elizabeth-Uitenhage area.

Areas which failed to attract large numbers of foreign tourists included Maritzburg, Bloemfontein and the Natal south coast. Those which showed upwards growth compared with last year included Kimberley, the eastern Cape in general, and the Witwatersrand and Vaal Triangle (excluding Johannesburg).

Pretoria's foreign tourism figure for January dropped from 1,8 percent in 1989 to 1,5 percent this year.

European countries, particularly Britain, West Germany and "the rest of Europe", were the main source of tourists, according to the CSS.

An increase of just more than 10 percent of bed-nights sold was recorded in January in comparison with December.

Greater market share

Three-star hotels sold more bed-nights (27 percent of the total of 124 572) in January. One and two-star hotels increased their market share in January to the detriment of five-star establishments, which had 25,2 percent of the market against 27 percent for the same month last year.

Four-star hotels fared even worse, dropping from 13,4 percent last January to 9,9 percent this year.

"A comparison of the percentage bed-nights sold to visitors from the various continents shows that those sold to Europe increased by 3,3 percent while those from Africa and Asia decreased by 2,2 and 1,8 percent respectively," the CSS said.

D&H gets off to a flying start

Star 3/4/90

Darling & Hodgson has made a strong start to the year.

Earnings per share for the six months to February were 36 percent higher at 47,6c and the interim dividend has been raised 31 percent to 10,5c a share.

In results adjusted to reflect the adoption by 42 percent-owned associate company Blue Circle of the partial deferred tax method of accounting, D&H lifted operating profit 49 percent to R54,75 million.

Coming from a 25 percent growth in turnover at R297,68 million, this representy a significant improvement in overall margins.

MD Richard Bruyns says emphasis has been placed on improving efficiency and costs.

Of note is the 20 percent drop in the interest bill — a benefit of strong cash flow — which helped lift pre-tax profits 58 percent.

The expected increase in the tax rate — due to assessed losses being utilised — and a higher share for outside shareholders kept growth at attributable-profit level to 36 percent at R30,865 million.

The assessed losses should be fully utilised in the current year.

D&H is confident of improving on first-half performance, implying earnings of at least 95c a share for the year.

The balance sheet remains strong, with cash totalling R22,8 million (R3,2 million overdraft a year ago). On a share price of 390c, historical yields are 23,4 percent on earnings and 6,4 percent on dividend. — Sapa.

SJe-(3/4/90 (58) (332)

Motorists must pay the price for good roads

Pretoria Correspondent

Holiday motorists taking the toll route to Durban or Northern Transvaal will have to pay the price for driving on good, wide roads.

Drivers travelling to Durban on the N3 will have to pay R24 in toll fees. Those towing a trailer or caravan will have to pay R27,25.

The first toll gate confronting travellers from Johannesburg or Pretoria is the Wilge toll plaza outside Villiers on the new 96 km superway between Villiers and Warden, which will open on Thursday at 2 pm.

Here the fee for a car is R11 and for a car towing a trailer or caravan it is R13.

About 210 km further on, past Van Reenen, is the Tugela toll plaza, where the toll fee for a car as well as a car with a trailer or caravan is R8.

Just outside Mooi River is the penultimate toll gate on the N3 to Durban — the Mooi River toll plaza. The fee for a car at this gate is R4,50, and for a car towing a caravan or trailer R5,50.

The final toll gate is the Mariannhill toll plaza about 17 km outside Durban where the fee for a car is 50c and for a car towing 75c.

Motorists are advised to take care on the N3 just before Maritzburg where construction is taking place.

The only toll gate on the N1 to Pietersburg is the Kranskop toll plaza near Warmbaths. The fee at this plaza is R3 for cars and R4,50 for cars towing a caravan or trailer. Motorists travelling only as far as Nylstroom will have to pay R1,20 — if they are towing, R1.80.

Blackmail, CP tells Nats

Pretoria Correspondent

The Conservative Party has accused the Government of using "blackmailing tactics" to force through the proposed toll road on the N18 between Pretoria and Brits.

In a statement yesterday, two party MPs, Mr Joseph Chiole (Pretoria West) and Mr Andrew Gerber (Brits), called on the Government to provide money to complete the partially constructed road.

"We note with concern the Government's blackmailing tactics of saying that the construction would take years if the road is not tolled," the statement said. Star 3/4/90

The proposed toll tariff of R7,20 for people driving in and out of the city each day was unacceptable, it added, especially since whites were already overtaxed.

Black minibus taxis would not use the toll road, forcing whites to use it for safety reasons.

"Plans to toll the route mean whites will have to pay again for the unplanned and unconsidered results of the National Party's policies," the statement ended.

De Beers adds sparkle to units

Star 3/4/90

Diagonal Street

58

DEREK TOMMEY

Most investors in unit trusts, and certainly all those in the non-gold ones, can look back on the behaviour of their units in the March quarter with a fair degree of satisfaction.

Trading on the Johannesburg Stock Exchange in the March quarter was not particularly interesting. Most sectors of the market showed only limited growth and, but for the excitement in the diamond sector, the outcome of March quarter trading was fairly mundane.

But the sharp jump in the price of De Beers on the news that it was transferring its non-South African assets to a Swiss-based company and that De Beers shareholders would have a direct shareholding in the Swiss company set this sector of the market alight.

Between January 3 and March 30, the diamond share price index rose 37,6 percent, and enabled the JSE and the unit trusts to put up a much better performance than seemed likely at one stage. In fact, it seems that much of the success of many of the unit trusts was closely linked to the number of De Beers shares they held - or were able to buy.

However, other sectors of the market showed some growth. Between January 3 and March 31 the price index of metal and mineral shares rose 9,3 percent. The price index of financial and industrial shares rose 6,4 percent, and the index for industrial shares alone rose 5,9 percent.

Against this, the gold share index dropped 7,0 percent, which must have seriously retarded the performance of those trusts which large gold share holdings.

Against this background, it is encouraging to see that 10 unit trusts showed capital appreciation of 10 percent and more in the March quarter and another four showed growth of between eight and 10 percent.

All the trusts — except one which was extremely heavily invested in golds — handsomely beat the inflation rate with a growth of five percent or more.

The leading trust was Sanlam, with a highly creditable 14,8 percent growth. Runner-up was Syfrets with a 13,6 percent growth, while Sanlam Index was hot on its heels with 13,5 percent.

Other trusts to show more than 10 percent growth were Standard (11,7 percent), Sanlam Mining (11 percent), Sanlam Industrial (10,9 percent), Sanlam Dividend (10,7 percent), Guardbank (10,5 percent), Old Mutual (10,3 percent) and UAL Mining and Resources (10,2 percent).

Southern, Sage, Momentum and UAL showed growth of between eight and 10 percent, while the rest, other than Standard Gold, showed gains of between five and eight percent.

Standard Gold, in spite of the drop in the gold index was still able to show growth of 2,7 percent, which is also creditable.

But it is not only unit holders which make money from unit trusts. The management companies do too, as the annual report of Investors Mutual Funds, which operates Sage Fund and Sage Resources Fund, shows.

In the year ended December unit sales rose 59 percent to R94,6 million. This resulted in a gross income of R7,6 million, made up from such items as the initial charge on the sale of units, the service charge, surplus units trading and interest.

Administration and selling expenses were R5 million, leaving a pre-taxed profit of R2,6 million, up 90,4 percent on 1988. Taxed profit was R1,34 million — up 87,8 percent on 1988's R713,6 million.

Mr du Plessis . . . apartheid equivalent to socialism.

'High interest rates still necessary'

SOW 3/4/90

It would not be possible to bring down inflation unless high interest rates were maintained, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Replying to the first reading debate on the Budget, he said such interest rates were a nec essary pain.

Turning to disparities in State spending, he said while this Budget was the best the Government could have done at this stage, it was reviewing its five-year fiscal plan and would look at disparities again.

The State did not see its way clear to paying a bonus at this stage, but if ever it did, it would be directed at the elderly.

Referring to a statement that the Government's revenue was determined for it and not by it, Mr du Plessis said his colleagues regularly came to him to see how moves could be made within the Budget.

He had received no such representations from Ministers in the Houses of Representatives and Delegates, to which the **Chairman of the Ministers' Council in the House of Representatives, Mr Allan Hendrickse**, interjected: "We submitted a budget and you cut it."

Turning to privatisation, Mr du Plessis said its aim was to loosen available fixed capital for the socio-economic upliftment of all South Africans; for such capital to be used more efficiently and for the tax base to be broadened.

A mechanism had also to be found to deal meaningfully with any State surpluses.

Care had to be taken not to fall into the trap of ideology, so that wrong options could be prevented. — Sapa.

Property rentals continue upward trend

R/Day 4/4/90

CHARLOTTE MATHEWS

PROPERTY rentals continued to increase in the year to December, reflecting sustained demand for accommodation in most sectors of the market, Sage Property Trust Managers (SPTM) chairman Louis Shill said in the group's annual report.

However, there was a relatively limited supply of space.

Reviewing the market for the three trusts in its stable — CBD Property Fund, Federated Property Trust and Pioneer Property Fund — Shill said conditions in the property industry had remained relatively buoyant in 1989.

Demand for modern prestige accommodation in the Johannesburg CBD had remained strong and rentals had risen to a peak of R25m² net, or above R30m² gross including operating costs.

In less prestigious and older buildings, rentals had risen to R12-R14m² from R8-R9m² a year before in spite of sluggish demand and oversupply at the lower end of the market.

Demand for retail premises in the CBD was firm and rentals for small to medium-sized shops were generally R70-R80m².

Rentals for commercial property were unlikely to rise as rapidly in 1990 as in 1989 because consolidation was inevitable in conditions of slower economic growth.

Dividends

Industrial property continued to show strong recovery and rentals had peaked towards the end of the year.

"While areas such as Anderbolt, Jet Park and Boksburg North on the East Rand are still experiencing strong demand for smaller units, the market as a whole has been somewhat quieter recently with fewer inquiries for space," Shill said.

He foresaw easier rezoning of land for industrial use in the current climate of deregulation and welcomed moves to reduce decentralisation incentives which had distorted free market forces.

CBD Property Fund was likely to show total dividends a unit in 1990 similar to those of 1989 because of the progressive reinvestment of R27m in cash.

Performance would also be affected by Annuity House, which was not expected to contribute significantly to net property income in 1990.

Shill expected growth of between 5% and 10% in Federated Property Trust's total dividends in the current year.

Continued satisfactory growth was expected from the non-retail component of the portfolio and rentals from retail properties.

Pioneer Property Fund should achieve its forecast 14,7% increase in dividends in 1990 to 33,1c a unit, based on established growth pattern and the current development programme, he said.

Caution is the catchword, says Sage

BDay 4/4/90 (58)

LIZ ROUSE

DISCIPLINED investment in a range of quality companies will continue to ensure long-term growth and attractive returns for investors, Sage Investors Mutual Fund directors say.

However, they warn in the annual report that with the degree of uncertainty framing the investment environment, a cautious approach is required in the short term.

On balance and given the likelihood of slowing economic activity, world equity martkets can be expected to continue their weaker trend and unexpected political developments can accentuate this.

In 1990, SA's fluid political situation will loom large in the investment markets, and particularly in its potential to influence rand exchange rates and investor sentiment.

Fundamentally, the economy is set to slow further and this will increasingly be manifested in subdued corporate profit growth which will reflect sustained inflation and high interest rates.

However, goverment is maintaining strict discipline to contain and reduce inflation.

Favour

The Investors Mutual Fund directors say while the gold price faltered recently, prospects are more positive for 1990 as the risk of higher global inflation increases and as monetary discipline in the major economies is tested.

At the same time, inevitable bouts of political uncertainty will create an environment in which gold traditionally attracts investor favour.

Reviewing the group's unit trust performances in 1989, directors disclosed Sage Fund's underlying portfolio was reflected in a total return (capital appreciation plus income) of 41,5% for unit holders in 1989. The overall return over five years was 25,6% per annum.

Sage Fund's total assets increased to a record R645,6m at the end of December 1989, more than 280% higher than five years ago. The fund's income distribution increased 41,3% to a record 76,6c a unit.

Unit sales for the year totalled R82,4m, a 69% increase over 1988 and the highest level in the fund's history. Repurchases at R45,2m were well above the previous year's R31,3m, but the fund nonetheless recorded a net inflow of R41,9m compared with R17,4m in 1988.

Sage Resources Fund showed an overall return of 46%. Total assets increased to R53m from R35m at the end of 1988. Income distribution amounted to 6,3c a unit, up 34%. Unit sales for 1989 totalled R12,1m, a relatively modest growth of 10% over the previous year and with repurchases of R7,4m, a net inflow of R4,7m was recorded.

Melamet gives assurance on future of co-op insurance

(58) B1004 4/4/90

LINDA ENSOR

THE Melamet Commission of Inquiry into the operations of non-agricultural co-operative insurance companies will not require them to liquidate themselves.

James van Blerk, MD of the largest co-operative in the country, Panorama, said he had been given this absolute assurance by commission chairman, Mr Justice D A Melamet.

A meeting between the judge and the co-operative insurance societies is scheduled for tomorrow, Van Blerk said, adding that he had already had several sessions with the commission.

Commission secretary Advocate Frans Reinecke said yesterday the commission would be submitting its report at the end of May.

Panorama has 8 260 members with a total premium income (monthly and annual) of R39m a year. Its rates for the home and personal insurance it offers are about 30-40% lower than registered insurers, Van Blerk said.

Van Blerk is to propose to the commission — in the interest of the economic viability of co-operative insurers — that they be obliged to have a minimum amount of premium income and a minimum number of members, adding it might require that smaller societies merge with Panorama.

If the commission recommends registration in terms of the Insurance Act, Van Blerk is to plead for the Act to be amended to allow for the existence of co-operatives, which he believes have a right to exist.

Presently, co-operative insurers register with the Registrar of Co-operatives and are not subject to the reserve and reporting requirements to which conventional insurers are submitted.

According to Van Blerk, Panorama will have no difficulties in satisfying the reserve requirements of the Insurance Act should this be recommended by the commission.

No easing seen in demand for bank loans

(58) BDay 4/4/90

NEIL YORKE SMITH

HIGH interest rates and Reserve Bank calls to lending institutions to curb credit were having little effect on the demand for loans, industry players said yesterday.

"Credit is our business, and as long as people appear creditworthy and can afford the price of money, banks will continue to lend," Standard Bank credit GM Ian Gilbert said.

He was responding to the Bank's plea for banks to contain growth in their loan business to 1% a month.

"Despite strict lending criteria we do not always achieve that target and it is unlikely other players do either," he said.

Individual institutions were unlikely to cut back deliberately on lending as they would probably lose hard-earned market share.

"Prospective borrowers who meet the criteria but are turned away would simply move to other institutions," he said.

Home loans have been especially resilient in the face of interest rate increases. Standard Bank Investment Corporation (Stanbic) yesterday announced a 50% increase to R4,5bn in its home-loans book during the year to end December.

Significant increases are also expected from other players in the home-loans market.

Building societies were not asked to observe the 1%-a-month constraint, prompting sources to query the Bank definition of credit extension.

"Continued strong demand for finance is spurred by SA's massive housing needs," Perm senior GM Hugh Macloughlan said. "Despite high interest rates we are projecting good growth in our lending book."

Sources said there had not been an excessive increase in bad debt or home repossessions.

United Holdings executive director Nallie Bosman confirmed this, but added "we have seen an increase in the number of clients whose payments are in arrears".

Regarding avenues open to the Bank in its bid to reduce credit extension, Gilbert said the possibility of a further interest rate increase could not be ignored.

"The Bank would prefer not to increase rates, but if the gold price remains low and overseas rates increase it may have to," he said.

esearch Register

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CM 7/4/90

(58)

Insurers target on rise in black business

Own Correspondent

JOHANNESBURG. — The black life insurance market has shown strong growth over the last few years, with Sanlam's black business rising by 262% over four years to end-September 1989.

Old Mutual estimates that about 30% of its 4-million life policyholders are black if allowance is made for inaccuracies arising from double counting of members having several portfolios.

The growth in the market, insurers say, is related to the growth in personal disposable incomes, the breakdown of the extended family network, urbanisation and the growing awareness of the benefits of life insurance.

While most insurance companies don't keet separate statistics for black people, regional and area figures indicate a growing market.

Black people represent about 70% of about 6,5-m policyholders of Sanlam's subsidiary company, Metropolitan Life, which mainly focusses on the black market.

Southern Life's 80%-owned, African Life, is focussed on the low income market, offering products with a premiums of between R30-R50. Between March 1986 and March 1989, the number of policies written has increased by 161% to reach 37 474 and annualised recurring premium income has risen 285% from R4,1m to R15,7m.

African Life MD, Bill Jack, says the black market is big, but there are limits as a large proportion of the population — the 50% living in rural areas and the large proportion below the age of 18 years — don't need life policies.

Liberty Life also reports a growing interest in life policies among the black community.

New Era is another player in the black market which has raised its premium income by an average 25,9% since 1986.

MD Nick Gebhardt stresses, however, that growth at the lower end of the black market has not been spectacular, being in any event almost totally nullified by the high lapse rate during economic downturns.

Another problem, he says, is the difficulty of collecting premiums from low-income people who don't have savings accounts and whose employers are reluctant to deduct premiums from wages.

Millions loaned to bankrupt US firm

SA's bid to get back gold

Cape Times 4/4/90

58

From JOHN CAVILL

LONDON. — The South African Reserve Bank is one of several world central banks seeking to recover $500 million (R1,3 billion) in gold loaned to the huge United States group Drexel Burnham Lambert which collapsed in February.

Yesterday the Daily Telegraph reported that governors of the central banks would meet this weekend at the Bank for International Settlements (BIS) in Basle, Switzerland, to discuss action on the gold bullion loans which have caused acute embarrassment.

Portugal has publicly admitted it is trying to get back $100m (R260m) lent to the New York "junk bond" specialists who have filed for bankruptcy protection.

Last week the governor of the Banco do Portugal (the central bank), Mr Tavares Moreira, said: "We are doing everything we can to recover the money. It will take time, probably two or three years, but the likelihood of recovery is very high."

He said other central banks also faced losses but had not disclosed the fact. Portugal, with the highest exposure, could not avoid public disclosure. "We wanted to be on the creditors' committee. That is why we made our declaration," said Mr Moreira.

In addition to Portugal and South Africa, banks from the Soviet Union, Yugoslavia and China are said to be among those who loaned gold to Drexel.

The problem arose because the banks thought they were lending bullion to Drexel Burnham Lambert Trading Ltd, the British affiliate of the New York firm, which is a member of the London Bullion Market Association and therefore under the supervision of the Bank of England.

Instead the gold went to the US parent where the market is supervised by the Securities and Exchange Commission, not the United States Federal Reserve Board.

Mr Moreira said its dealings with Drexel started in 1985 and the gold had been transferred "as part of a standard operation".

He said the Banco do Portugal should have acted earlier, "but the company was an affiliate of Drexel and a member of the London Bullion Market which comes under the Bank of England, so we thought it must be all right".

No loans are outstanding in London. A Bank of England spokesman said: "All the counter-parties of Drexel Burnham Lambert Trading, which was a member of the London Bullion Market Association, have been met in full."

the application was defective for sev- spoken to."

SA business must help find answers — Parsons

Staff Reporter ARGUS 4/4/90

SOUTH AFRICAN business has been challenged to contribute to finding solutions for a new South Africa.

The director-general of the South African Chamber of Business, Mr Raymond Parsons, yesterday sent a message to company bosses saying that the search for a peaceful solution to South Africa's problems could not be left to the politicians alone.

"Business also has a necessary role to play at all levels and in helping to shape the debate."

Mr Parsons was speaking at the annual meeting of the Tygerberg Chamber of Commerce and Industry.

He said the chamber had drawn top businessmen and economists into the launch of a special task force to examine the whole issue of nationalisation and the redistribution of wealth — the hottest topics in current controversies.

"What is important in a new constitution from the business viewpoint is the focus it gives to people's rights and responsibilities in economic affairs.

"The concepts of private property, right of contract and personal culpability are all relevant to the constitutional debate.

"In the field of public institutions there would be a need to concentrate on people's political rights — such as collective services and taxes — at all levels of government.

"There is a big gap between politics and economics — a gap which still needs to be bridged.

"There is a need to look at what legitimate concerns lie behind the preoccupations of the ANC and other black groups with nationalisation and the redistribution of wealth," he said.

"There are historical injustices to be addressed and social backlogs to be rectified.

"Nationalisation is simply not acceptable to the bulk of South African businessmen.

"It will only destroy South Africa's ability to attract overseas capital in the future."

Mr Parsons said it would be important to realise that it was apartheid and not capitalism which was on trial in South Africa.

GFSA bullish on long term gold price

By Derek Tommey

Gold Fields of South Africa is bullish about the medium and long-term prospects for gold and for this reason was not reducing production at its marginal mine, Libanon.

This was stated last night by Mr Alan Wright, the group's executive director, precious metals, who was commenting on some of the group's gold mining quarterlies.

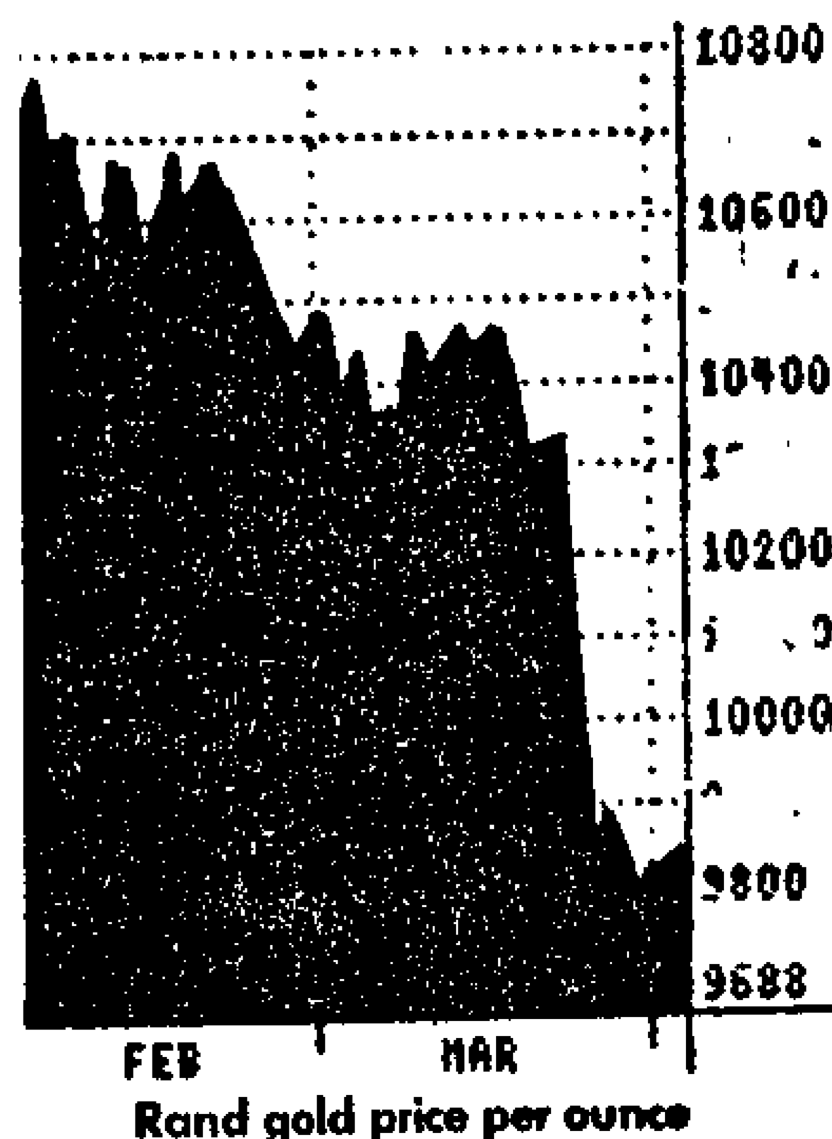
He said that as a result of new development at Doornfontein the mine had turned the corner to better days; that the Northam platinum mine would be making a final rights issue shortly to raise about R600 million, and that Deelkraal was approaching the tax-paying stage.

Mr Wright said that Libanon had a difficult time ahead of it, and at the current gold price could only break even.

In this situation a mine could run out of money. But there was no intention of reducing production, cutting costs and "high-grading" to make a big profit and then shutting down Libanon. The group had tried to keep some sort of financial reserve back for such times and Libanon could also borrow money to keep going.

Mr Wright said that the industry was not concerned with next quarter's gold price but what it would be in a year or two's time.

He believed the way the market had absorbed the reported



Rand gold price per ounce

dumping by Saudi Arabia last week of some 2 million ounces had demonstrated that it had considerable strength.

During the quarter the tonnage milled by the gold mines in the group dropped by 144 000 tons to 3,6 million. Fires at East Driefontein and Libanon, a decrease in the milling rate at Venterspost, the pending sale of Droogebult and the drop in the surface tonnage treated at Vlakfontein were mainly responsible for the drop. Against this, the reclamation plant at West Driefontein treated 607 400 tons against 423 600 tons in the December quarter.

The lower mine tonnage resulted in gold production dropping from 27 942 kg in the December quarter to 26 278 kg and although the average gold price received rose from R32 709 to R33 678 a kg, gold revenue dropped from R915,1 million to R886,2 million.

Working costs were well contained, rising only half a percent in cash terms to R547,8 million. But owing to the lower tonnage milled, costs-a-ton milled rose from R143,69 to R150,15.

Working profits dropped to R338,5 million (R370,2 million) and taxed profit was R253,3 million (R273,3 million). Capital expenditure was R158,5 million (R187,6 million).

Driefontein Consolidated, which lost production following a fire, increased its pre-taxed profit slightly from R230,5 million to R235,0 million. But taxed profit dropped to R114,6 million (R119,0 million). Capital expenditure was R41,3 million (R54,8 million).

Grade fell sharply at **Kloof** from 12,6g/t to 10,8g/t owing to the need to abandon some low-grade stopes and an intrusion which is delaying mining on the 53 line level. Pre-taxed profit dropped to R97,2 million (R132,0 million) and taxed profit dropped to R95,3 million (R86,5 million). Capital expenditure was R84,7 million (R86,5 million).

Grade at Kloof was expected to recover in the June quarter. The Leeudoorn section is expected to start producing ore at a rate of 60 000 tons a month in the October-December quarter.

Vlakfontein shareholders will be asked to approve the sale of the Droogebult area on April 17. Mr Wright said no decision had been taken on what would be done with the shares to be received for Droogebult. The options were to distribute them to shareholders or sell the shares and distribute the proceeds instead, or even to retain the shares. The break-up of the Vlakfontein plant was expected to produce a small profit.

Deelkraal earned R35,6 million (R35,2 million) before tax and R29,5 million (R32,2 million) after tax. Capital expenditure was R13,8 million (R19,9 million).

The holing through by Doornfontein on the 38 level, which opens up the southern portion of the mine, means that it can move ahead with some confidence in the future, said Mr Wright. He estimated that Doornfontein still had a life of about 15 years. A drop in working costs resulted in taxed profit jumping from R4,4 million to R9,7 million.

Venterspost increased its grade from 3,7g/t to 4,1g/t and reduced its milling rate to 130 000 tons a month. Working profit from gold rose from R107 000 to R3,1 million.

Everything was going well at Northam, said Mr Wright, and the final rights issue to raise "R600 million-plus" would be made shortly. The estimated final cost of the mine would be about R1,2 billion.

Bank acts on rand as dollar inflows dry up

GRETA STEYN

HUGE dollar inflows into SA this year abated in the second half of March and the Reserve Bank is now acting to keep the rand from depreciating too fast.

Foreign exchange dealers said the situation had turned around from when the Bank was doing its best to push down the domestic currency to retain export competitiveness.

The lower gold price is cited as the major factor behind the about-turn. The inflow during the first quarter of the year is put at about $1bn.

Earlier this year, a perception that the rand was set to climb led to a favourable leads and lags situation — which improves the cash flow of SA's foreign exchange reserves. This combined with other factors to bolster SA's net reserves.

First National Bank economist Cees Bruggemans said it was always clear from the Reserve Bank's actions in the foreign exchange market that the short-term capital inflows were "hot".

"These inflows are said to be the result of favourable leads and lags. That just means that we are not sure that they are of a permanent nature. They might include the favourable roll-over of forward contracts on third currencies — a factor that cannot be counted on indefinitely."

However, he did not expect an adverse leads and lags situation to develop after the drop in the gold price and the depreciation of the rand.

"It is by no means clear we have moved into a new period of rand depreciation. The Reserve Bank is looking for stability on the currency."

The rand has been stable around the R2,65-R2,66 to the dollar level.

The adverse movement in the gold price has not damped Bruggemans's optimism on the balance of payments.

"The current account is particularly healthy and the prognosis for the capital account still looks good. This should be an easier year than originally thought."

R850 000 loss after trader 'hid deals' 58

ROBERT GENTLE (58)

NATIONAL Discount House (NDH) said yesterday it had suffered a loss of R850 000 on gilt options as a result of one of its traders allegedly wilfully concealing certain deals that had gone against him.

The case, described by the company's lawyers as one of civil fraud, led NDH temporarily to close down its capital market trading section and concentrate on money-market and short-term securities trading. B/Day 5/4/90

The trader involved, believed to be in his early 20s, was suspended with immediate effect last Thursday after NDH's computer system picked up "a trading anomaly" during an internal audit.

NDH MD Pat Abrahams, confirming rumours circulating in the bond market since Monday, said directors had worked throughout the weekend trying to piece together the finer details.

The trader had allegedly "willingly and knowingly" hidden certain options deals that had gone against him, apparently in the hope of trading himself out of the accumulated losses at a later date.

When confronted with the evidence by management, the trader willingly went along to the company's lawyers, where it was established the bulk of the suspect trades had occurred in the previous 10 days.

"Investigations are continuing, but it does not appear ... that he did this for personal financial benefit or gain," Abrahams said.

"We will take the loss on the bottom line. But we have built up sufficient profits to cover it."

Profits for the year to June 1990 would show a "good turnaround" on those of the last financial year despite the loss.

Abrahams confirmed that NDH alternate director Jakes Jacobs had resigned, but said this had nothing to do with the present case.

"Jacobs resigned before this happened. He is staying on till the end of the month before leaving to become a partner at stockbrokers George Huysamer."

No other persons were involved in the case, Abrahams said, and the only other departures concerned two capital market traders who had been transferred to Securities Discount House and Interbank Discount House.

Short-term market will be bumpy — GuardBank

BDay 5/4/90

(58)

LIZ ROUSE

A VOLATILE equity market will be a fact of life in SA for the forseeable future and serious long-term investors must not be influenced by short-term fluctuations in price levels.

GuardBank Management Corporation portfolio managers, who administer GuardBank Growth Fund, GuardBank Resources Fund and GuardBank Income Fund, say in their March quarterly report it is essential that investors should remain calm under current circumstances.

They say that against the background of a drastically changing climate together with a volatile gold price, the equity market has been extremely volatile. The JSE all share index started the quarter at 2 976, peaked at 3 392 on March 20 — an increase of 14% — and then dropped to 3 257 at the end of March, thereby achieving a 9,5% increase over the quarter.

Gold shares moved very sharply in both directions. The JSE all gold index stood at 2 049 at the end of 1989, rose by 9,8% to a peak of 2 250 by February 2, then declined sharply to 1 960 by the end of the quarter to reflect an overall decline of 4,3%.

The performance of financial and industrial shares was, by comparison, fairly stable. After starting the quarter at 3 109, the JSE financial and industrial index rose steadily and closed the quarter at 3 320, a rise of 6,8%.

Against this background, GuardBank Growth Fund enjoyed another satisfactory quarter with the fund continuing to benefit from its concentration in prime blue chip counters in the mining financial and industrial sectors.

The equity content remained virtually unchanged over the quarter and stood at 83,81% at the end of March, but the market value of equities rose to just over R830m from the December quarter's R711,3m.

Repurchase

Short-dated gilts, cash resources and liquid assets accounted for R160,31m (R137,5m in December quarter) of the fund's total assets of R990,3m (R848,8m).

GuardBank Growth Fund's repurchase price of 1 819,88c at the end of March reflected an increase of 11,65% over the ex-distribution price of 1 630c at the end of December. The 12-month growth in unit price amounted to 36,2%.

Only one new counter was added, 40 000 Anamints, while the holding in De Beers was increased by 100 000 shares. The exposure to direct platinum shares was eliminated by the disposal of the balance of the holding of 200 000 Rusplat shares while the holdings in Iscor and Sappi were reduced by 1,6-million shares (to 5,9-million) and 35 000 shares respectively.

GuardBank Resources Fund achieved a satisfactory overall return of 6,61% over the quarter.

The equity content of the portfolio declined to 78,37% from 86,7%, but the market value was virtually unchanged at R48,3m (R48,4m). Short-dated gilts, cash resources and liquid assets increased to R13,3m (21,63%) from R7,4m (13,3%).

New holdings introduced were 35 000 Kloof, 160 000 Western Areas and 50 000 Hiveld shares, while the exposure to a number of other counters was increased. Holdings eliminated were 85 000 Oryx, 17 500 Winkelhaak, 25 000 Rustplats, 250 000 Vansa, 11 000 Gold Fields ordinary, 14 000 Gold Fields prefs and 575 000 Iscor. Certain other holdings were lightened.

GuardBank Income Fund continued to adopt a very defensive policy — the repurchase price of the units increased by only 4,49% over the quarter to 110,69c.

B/Day 5/4/90

Owners warned on slum devaluation

CHARLOTTE MATHEWS

PROPERTY owners should assess their interests in residential and commercial areas which are most vulnerable to "ghetto-isation" and value decline following deregulation.

Writing in Property Prices in Post Apartheid SA published by Real Estate Surveys, Erwin and Antoinette Rode said the phenomenon of grey areas was fundamental and unavoidable.

Therefore the Group Areas Act should be scrapped or the local option, where large municipalities were simultaneously deregulated, should be implemented.

Grey areas would eventually have to be declared open and most other white suburbs were not in danger of "invasion".

"All the negative factors arising from a total abolition of the Group Areas Act will apply in a more severe form to slow, incremental deregulation," the authors said.

They urged the abolition of rent control because it allowed the poor to occupy areas in a manner inconsistent with free market forces and discouraged constant refurbishment, aiding slum formation.

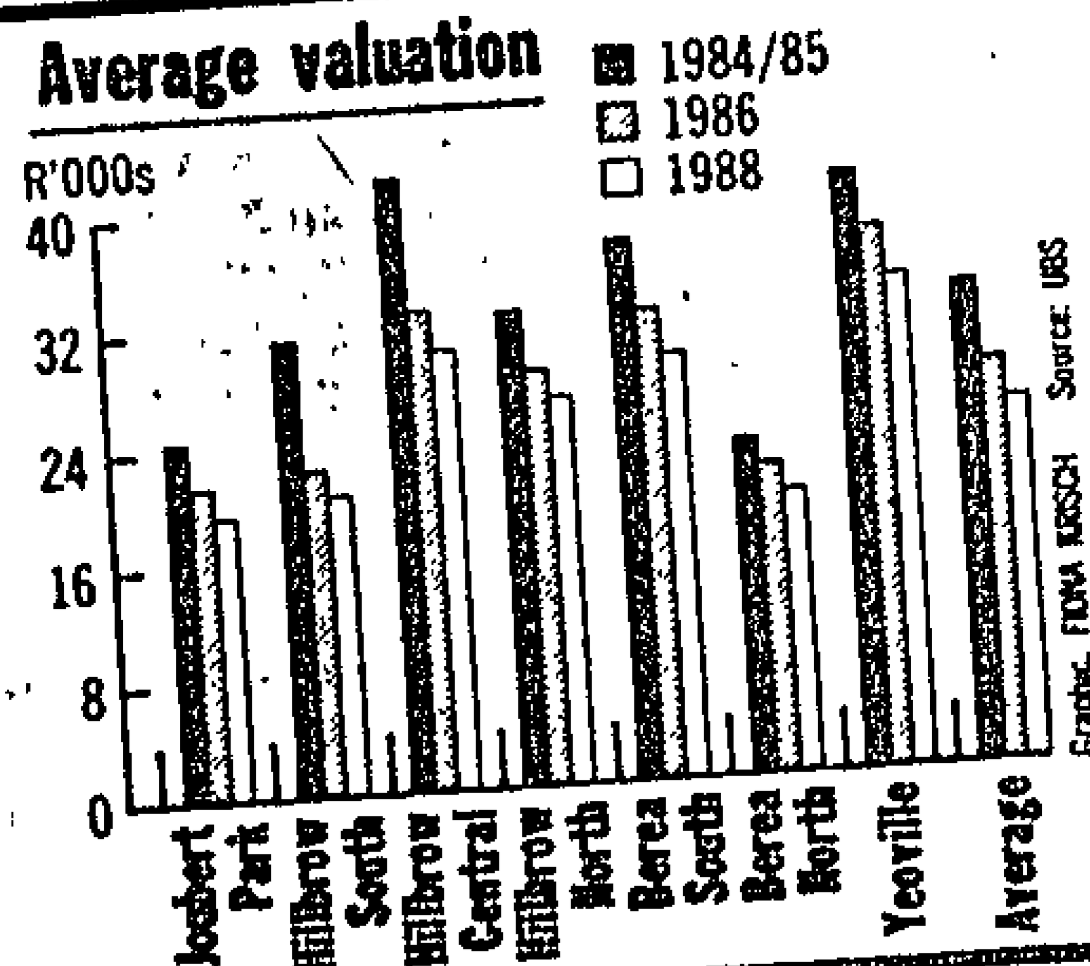
Areas susceptible to invasion were:

- Older precincts close to the metropolitan core and already prone to urban decay;
- Areas where a large proportion of accommodation was rented rather than owned; and
- Areas close to the social infrastructure of black people's residential areas.

They cited figures provided by the United Building Society (UBS) which showed the valuation of flats in seven grey zones around Johannesburg had declined by 24,1% on average between 1984 and 1988.

As no general index for flat prices was available for comparison, this was contrasted with the UBS's index for smaller houses in Johannesburg showing an increase of 9,1% in valuation in 1984, a decline of 8,2% and 0,9% in 1985 and 1986 and increases of 2,4% and 16%, in 1987 and the first half of 1988 respectively.

Invasion usually had an initial, if not permanent, negative effect on the residential environment and therefore on prices.



The negative effect was permanent if "slumification" took place, they said.

The "slumification" of a residential area would also drag down the values of commercial properties in that area.

"A number of coastal holiday resorts in the SA metropolitan areas are exposed to instant value depreciation through invasion by buses during the peak holiday season," the said.

Magomola party aims to set up second black bank

THEO RAWANA

SERIOUS work had begun on the establishment of the second black bank in SA, former African Bank CE Gaby Magomola said yesterday.

Talk about the establishment of the bank started last year, a few months after Magomola, who left Afbank earlier, joined black business organisation Fabcos as marketing chairman.

Fabcos is the acronym for Foundation for African Business and Consumer Services, an umbrella organisation under which taxi organisation Sabta falls.

Magomola said yesterday Fabcos and his Johannesburg-based marketing company Gaby Magomola & Associates had not reached finality on who their partner in the banking venture would be.

But, he said, it would be one or a number of financial institutions.

"We have to ensure that we go to bed with an existing financial institution, since there are no resources among the community," he said.

Magomola said last year he saw his appointment to Fabcos as another opportunity to pursue his vision of creating a major financial resource within the black community.

Such a vision had been frustrated when he was fired by Afbank, which was the brainchild of another black business organisation, the National African Federated Chamber of Commerce (Nafcoc).

Economists raise forecasts on prime

B1041 5/4/90 (58)

GRETA STEYN

ECONOMISTS have revised upwards their forecasts for the prime interest rate at year-end — signalling their belief that monetary policy will have to bear most of the burden in the fight against inflation.

According to Firstbase, the monthly survey of economists' forecasts done by First National Bank, economists have raised their prediction of prime by about 0,5 percentage points.

At the same time, they have again slightly revised their inflation projections downward — a vote of confidence in Reserve Bank Governor Chris Stals.

The high range of projections for the prime rate at year-end averaged 19,4% — up from February's 18,9%. The median was at 18,5% (February 18,1%) and the low range averaged 17,6% (from 17,2%).

The median inflation rate for the year is now at 13,1%, which is well below the original forecasts of 13,5%-14% for 1990 made at the beginning of the year.

Old Mutual economist David Mohr said: "Clearly the burden of stabilisation policy is now falling squarely on the shoulders of monetary policy. With fiscal policy addressing longer term, structural issues, the authorites cannot afford to take chances by dropping interest rates too soon.

"Policy should rather err on the side of being too restrictive," he said.

Bank acts to bolster rand

Cape Times 5/4/96 58

Own Correspondent

JOHANNESBURG. — Huge dollar inflows into SA this year abated in the second half of March and the Reserve Bank is now acting to keep the rand from depreciating too fast.

Foreign exchange dealers said the situation had turned around from when the Bank was doing its best to push down the domestic currency to retain export competitiveness.

The lower gold price is cited as the major factor behind the about-turn. The inflow in the first quarter of the year is put at about $1bn.

Earlier this year, a perception that the rand was set to climb led to a favourable leads and lags situation — which improves the cash flow of SA's foreign exchange reserves. This combined with other factors to bolster SA's net reserves.

First National Bank economist Cees Bruggemans said it was always clear from the Reserve Bank's actions in the foreign exchange market that the short-term capital inflows were "hot".

"These inflows are said to be the result of favourable leads and lags. That just means that we are not sure that they are of a permanent nature.

"They might include the favourable roll-over of forward contracts on third currencies — a factor that cannot be counted on indefinitely."

However, he did not expect an adverse leads and lags situation to develop after the drop in the gold price and the depreciation of the rand.

"It is by no means clear we have moved into a new period of rand depreciation. The Reserve Bank is looking for stability on the currency."

The rand has been stable around the R2,65-R2,66 to the dollar level.

The adverse movement in the gold price has not damped Bruggemans's optimism on the balance of payments.

The usual statistics were not received last night because of a major breakdown in the wire services.

Investors bemused at Iscor shares

ARGUS 5/4/90 (58)

By TREVOR WALKER, Business Staff

THOUSANDS of first-time share market investors in Iscor have watched bemused at the topsy-turvey fortunes of their investments since the launch of the shares last year.

The giant steel producer's share price has fallen below its opening price of 225c fixed on the Johannesburg stock market on November 8 last year.

Over-enthusiastic forecasts concerning the future course of the rand, the gold price and the company's expansion plans have led to a steady reversal in the share price in recent weeks.

Iscor listed 1,85 billion shares including an offer of 150 million to the public at 200c a share. This was eventually over-subscribed four times.

Public interest

Huge public interest in the offer was stimulated by a widespread television and newspaper advertising campaign which led to complaints that the company was openly touting its stock. This is forbidden under JSE rules.

But the company argued that as this was the first major privatisation of a state asset and as the company was seeking the widest possible spread of its shares among the public the "hype" of the advertising campaign was justified.

The campaign created unprecedented interest in Iscor and the stock market in general.

When the shares were allocated to the public the 200 000 people who had applied for up to 1 000 shares each received their full allocation.

Prior to this Iscor placed no fewer than 1,215 billion shares among the country's major financial institutions.

When the shares traded for the first time on November 8 last year trading was described as "frenzied and chaotic".

Quick profit

Many small investors and even some sizeable institutions had taken up shares in the hope of a quick profit.

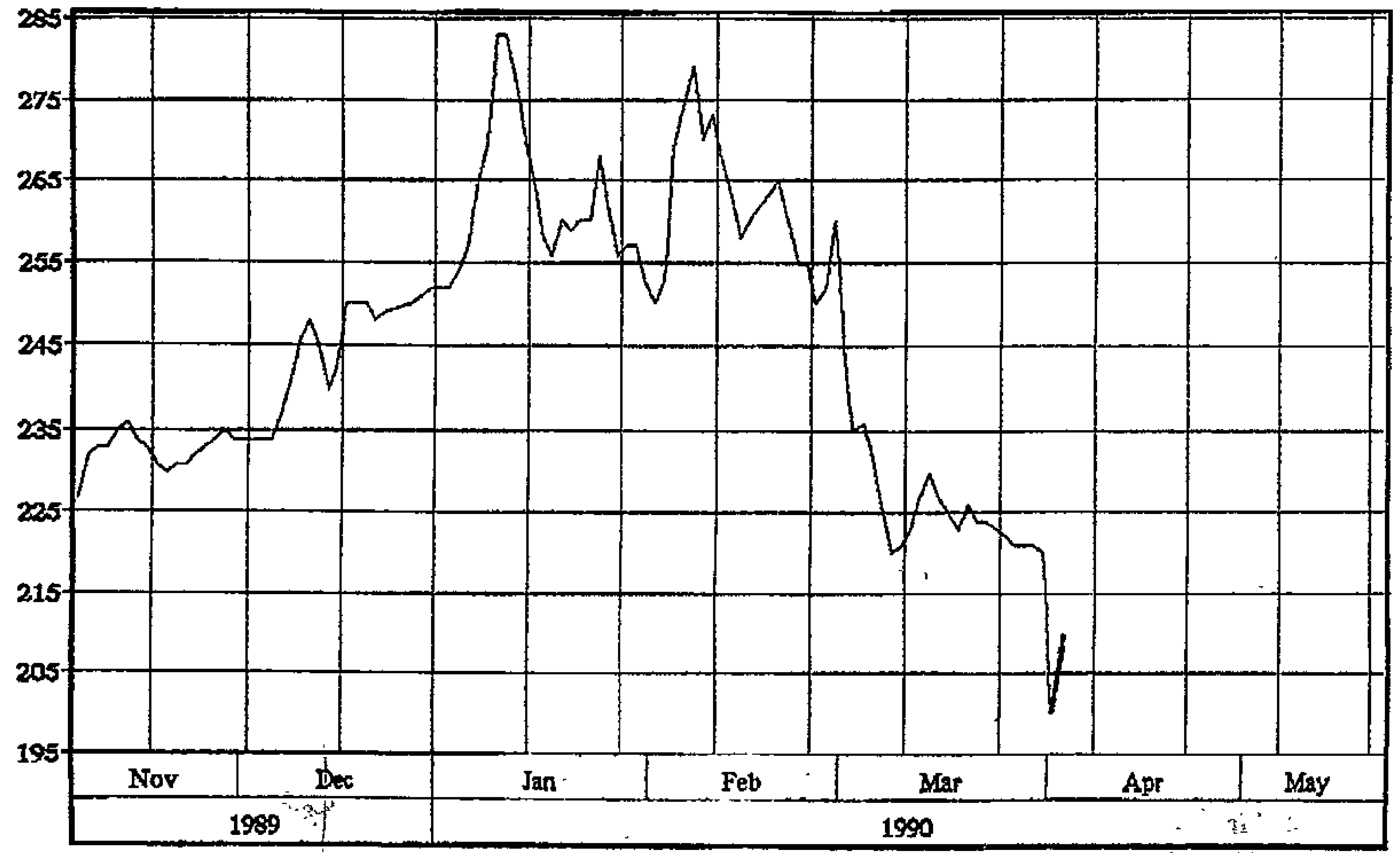
Among many, before and after the listing, this remained the main issue. As the price moved up towards 250c a share more people began to sell and take their profits.

But many hung on even when the share reached a peak of 285c.

Now the share has come back close to its issue price of 200c and has touched this level during one session. It traded at 213c yesterday.

A city broker had a few encouraging words for confused investors. He said the share was unlikely to fall below 200c.

Jitters at topsy-turvey share ride



Work starts on R135-m Braamfontein project

By Frank Jeans

Construction work has started on Sanlam's R135 million commercial development on Braamfontein Ridge, Johannesburg.

Main contractor, Stocks Construction (Rand) has launched the first of five phases of the 40 000 sq m Braampark which is one of the biggest city developments in recent years.

The 10 380 sq m first phase of offices with a contract value of R35 million, is being taken by the data division of South African Transport Services (Sats). A restaurant will also be part of this stage.

Mr Neil Gardner of Stocks Properties which, along with Sanlam, is handling the marketing, says there is already brisk demand from "several large space users".

The first phase is scheduled for completion by the middle of next year and the other phases will begin on market demand.

Braampark is adjacent to the Civic Centre on the site of the old fever hospital on the northern slope of the ridge.

Three buildings on the property have been listed as national monuments and Mr Bart Dorrestein, managing director of the Stocks & Stocks group says these will be preserved and refurbished.

"Indeed," he says, "the appearance of the old hospital of red brick and Victorian arches has greatly influenced the design approach of the new development."

Mr Joseph Makgatho, ever hopeful, sits in on yet another telephone call by Mr Michael Ndobela trying to work out with a building society how a home bond can be arranged.

Star 5/4/90

Family man shut out by the bond system

Joseph Makgatho is 49, with a steady job he has held for 16 years, a wife and seven children — and still unable to find the route into a bank or building society bond to buy his own home.

This is a puzzle Mr Makgatho, a labourer for a large blue-chip company in Johannesburg, has been trying to solve for more than 15 years of house-hunting.

A solution has also evaded Mr Michael Ndobela, the personnel and training officer at the company where he works.

"The problem," says Mr Ndobela, "is that the banks and building societies fix their standards far too high for most black workers.

"They insist houses must be in price brackets around R30 000 or higher — and then set out deposits and minimum bond repayments well beyond the reach of the bulk of black families."

Mr Makgatho is typical of thousands of other workers.

His gross income of R1 075 a month is trimmed down to take-home pay of R886,45 by deductions for tax, pension fund, union dues and the Unemployment Insurance Fund.

The rent for the two rooms at a Meadowview hostel, into which his family of nine somehow fits, takes R30. Paraffin and candles come to R40.

Daily travel to work costs R64. His wife needs about R600 for shopping, plus R12,80 for trips to the shops and back. That leaves a grand total of R12,80.

Mr Makgatho has felt several times he was near a solution. The latest burst of enthusiasm was about a two-bedroomed house at Vosloosrus, south-east of Johannesburg.

Then the numbers started to chatter out of the building society computers.

The house price came out at R32 335. As a start, he had saved R1 500 — and there was about R1 000 he could draw from his trade union's loan scheme.

The 10 percent deposit demanded came to R3 233, still leaving a mortgage of R29 102 — meaning monthly repayments of R512. By digging into subsidy schemes he could chop that by R166, lowering repayments to R346 a month.

Mr Makgatho still saw the dream house as within reach. But the building society insisted on a minimum monthly gross income of R1 154 to qualify for a bond. He was short — by R79.

"I'll go on trying," he responds. "I must. But the system all starts to look a bit odd."

Anglovaal to raise R822m via rights offer

Cape Times 5/4/90 58

Financial Staff

THE financial, industrial and mining Group, Anglovaal Ltd, is to raise R822,1m by means of a rights offer of its "N" ordinary shares to shareholders and loan stock holders.

The company is to offer 30 "N" ordinaries at 4 900c each for every 100 ordinary or "N" ordinary shares held and 21 "N" ordinaries also at 4 900c for every 100 units of loan stock held.

The offer is underwritten by UAL Merchant Bank and the last day of register will be April 12, the day on which Anglovaal will publish the listing and other salient dates of the offer.

In terms of the Anglovaal rights offer, Anglovaal Holdings (Avhold) is entitled to 2 690 217 "N" ordinary shares, but it is to renounce its entitlement over 2 654 408 of these (for no consideration) in favour of its shareholders.

This will be achieved through a renounceable rights offer of 29 "N" ordinaries for every 100 Avhold shares held. The balance of 35 809 "N" ordinaries will be sold for the benefit of Avhold.

Last week Anglovaal and Middle Witwatersrand (Western Areas) announced that, between them, they were to raise some R1,2bn through rights offers.

However, because Mid Wits does not have a sufficient reserve of ordinary shares for such an offer, it is to call a general meeting of shareholders to authorise the creation of additional shares.

Further details of its proposed rights offer will be made known when the meeting is convened.

The reason for Anglovaal's offer is that it, together with certain of its subsidiaries, spent more than R1bn on acquisitions in 1989.

The board has decided to raise new permanent equity to ensure that adequate funds would be available to enable the group to take advantage of any future investment opportunities, including new gold mine developments, as well as following its rights in Mid Wits.

Because funds from the offer will only be received in May, the "N" ordinaries to be issued in terms of the offer will not rank for Anglovaal's final dividend in the current financial year.

Thus the registration date for the final dividend will be the same as that for the rights offer (April 12), so all shares traded after that date will be both ex-rights and ex-dividend.

Anglovaal expects that its final dividend will be at least 60c a share, compared with the previous financial year's final of 51c, thereby giving a total for the year of at least 90c (1989: 76c).

During its last financial year, Anglovaal's earnings rose by 26% to R183m (1988: R145m), equivalent to 4 265c (3 395c) a share. This covered the 76c (65c) a share dividend 5,6 times (5,2 times).

The average annual rise in earnings over the last five years has been 28% while the average annual increase in dividends was 19% for the same period.

In its interim report published in March, Anglovaal revealed that consolidated earnings had risen by a further 34% to a record R105,6m in the six months ended December 31, from R78,6m in the first half of 1988/89.

Furthermore, the board stated that it expects satisfactory earnings growth in the current half year, although this was unlikely to match the growth in the first half.

PROPERTIES IN POSSESSION

Signs of the times

Building societies are counting the costs of aggressive marketing campaigns. Reports, submitted quarterly to the Registrar of Banks & Building Societies, show repossessions by many of the societies rose steeply in 1989.

Value of unsold properties held by building societies, including the Perm, which is now part of the Nedcor banking group, rose from R117m in December 1988, to R126m in March 1989.

With the Perm excluded from building society statistics, properties in possession for the remaining four societies rose from R119m in June, to R142m in September and R169m in December. The Perm had a similar surge with these properties rising from R22,8m to R25,8m and R32,5m.

Banks are not prepared to admit to similar casualties.

First National's Pat Lamont says the rise has been marginal. Standard has sold in execution "a very small percentage of its books, but has a great number of arrangements," says GM Terry Power. Trust Bank's Jan Kühn says its properties in possession are negligible.

This comes as a surprise. Banks have, if anything, been more aggressive in their marketing tactics than building societies. They lent at lower rates for at least a year, made an average loan of R64 000 in 1989, against building societies' average of R45 000 and, unlike building societies, are allowed to lend up to 100% of the value of the property. But as banks' home loans are statistically camouflaged in a category called *loans against the security of property*, the extent of repossessions cannot be established.

The main reason for the increase is the climb in interest rates — on average from 13,5% to 20,75% offered by building societies, and from 12,5% to 21% by banks. NBS's Trevor Olivier expects the situation to deteriorate further during the next six months. "There is always an overrun when interest rates move."

Another indication of the extent of the problem comes from Perm GM Peter Hibbit who has collated figures on judgments, which clear the way for sales in execution. He says they increased by 152% to 888 between December 1988 and the end of last year. However, not all judgments end as sales in execution — "We have found at the Perm this happens only to around 50% of our judgments," says Hibbit.

Lamont also points out many homes are used as collateral for business loans from banks. So sales in execution figures are deceptive and need to be kept in perspective.

Many problems arise, says Information Trust CE Paul Edwards, through "borrowers who neglect to disclose all their commitments and inflate earning capabilities." Failures to meet payments also stem from developers who sell homes without asking for an initial deposit. The UBS's Piet Kruger says: "Terms are offered which make monthly repayments easier for a period but, when this falls away, instalments automatically become higher."

The only society to show a decline in properties in possession, as a percentage of total book, is Saambou, 0,56% to 0,52%. "We have made a concerted effort to get rid of them. We have priced these houses on the basis of loss of interest and have offered them to those renting them to get them off our books. This has paid off."

Institutions are determined to cut down on repossessions and sale of execution is a last resort, says Allied GM Geoff Bowker. "We are surprised at the difficulty in getting borrowers to come in and talk to us."

Information Trust has mooted a centralised database with full credit rating information on clients fed by banks, retailers and HP concerns along the lines of those in the UK and US. Edwards says this would enable them to assess a borrower's ability to service a debt more accurately.

☐ Figures originally submitted by the Allied, on BSA11 forms, for properties in possession were not accurate because the division between sold and unsold properties was incorrect. The NBS's reported figures are not directly comparable with those of other organisations, says Olivier, because properties sold are not moved from the unsold category until transferred. The chart shows correct figures. ■

On the rise

Properties in possession*

%: 1, 0,8, 0,6, 0,4, 0,2, 0

UBS, **Perm, Allied, NBS, Saambou

1988 / 1989

* Total rand value of unsold properties in possession as a percentage of the rand value of the total mortgage book

**The Perm started trading as a bank in April 1989

PRIVATISATION

Art of the possible

Selling off the State is big business. From being the ideological preserve of the free market right, privatisation has become central to policy in developed and developing countries with governments of widely varying views.

This does not mean it has been depoliticised. Indeed, if politics is the art of the possible, then privatisation has become pure politics. Questions over what to sell, how, and ways to regulate the resulting enterprise are more controversial than ever, even if the

CHRIS LIEBENBERG

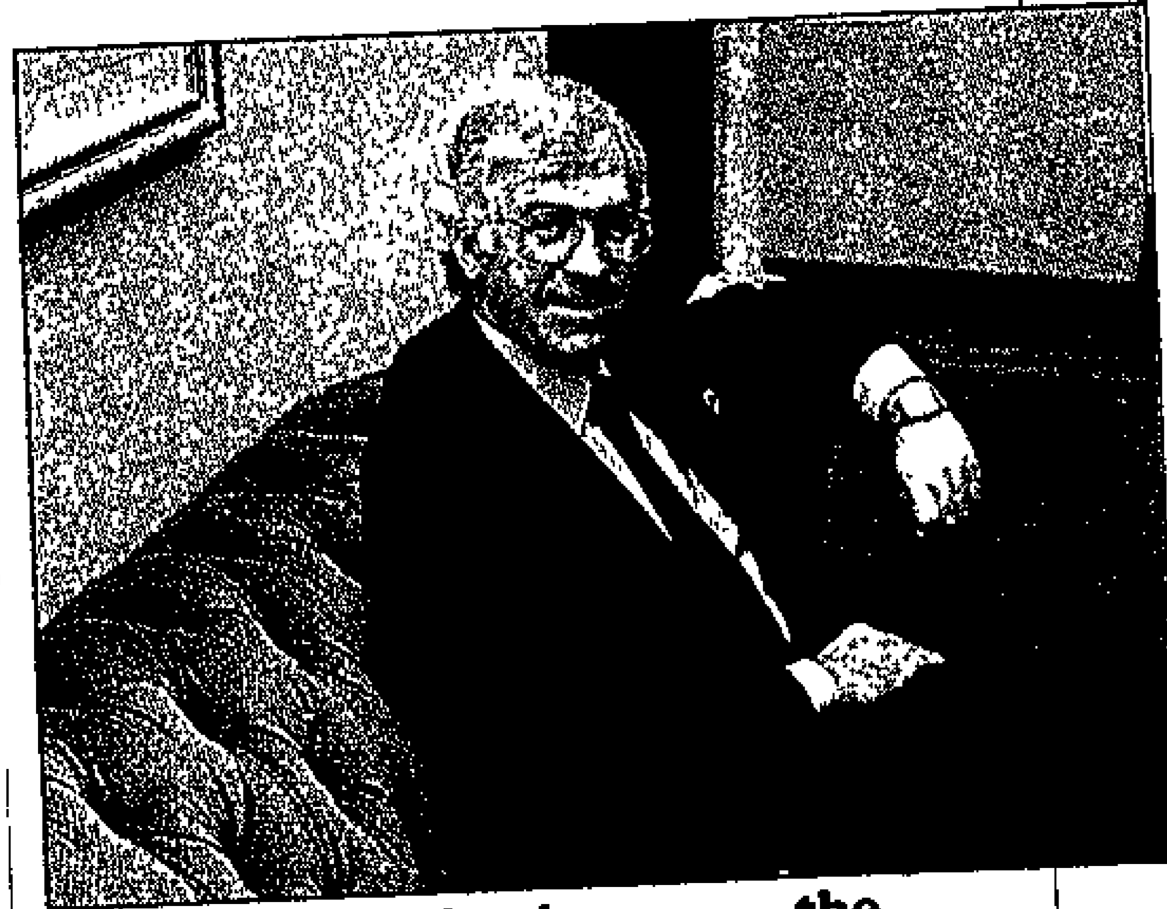
Musical chairs

The appointment of Chris Liebenberg as Nedcor CE ends weeks of speculation in the banking fraternity and uncertainty in Nedcor itself following predecessor Piet Liebenberg's abrupt departure last month to head troubled Bankorp.

Chris Liebenberg (55) has the right credentials. He does not have his predecessor's reputation as a banking Mister Fix-it but he's been with the Nedcor group for 38 years and MD of the commercial bank since the 1988 merger with the Perm.

Colleagues describe him as a solid and results orientated banker. Nedcor chairman John Maree says Liebenberg is "an experienced banker who is well known in the business community and has built up a strong team within Nedbank."

Earlier this year, Liebenberg caused something of a stir in financial markets when he called for drastic changes to the financial rand. "SA no longer needs the financial rand and it should be done away with," he said, indicating that the negative factors of the two-tier currency far outweigh the positive.



Chris Liebenberg . . . the right credentials

He added that, though the finrand attracted foreign investors who would otherwise not consider SA, recent developments suggested the time had come for the system to be scrapped. He is particularly concerned that SA investors have difficulty competing with foreigners for local investments.

Liebenberg was born in 1934 at Touws River. He matriculated at Worcester Boys' High School in 1951 and joined Nedbank Cape Town. In the late Fifties he was at Nedbank in London and on the Continent before returning in 1967 as sub-manager at Cape Town's St George's Street branch. He became manager in 1974. After some time in New York with Morgan Guaranty he returned to SA in 1981 as GM Advances/Corporate Banking. By 1986 he was senior GM Advances/Corporate Banking and in 1988 Nedbank's MD.

Liebenberg is succeeded as MD by Richard Laubscher (39). ■

HARMFUL BUSINESS

Credit controversy

Delegation — the practice of transferring leases and credit agreements from cash-strapped vehicle purchasers to third parties — is to be investigated by the Business Practices Committee. This was announced in Friday's *Government Gazette*, after the Association of General Banks (which represents all major players providing vehicle credit) complained to the committee.

Banks are concerned at the growing number of clients not making payments and no longer in possession of their vehicles.

One company alleged to have been taking over obligations from original borrowers without permission from the lenders is Unitrade, registered as GM Sheppard Properties. It has been charged on 40 counts of theft and fraud for breaching agreements entered into by banks and vehicle buyers.

Agreements normally require written permission from the bank if a buyer disposes of a vehicle (which technically belongs to the bank until the last payment is made) or allows it to be used by a third party. Unitrade is alleged to have led buyers and third parties to believe banks involved had been told of the transfer. The case will continue on May 14.

Stannic's Gutch Vickers says vehicle owners who can't meet payments should contact the bank. "Financial institutions make every effort to reach an agreement with the client — temporarily reducing payments or extending the agreement — and only repossess vehicles as a last resort."

Wesbank's Peter Thompson says an agreement may be rewritten, effectively extending repayment beyond the 42-month maximum of the Credit Agreements Act.

Another option is for borrowers unable to meet commitments to bring in a third party themselves. The original owner can be absolved of responsibility if the third party's credit rating is acceptable. Or, if the new purchaser does not have a good enough rating, a bank may let him use the car with the original borrower standing surety.

Banks assure customers their credit ratings are not affected if they are open about difficulties. However, when a bank does repossess a car, it is sold, usually on auction and often for less than the amount outstanding on the account. The debtor is credited with the sum raised and then pays the difference between that and the amount owing — usually in instalments.

To avoid this loss many people look elsewhere. William Norris, owner of Execu-Lease, says he provides a solution. His contract provides for the third party (who pays Norris a commission) to use a vehicle with permission from the original buyer — thus avoiding GST. As this does not relieve the orginal buyer of his obligation unless the bank agrees, Norris encourages both parties to notify the bank of the transfer.

But that may not be enough. The committee will determine whether anyone can legally arrange such a transfer without the bank's permission. This could put the onus on companies to ensure the bank is notified.

Execu-Lease's attorney Kevin van Huyssteen admits there are "dangers": banks risk losing track of the vehicle and their collateral; the original buyer could find himself still responsible for payment but no longer in possession of the vehicle; and the third party risks repossession without compensation because he is not the legal owner.

He says a set of legal guidelines, with the banks working together with legitimate operators, could benefit all parties. But the banks are not enthusiastic.

The future of this business will depend on the committee and the result of the Unitrade case.

Delmar Schwichtenberg

FM 6/4/90 (58)

SBIC

Rates squeeze

Activities: *Banking and financial services.*
Control: *Liblife 32,5%, Old Mutual 20,5%.*
Chairman: *H P de Villiers; MD: C B Strauss.*
Capital structure: *93,9m ords*; 8m prefs of R1. Market capitalisation: R2,72bn.*
Share market: *Price: 2 900c. Yields: 3,9% on dividend; 11,7% on earnings; PE ratio, 8,5; cover, 3,0. 12-month high, 3 275c; low, 1 775c. Trading volume last quarter, 199 000 shares.*

Year to Dec 31	'86	'87	'88	'89
Advances (Rbn)	16,8	17,9	22,7	28,5
Total assets (Rbn) ...	20,6	22,1	29,7	37,3
Pre-tax profit (Rm) ..	267	329	406	530
Attrib profit (Rm)	209	220	264	333
Return on assets (%) .	1,04	1,02	0,90	0,92
Earnings (c)	215	225	270	340
Dividends (c)	78	82	95	112
Net worth (c)	1 648	1 596	1 881	2 409

* After April 12 conversion of preferred ords.

Standard's De Villiers ... more difficult in '90

Last year, Standard Bank Investment Corp (SBIC) chairman Henri de Villiers concluded his review of business conditions with the warning that 1989 would be difficult. Interest rate increases and austerity measures were expected to curb demand for credit and the outlook was not encouraging. In the event, the group lifted its advances by a quarter and recorded an even greater percentage increase in pre-tax profit.

The growth rates were slower than in 1988 but, in view of the sizes of the increases, are shareholders justified in wondering if similar warnings in this year's chairman's review are unduly cautious? Last year, De Villiers talked of credit demand moderating. This year, he expects demand to fall as a result of high real and nominal interest rates.

Last year, the commercial banking arm increased the total credit it granted by 39,4% to R20,4bn, which compensated for lower banking margins. A significant part of the lending increase was in mortgage bonds, with R1,5bn being added to the year-end total. But that lending increase was not without its difficulties. The group as a whole increased its specific provision for bad debts to R80,6m from 1988's R46,4m, underscoring the increased riskiness of lending. Group MD Conrad Strauss says the specific provision increase remained within acceptable limits given the increase in risk assets.

It is unlikely the bank's lending risk profile will improve while nominal interest rates remain high and the economy remains constrained. Couple that with the likelihood of a continuing squeeze on banking margins despite the tax benefits for individuals in this year's Budget. SBIC along with its competitors relies increasingly on wholesale markets for deposits, as retail depositors switch towards inflation-beating investments such as life policies.

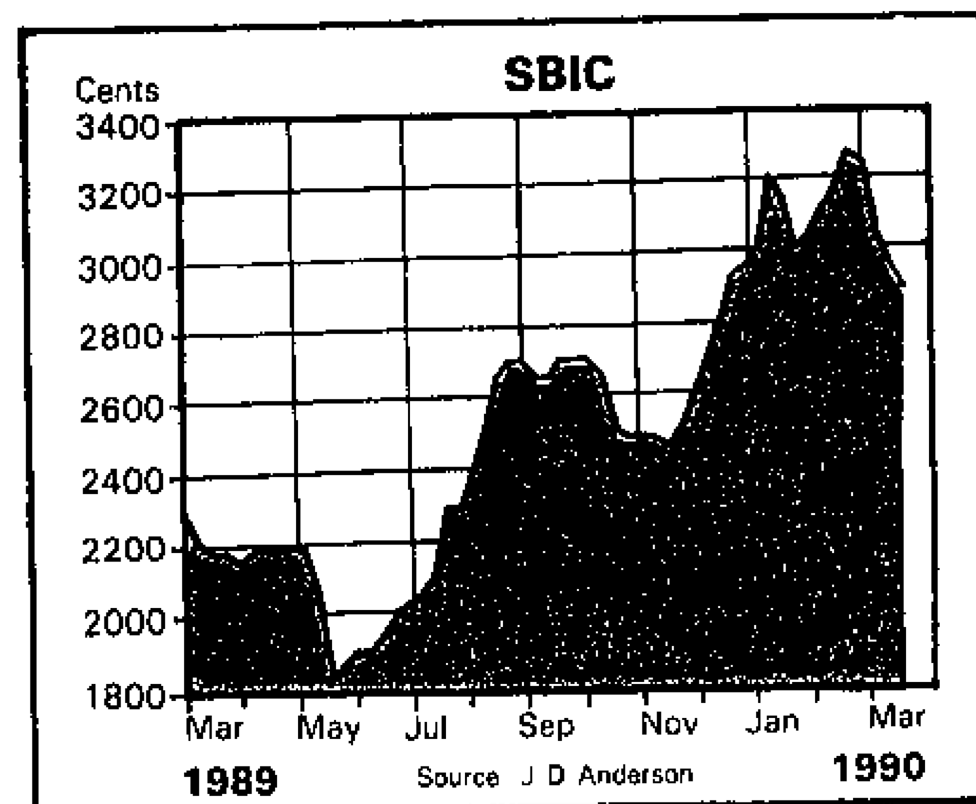
Wholesale deposits are far more sensitive to interest rates than are retail deposits, so margins between the bank's cost of funds and lending rates will remain tight. This will be crucial to SBIC's overall profit performance as the commercial banking arm will be the principal contributor to any profit growth. Stannic, the hire purchase arm, should also raise its contribution as interest rates stabilise or even weaken slightly towards year's end.

If slower growth in lending combines with narrower banking margins, there seems little prospect of SBIC lifting its return on assets above last year's 0,92% and certainly to nowhere near the 1%-plus levels of 1986-1987. The implication need not be a further increase in dividend cover as last year's increase to 3 times (1988: 2,7) took cover to the top level targeted by the board a few years ago as being necessary to build assets needed to comply with progressively stricter banking ratios.

De Villiers has again budgeted for an increase in profits this year though he does not attempt to quantify the expected rise. At this stage, it seems unlikely earnings will rise at the same rate as last year, though an increase to 400c does not seems out of reach. That should be accompanied by a dividend increase to at least 130c, putting the share on a forward yield of 4,5%.

SUM OF THE PARTS

	SBSA 1989	SBSA 1988	Stannic/Stancor 1989	Stannic/Stancor 1988	Standard Merchant 1989	Standard Merchant 1988
Total assets (Rbn)	29,0	21,4	6,6	5,1	1,5	1,4
Advances (Rbn)	18,5	13,3	5,5	4,5	1,0	0,9
Pre-tax profit (Rm)	336	247	43	54	42	36



BANKING FM 6/4/90 (58)

Changing face

That Chris Liebenberg (55) is to succeed namesake Piet in Nedcor's top spot will give an element of continuity — he has been with the group 38 years. This will be invaluable in an organisation which has experienced more than its share of upheavals, in a period when the industry as a whole has been through traumatic change.

Since competition started building up in the mid-Eighties, the appointment of CEs and their top management has been a game of musical chairs.

Much movement has been the result of skills shortages, as banking groups vie to acquire the people they believe are best able to come out ahead of the pack.

The latest move, triggered by the appointment of former Nedcor CE Piet Liebenberg as executive chairman of Bankorp (replacing non-executive Derek Keys), disrupted the era of tranquillity and prosperity since his appointment in 1987.

GM Hennie van der Merwe's decision to follow Piet Liebenberg to Bankorp, where he will be senior group GM from July 1, is also appropriate, because they have an association dating back to the early Eighties at Finansbank, which Liebenberg started in 1970 as Middelburg Financial & Trust Co.

But much remains in the balance. For both groups, the months ahead will be filled with change and uncertainty.

The immediate question is whether Piet Liebenberg's other Finansbank associates, Leon Porter and Johannes Hamman, will also join Bankorp. On going to press, their plans were still not known. Until these are made and all announced changes implemented, there will be a measure of disruption within the ranks, as people who may be affected speculate about their own futures.

Van der Merwe

There is talk that the two are involved in some other, divergent, business interest with Piet Liebenberg, which has led to speculation (since denied) that they may leave Nedcor to concentrate on this.

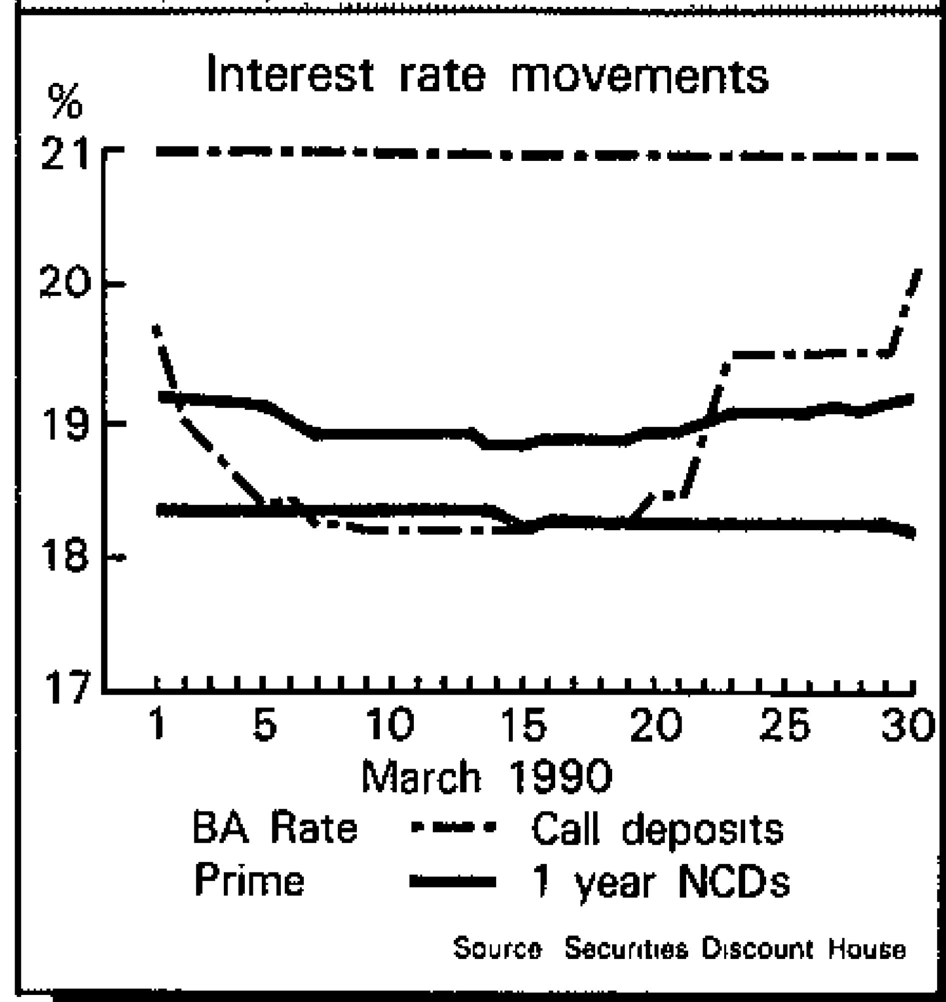
Van der Walt

The developments come soon after the retiring Owen Horwood was replaced as Nedcor chairman by Eskom's John Maree and only a year after Nedcor (formerly Nedbank) took over the Perm, the second largest building society. The merger pushed up assets 66,3% to R29,2bn. It also boosted growth in net income in the financial year ending September 30 from 36,9% to 48,2%.

Liebenberg

Despite these results, the merger must have created strains and stresses as the two

FM 6/4/90 (58)



from 18,35% to 18,30% on Friday, because demand for liquid assets increased, while BA issues have been cut because of the economic slowdown. The rate reduction is thus a reaction to more demand and less supply.

The term lending base rate, set by the Association of General Banks each month, also came down last week by 0,5 of a percentage point to 22%. This rate is based on the total cost of funds over the past month — other than Reserve Bank penalty rates.

Before the gold price dropped last Monday, and alarming money supply figures were released, rates did have a downward edge. Now most have risen. Three-month money is up from 19,35% to 19,75% while six-month funds are up from 19,35% to 19,70% and one-year NCDs from 18,90% to 19,25%.

But most bankers say there is no pressure to increase rates further. The Bank says prime won't rise but the liquidity squeeze will continue.

Most banks, it seems, are not under extreme pressure even though the market shortage has reached R4,7bn. One major bank is said to be carrying the load. It has a substantial portion of the window shortage, most of it at the 22,75% penalty rate. Half the market shortage is thought to be borrowed at the penalty rate.

But, because other banks are generally not paying high penalty rates for borrowing at the window, pressure on rates is minimal.

The bank that has borrowed heavily at the window could increase its general rates to reduce obligations to the Bank. But it is thought it will prefer to remain in debt to the Bank to keep other rates low and stay competitive. Or it could try to get funds from other areas. ■

SECHOLD

Five-year itch

FM 6/4/90 (58)

Securities Discount House Holdings (Sechold), which controls three of the four discount houses, is to acquire an initial 49% of Boland Bank's wholly-owned subsidiary Distriksbank — for "approximately R1m."

Previously, Stellenbosch District Bank, one of SA's oldest until merging with Boland in 1979, it operated on a limited scale since its inception in the 19th century.

Says Boland MD Gert Liebenberg: "We believe joining forces will give us the benefit of Sechold's expertise in providing a more specialised service to the corporate finance and bond, money and derivative instrument markets."

The deal is "subject to the Registrar of Banks' approval," says Sechold group MD Arthur Kelly, who also chairs Securities, Interbank and National discount houses.

The agreement includes an option to raise the shareholding to 70%, should future banking legislation allow. At present a controlling company of discount houses may not have a majority shareholding in a bank. This should fall away when new legislation is promulgated some time this year.

"The new Act will give us more flexibility," says Kelly. Discount houses have had more stringent rules in regard to liquidity requirements, deposit taking and investment capabilities, than have banks," he adds.

Last week's reshuffle, resulting from the "amicable" resignation of four of Sechold's eight directors, will be phased in over six months. Kelly says: "There will be no vast dumping of shares as they will retain their shareholdings. However, there will be some restructuring."

Pierre Faure, Jan Kotzé, Mike Thiess and Mike Haskins will become non-executive directors and have accepted consulting appointments to Securities and National discount houses. This opens the way for younger management. "The fact we have second and third-year line-ups ready to be phased in should be a comfort to shareholders."

In all, seven new directors have been appointed to group operating companies, among them Ian Brodie, who will work under Interbank Discount House MD Thinus Swardt, and Danie Gouws and Bill Scotcher, who will be joint CEOs of SDH.

The new directors will have a stake through Incenco, a new company which will own shares in various group companies. "Shares will be allotted to all senior staff, dealers and admin staff," says Kelly. "There is no pension fund and we hope this will give them more than adequate compensation to provide for a pension."

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Kelly stresses the scale of the board reshuffle is coincidental. "The founder members are financially comfortable and four decided to pursue their own interests."

Sechold was started five years ago by eight directors with R2m share capital. It attracted R9m in funds on listing and now has R36m disclosed shareholders' funds. Market capitalisation is R68m.

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At 290c, Kelly reckons the share is undervalued. "This is something we'll have to address as profit performance, even in the current banking climate, is healthy."

He says that the "not very profitable" NDH has been turned around in a year "as will be seen from the financial results in three months' time" and, along with Securities Portfolio Managers, is contributing to the bottom line.

Jacquie Bullard

BANKING FM 6/4/90 (58)

Changing face

That Chris Liebenberg (55) is to succeed namesake Piet in Nedcor's top spot will give an element of continuity — he has been with the group 38 years. This will be invaluable in an organisation which has experienced more than its share of upheavals, in a period when the industry as a whole has been through traumatic change.

Since competition started building up in the mid-Eighties, the appointment of CEs and their top management has been a game of musical chairs.

Much movement has been the result of skills shortages, as banking groups vie to acquire the people they believe are best able to come out ahead of the pack.

The latest move, triggered by the appointment of former Nedcor CE Piet Liebenberg as executive chairman of Bankorp (replacing non-executive Derek Keys), disrupted the era of tranquillity and prosperity since his appointment in 1987.

GM Hennie van der Merwe's decision to follow Piet Liebenberg to Bankorp, where he will be senior group GM from July 1, is also appropriate, because they have an association dating back to the early Eighties at Finansbank, which Liebenberg started in 1970 as Middelburg Financial & Trust Co.

But much remains in the balance. For both groups, the months ahead will be filled with change and uncertainty.

The immediate question is whether Piet Liebenberg's other Finansbank associates, Leon Porter and Johannes Hamman, will also join Bankorp. On going to press, their plans were still not known. Until these are made and all announced changes implemented, there will be a measure of disruption within the ranks, as people who may be affected speculate about their own futures.

Van der Merwe

There is talk that the two are involved in some other, divergent, business interest with Piet Liebenberg, which has led to speculation (since denied) that they may leave Nedcor to concentrate on this.

Van der Walt

The developments come soon after the retiring Owen Horwood was replaced as Nedcor chairman by Eskom's John Maree and only a year after Nedcor (formerly Nedbank) took over the Perm, the second largest building society. The merger pushed up assets 66,3% to R29,2bn. It also boosted growth in net income in the financial year ending September 30 from 36,9% to 48,2%.

Liebenberg

Despite these results, the merger must have created strains and stresses as the two

organisations, with different roots and cultures, strove to form a sound working relationship. Technologically, they have had to cope with problems created by different software applications and with the implications of serving opposite ends of the market.

All this followed the traumatic events of 1985-1986, when the inability of Nedbank's London branch to meet its commitments, triggered a run on the bank both there and in Johannesburg. This, combined with local problems created by a R300m loan to ill-starred Triomf, badly dented its image.

The bank was saved by a Reserve Bank undertaking to stand behind it, a cash injection from Old Mutual and Piet Liebenberg's arrival soon after. Today, it is the third largest banking group in terms of assets, with market capital greater than First National's.

More important, perhaps, it is well positioned for growth. Latest year-end statements show a higher ratio of capital to assets — 4,6% — than for any of the other four major banking groups:

- ☐ Standard Bank group, 4,4%;
- ☐ First National, 4,1%;
- ☐ Volkskas, 4,3%; and
- ☐ Bankorp, a dismal 2,5%.

Aside from its own upheavals at the top, Bankorp's poor capital position is its greatest problem. It was former chairman Fred du Plessis' policy to grow organically rather than by acquisition. He was undeterred by the erosion of capital ratios. Overcapitalisation, he stressed, was unnecessary.

So in the year to June 1989, assets grew 53% after growth in the previous year of 43%. It then slowed dramatically as new MD Chris van Wyk chose a very different strategy, concentrating on profits.

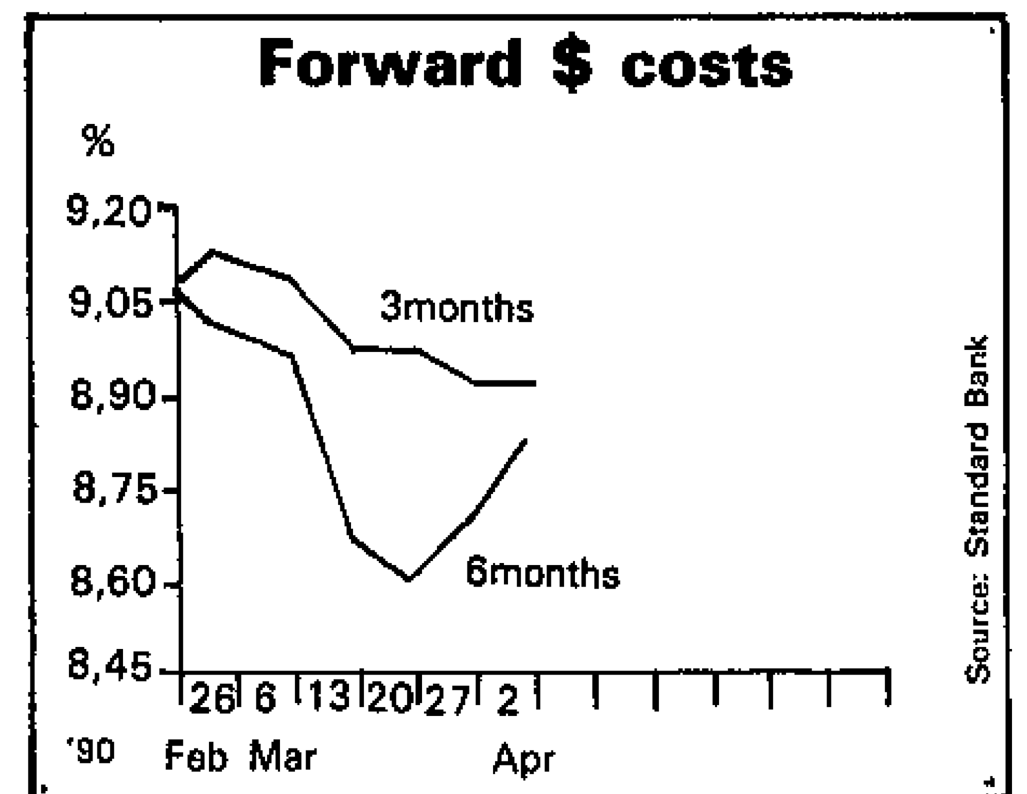
Given Liebenberg's known conservatism, this approach is likely to be reinforced. The marketing style of subsidiary Trust Bank will be very different. This has in the past provoked fury among Cabinet ministers fearing its impact on interest rates and created concern at the Reserve Bank, as it struggled with growth in money supply.

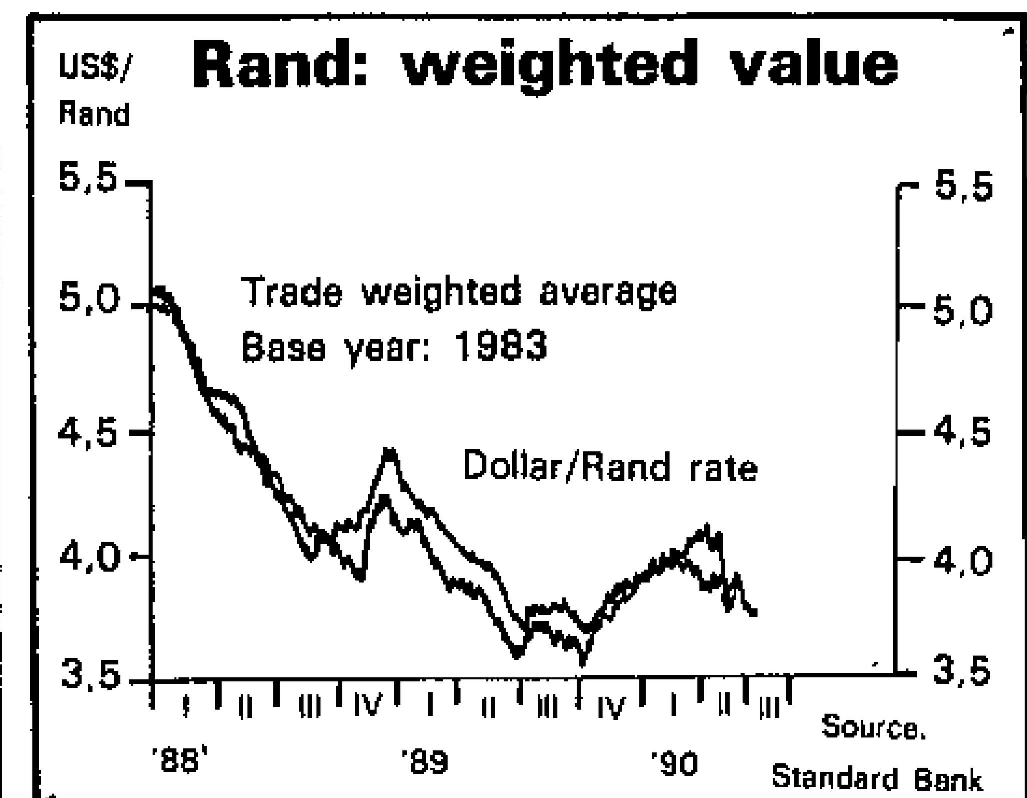
New methods will take a while to work through. Meanwhile, the hangover persists. A R345m rights issue towards the close of last year failed to restore capital to a point at which the bank could meet prudential capital requirements. As each year the percentage of capital needed rises in line with phasing-in requirements by the Reserve Bank, the problem will require urgent attention from Liebenberg, who is not due to take up his new post until mid-year.

Bankorp has had its share of top-rank turmoil. After the death of chairman Fred du Plessis in a car accident last March, he was succeeded by academic Tjaart van der Walt. That lasted only months, before his replacement by Keys. Now Liebenberg is installed and will no doubt be making important changes in the staff structure.

Much will be in the melting pot in both groups, at a time when monetary policy is putting a vice-like squeeze on margins. ■

MARKET INDICATORS





RAND'S PRICE

Apr 2 1990	R1 equals	One foreign unit equals (R)
SDR	**0,290**	**3,453**
	0,302	3,311
ECU	**0,313**	**3,197**
	0,355	2,816
UK £	**0,229**	**4,378**
	0,232	4,316
US $	**0,374**	**2,673**
	0,390	2,565
Canada $	**0,437**	**2,288**
	0,464	2,155
Switzerland Fr	**0,562**	**1,779**
	0,645	1,550
France Fr	**2,135**	**0,468**
	2,483	0,403
Germany DM	**0,634**	**1,577**
	0,735	1,361
Japan Yen	**59,665**	**0,017**
	51,365	0,019
Italy Lira	**467,175**	**0,002**
	539,775	0,002
Zimbabwe $	**0,895**	**1,117**
	0,780	1,282
Austria Schil	**4,460**	**0,224**
	5,180	0,193
Holland Guilder	**0,715**	**1,399**
	0,829	1,206
US $ value of SDR	1,293	**1,301**
US $ value of ECU	1,100	**1,207**
Financial Rand		
Cost per US $	4,180	**4,211**
Discount (%)	38,718	**36,631**

Year ago figures in light print.
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only.

FINANCIAL FUTURES

	Closing prices March 30 1990 Bid	Offer	Mark to market	Open interest at close contracts 23/3	30/3	Week's volume at close contracts 23/3	30/3
All share index: 3 257							
June	3 317	3 347	3 332	2 679	2 692	3 994	3 562
September	3 405	3 430	3 418	330	380	770	360
All gold index: 1 960							
June	1 986	2 000	1 993	2 143	2 624	7 739	11 203
September	2 080	2 120	2 100	220	321	635	1 1146
Industrial index: 2 976							
June	3 028	3 040	3 034	519	538	280	368
September	3 080	3 150	3 115	150	225	—	124
E168: 15,60%							
May	15,63	15,49	15,51	1 180	1 370	940	831
August	15,44	15,40	15,42	180	180	110	—
3 Month Liquid BA: 18,35%							
May	18,40	18,25	18,32	222	229	40	67
August	17,85	17,65	17,75	113	165	70	250
November	16,85	16,55	16,70	27	37	27	55
Dollar-Gold: 368,65							
June	380,00	383,85	381,90	600	834	733	1 250
September	390,00	405,00	397,50	85	125	110	102
March 1991	420,00	450,00	435,00	—	125	—	250

Interest on Safex Trust = 19,14%

Source: Rand Merchant Bank

FINANCIAL INSTITUTIONS

New head

The free market principles evident in the Financial Institutions Office (FIO) for some time will be followed through by Piet Badenhorst, who took over as registrar on April 1. Badenhorst will place more emphasis on self-regulation by the private sector and allow for market-orientated price determination.

Badenhorst sees his immediate challenge as FIO's conversion into the semi-private sector SA Board for Financial Services. Legislation allowing this will come before parliament this session, after financial institutions comment on draft legislation.

Badenhorst, a civil servant since 1959 and deputy registrar since May 1984, is an obvious successor to Theo van Wyk. Originally, he was responsible for supervising investment institutions — unit trust schemes, the JSE, participation bonds and administration of the Usury Act. For three years, he has been responsible for long- and short-term insurers, pension funds and friendly societies. ■

INTEREST RATES

Two-way street

In the face of tight liquidity, some interest rates are easing, causing market confusion. But there is a simple explanation.

The bankers' acceptance (BA) rate fell

SECHOLD

Five-year itch

FM 6/4/90

(58)

Securities Discount House Holdings (Sechold), which controls three of the four discount houses, is to acquire an initial 49% of Boland Bank's wholly-owned subsidiary Distriksbank — for "approximately R1m."

Previously, Stellenbosch District Bank, one of SA's oldest until merging with Boland in 1979, it operated on a limited scale since its inception in the 19th century.

Says Boland MD Gert Liebenberg: "We believe joining forces will give us the benefit of Sechold's expertise in providing a more specialised service to the corporate finance and bond, money and derivative instrument markets."

The deal is "subject to the Registrar of Banks' approval," says Sechold group MD Arthur Kelly, who also chairs Securities, Interbank and National discount houses.

The agreement includes an option to raise the shareholding to 70%, should future banking legislation allow. At present a controlling company of discount houses may not have a majority shareholding in a bank. This should fall away when new legislation is promulgated some time this year.

"The new Act will give us more flexibility," says Kelly. Discount houses have had more stringent rules in regard to liquidity requirements, deposit taking and investment capabilities, than have banks," he adds.

Last week's reshuffle, resulting from the "amicable" resignation of four of Sechold's eight directors, will be phased in over six months. Kelly says: "There will be no vast dumping of shares as they will retain their shareholdings. However, there will be some restructuring."

Pierre Faure, Jan Kotzé, Mike Thiess and Mike Haskins will become non-executive directors and have accepted consulting appointments to Securities and National discount houses. This opens the way for younger management. "The fact we have second and third-year line-ups ready to be phased in should be a comfort to shareholders."

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Jacquie Bullard

up the organisation. He has already cut 350 of the exchange's 2 850 jobs and expects to make many more before the end of this year. And of those who remain, many will find themselves doing something very different from their present jobs.

It is all part of a deliberate attempt to shake to its core what had become a complacent organisation.

In future, the market will have three parts, each responsible for a different function: a primary markets division, fulfilling the exchange's responsibilities as a regulatory agency and providing services to issuers; a trading markets division; and a settlements division.

This does away with the bulk of the exchange's 100 or more committees and redefines the role of its ruling council, which will now delegate most decision-making.

Rawlins' spring clean has been greeted with cautious optimism by securities firms. They are happy to see the exchange's costs fall, but have yet to be convinced the central market has entirely mended its ways. ■

CREDIT EXTENSION FM 6/4/90

Gentle persuasion

58

In January, bank advances to the private sector grew 2,8%, lower than December's 3,2% but higher than the 1% average requested by former Reserve Bank Governor Gerhard de Kock. Last year, advances grew by 2% or more in all but two months, reaching a high of 6,7% in April.

Following the unhelpful response, present Governor Chris Stals repeated the request when he announced the new, lower guidelines for growth in money supply. And he will meet representatives of the industry next week to explore "ways and means" of making his request "more effective."

Despite the ominous phrase, all he has in mind for the occasion, he says, is moral suasion. He is not thinking in terms of a directive on credit ceilings. Nor of disciplining errant banks with fines, though De Kock threatened that when he originally made the request.

Stals says the method could be very effective but describes it as "too rigid" and not appropriate in the framework of his market-related policies. So he will continue to rely on applying penalty interest rates which illiquid banks have to pay for "excessive" central bank assistance.

And he will not attempt to distinguish between banks which fall into line and those which don't. He argues this would be pointless as those on the Bank's blacklist would simply turn to the interbank market.

Last-resort money has been costing banks 22,75% since prime increased to 21% in October, but bankers argue this does not restrain lending. "We have no choice but to go on lending, even if our margins are non-existent at times."

What is working for Stals is natural attrition in the economy which is slowing growth.

"If the Bank wants to reduce that growth further, it should allow prime to rise," says the banker.

"That is the only way to send appropriate signals to the market." ■

AIMARK F|M 6|4|90 (58)

Missing the mark

Aimark has again failed to meet management's earnings forecast, with the first half's profit growth failing to match that of turnover. The trading misery was compounded by sharply higher finance costs, which combined with narrower margins to restrict cash flow and the group's ability to finance appropriate inventories.

Results for the six months to end-December make a mockery of chairman Ivan Cohen's annual report forecast of "a return to greater profitability" and "earnings exceeding 7,5c" for the 1990 year.

Turnover is not disclosed, though Cohen says it rose "substantially." In 1988 and 1989, sales grew by 110% and 76% from unspecified bases.

F|M 6|4|90 (58)

The firm slid into the red in the second half of fiscal 1989 after a fundamental change in trading conditions. There was a major swing from direct indent sales to ex-warehouse sales. That shifted stock financing directly on to Aimark when deteriorating consumer demand slowed stockturn. Interest-bearing debt increased sharply to finance the larger inventories and helped lift the half-year's interest payments to R399 000 from R85 000.

The picture became even more dismal as money had to be spent on infrastructure needed to deal with the changed trading conditions.

Margins have been under pressure since mid-1989 and Aimark has been trying to source its goods locally to reduce the effect of import surcharges, currency fluctuations, supply uncertainties and to limit financing costs. Nevertheless, imports still comprise 80% of sales.

Cohen believes Aimark requires additional capital to finance the rapid growth in turnover and he is looking for an underwriter. He hopes to be back in the black by the end of calendar 1990, the new fiscal year-end. Margins have already improved, Cohen says. Meanwhile, the next few years' cash flows will be ploughed back into the business rather than paid to shareholders.

Pam Baskind

RESIDENTIAL PROPERTY (58)

Where's the top?

FM 6/4/90

In which direction are residential property prices headed? While prices have generally held up well in the post-Mandela release period, there are worrying signs that stubbornly high interest rates and a new surge in emigration is starting to turn the tide.

Demand for housing remains high however. And the proud claims of estate agents and the volume of new bonds written by the lending institutions tell an impressive — if somewhat historic — story.

The agents' claims of posting record sales figures are given credence by the growth in the value of housing bonds held by the building societies from R40bn at the end of December 1988 to R46,7bn last year — a growth of about 17% (see *Economy*). The number of bonds registered with both banks and building societies is 925 000 — of which building societies hold 539 000 and the banks the balance.

But, discounted for inflation (running at 14,7% last year), the figures are far less impressive.

And the major lending institutions have picked up the first signs that persistently high interest rates, along with other forces, are increasingly quelling demand for homes in certain sectors, particularly at the lower- to middle-end of the market.

Among the organisations showing the first signs of what could be a changing scenario is Aida, said to be the country's largest residential real estate group. Aida showed a decline in profitability in its half-year results to August. It seems, however, to be recovering well. It claims to have written a record R89,2m worth of sales in February. Pam Golding estates says it did R54m in sales the same month.

While Pam Golding's Transvaal MD Ronald Ennik says his organisation is selling consistently in the middle market, NBS Developments deputy MD David Gorven says demand for homes is largely driven by location and income sector now.

Overall, the demand for bonds is still rising. Last year, NBS had another record lending year. However, taking inflation into account, the numbers don't look quite so good. Says Gorven: "Demand for bonds relates to what people can afford. The lowering of the minimum criteria to qualify for a mortgage during the bond war of two years ago, when the banks entered the home loans market, coupled with a rapid rise in interest rates, is now being felt. Many families find that substantially more than 25% their monthly pay cheque goes into bond repayments."

For this and other reasons, he explains, the home ownership pressure points have changed. "In the past, when times got tough the top end of the market was the first to suffer, while middle and lower income housing showed greater stability."

This time around, he says, the resilience has come from the upper end, while the lower- and middle-income groups have tended to struggle.

"This is because the affordability threshold is much more sensitive to high interest rates in these brackets. Household budgets are being stretched to the limit because of high mortgage repayments."

The problem is these difficulties are increasingly affecting the home buying market higher up the economic scale. This trend could be accelerated by measures such as those contained in Finance Minister Barend du Plessis' Budget. In it, he lopped between R500 and R600 off the salaries of many senior managerial employees through measures such as increased perks tax. People most affected are those in the R150 000 to R300 000 housing bracket.

However, Gorven insists: "Most of those buying at around R500 000 will be largely unaffected by high interest rates and the Budget. Firstly, they don't tend to be big home loan borrowers. Secondly, many people buying into this market derive a large proportion of their income from dividends which, if anything, means reduced tax under the new Budget."

By and large, he says home repossessions have been kept down by the fancy footwork of lending institutions which have helped many people hang on to their homes. Apparently, few people have taken advantage of the lifeline of subsidised interest rates for certain income groups thrown out by the then Trade & Industry Minister Dawie de Villiers before the October election.

Subsidies, says First National's assistant GM Banking Pat Lamont, are in fact one of the reasons demand for bonds remains so buoyant. A large proportion, "no one knows how large," of home owners have subsidised bonds, and the impact of rising interest rates is less severe on them. Perks tax increases, he says, could have an impact but he believes subsidies will continue to provide a cushion.

All things being equal, as long as property owners can find some way of ameliorating the effect of rising costs on their budgets — either through increases, subsidies or help from accommodating lending institutions — property prices are likely to continue steadily upwards, even if there are a few hiccups along the way. ■

RATING FM 6/4/90

Paying one's dues

The British "Poll Tax" row shows just how stongly people can react if they feel they are being unjustly taxed through the municipal

NO UGLY DUCKLING

Industrial buildings are not generally the prettiest structures but Gold Fields Properties seems to have its heart set on changing that.

One way was to use striking colours on developments at Stormill and Robertville on the West Rand.

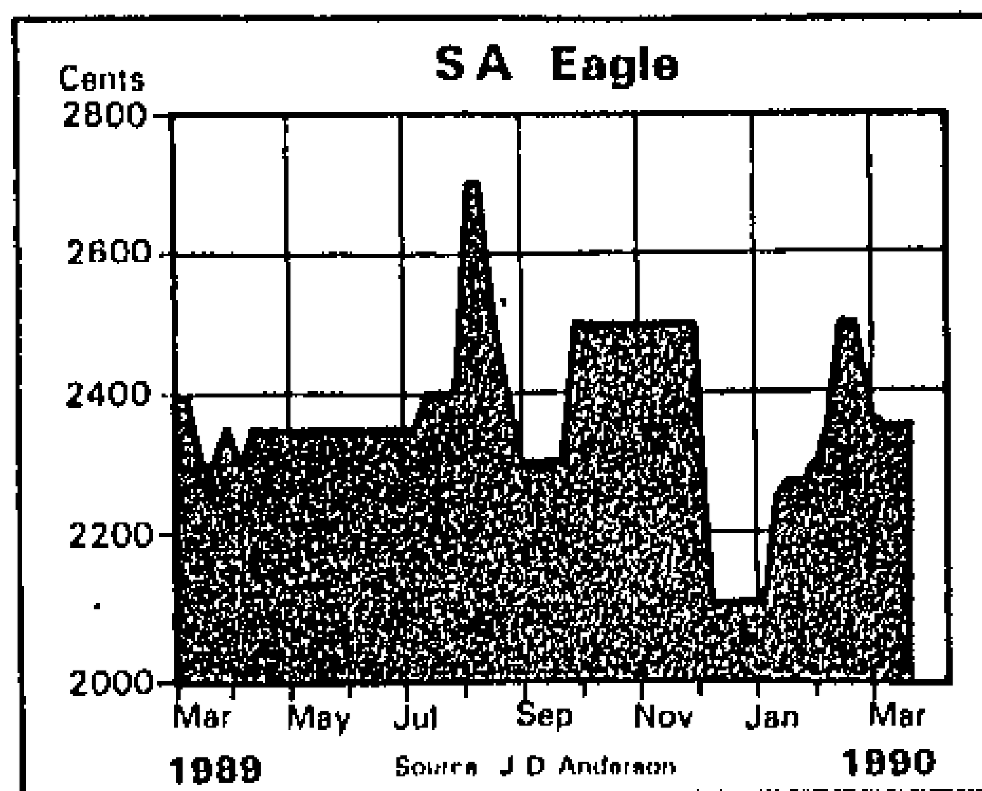
The units at Stormill, pictured here, are suitable for both manufacturing and warehousing.

They have been designed with the needs of the smaller entrepreneur in mind.

Unit sizes range from 227 m² to 418 m² and rentals start at just over R8/m².

This is considered to be low for the area.

FM 6/4/90 (58)



SA EAGLE FM 6/4/90 (58)

Beating the odds

Activities: *Short-term insurance*
Control: *BAT Industries PLC (through Eagle Star Insurance) 39,2%.*
Chairman: *F N Haslett; MD: P T Martin.*
Capital structure: *12m ords. Market capitalisation: R282m.*
Share market: *Price: 2 350c. Yields: 8,1% on dividend; 16,7% on earnings; PE ratio, 6,0; cover, 2,1. 12-month high, 2 700c; low, 2 100c. Trading volume last quarter, 40 000 shares.*

Year to Dec 31	'86	'87	'88	'89
Total assets (Rm)	347,4	465,1	554,0	622,1
Solvency margin (%)	87,5	53,9	59,6	93,4
Premiums earned (Rm)	235,2	363,6	422,2	487,1
Underwriting profit (Rm)	(5,4)	8,3	38,0	20,6
Inv. income (Rm)	24,3	31,3	44,3	52,5
Pretax profit (Rm)	17,6	37,5	80,7	69,8
Earnings (c)	118	222	417	392
Dividends (c)	75	125	180	190
Net worth (c)	1 716	1 634	2 241	3 942

When you think about it, there is a fairly strong similarity between short-term insurance and gambling. Essentially, the policyholder is betting that, at some point, he will suffer a loss that exceeds the value of his premiums. The insurer, on the other hand, is saying simply "You won't."

Obviously, both cannot be right simultaneously. Equally, though (and here the similarity with gambling can be extended) the game is dynamic, which means the respective positions of winner and loser can change. At the same time, however, the fact that a company such as SA Eagle has, over the past 25 years, been able to amass total assets (at book value) of R622m indicates succinctly where the balance of probability lies.

This may help explain why some commentators seem to get so much pleasure when underwriting profits come under pressure — in other words, when the pendulum swings in favour of the policyholder.

What tends to be overlooked, however, is that current underwriting results are being measured off an exceptionally high base: 1988 was an extraordinarily good year for insurers, a point which in Eagle's case is underscored by the fact that its 1989 underwriting surplus of R20,6m was the second-highest in the company's history, despite being 46% down on the previous year's R38m. Little wonder, then, that chairman Fred Haslett describes the outcome as "very satisfactory."

The downside for insurers is that underwriting results are dramatically affected by relatively small changes in the underlying ratio of claims to premiums. This is illustrated by the fact that in 1986 Eagle incurred a R5,4m loss from underwriting on a ratio of claims to net premiums earned of 75%. Last year's R20,6m surplus was earned on a ratio of 73%, while 1988's super-profit was derived from an abnormally low ratio of 68%.

Equally important in the overall profit equation is the ability to control costs. In Eagle's case, the ratio of expenses and commissions to net premiums earned has been reduced over the past three years from 27,3% to 22,7%. Combining these with the claims ratios, it is apparent that 1989's R20,6m surplus can be attributed entirely to the company's reduced cost structure — had costs remained at 27% of premiums, this, combined with the 73% claims ratio, would have fully absorbed premium income.

In this context, management is clearly hoping that its elaborate new computer system, due for completion in 1992, will assist not only in improving risk assessment, but also contribute to further reducing operating costs.

However, from the point of view of shareholders, underwriting results are secondary to investment performance — the main source of their dividends. Though Eagle's portfolio at book value increased only 7%, income from investments rose 18,5% reflecting higher interest rates and dividends. This was accompanied by a 36% surge in the market value of investments which, in turn, was mainly responsible for the increase in net worth per Eagle share from R22,41 to

FM 6/4/90 (58)

R39,42.

Higher investment values also boosted the solvency margin from 60% to over 93% and management's confidence in the inherent strength of the balance sheet is reflected in the fact that it has already created the statutory contingency reserve required by the new Insurance Act amounting to 10% of net approved premium income instead of making use of the five-year phase-in period provided for in the Act.

Contrasting with this general picture of well-being, the current share price of 2 350c is 13% off best and is clearly influenced by the downturn in industry underwriting results. However, with dividends covered more than twice by investment income, it is safe to conclude that Eagle's pay-out is not at risk even though underwriting results are likely to remain under pressure. On an 8,1% historic yield, the share should be attractive as an income-sweetener, particularly for longer-term portfolios. *Brian Thompson*

Gordon challenges SA business

BDay 9/4/90

ROBERT GENTLE

LIBERTY Life chairman Donald Gordon yesterday challenged business to contribute meaningfully towards a new and democratic SA by making funds available for black upliftment.

On Saturday he announced a R100m Liberty Life Foundation for social development of "disadvantaged South Africans".

"Business should be doing everything in its power to support change, or the alternative could be a wasteland," he said yesterday.

He welcomed the R3bn fund for black upliftment announced by President F W de Klerk last month, but said such initiatives should be separate from private ones.

"Business must be seen to be making these contributions in its own right. There should not be overlapping with government."

He said representatives from the ANC and other black organisations would be appointed to the board of trustees only insofar as they had something to contribute.

"This is not a political initiative. We are not scoring points."

R100-m social fund from insurance giant

W/E ARGUS 7/4/90 58

Weekend Argus Correspondent

JOHANNESBURG. — A major insurance group last night announced what it described as its "most important investment" yet — the founding of a R100 million fund for social development.

Liberty Life Group chairman Mr Donald Gordon announced the formation of the Liberty Life Foundation which will, over five years, spend more than R100 million on rural and urban upliftment for disadvantaged South Africans.

"We regard this R100 million as the best investment we could make in our investment portfolio to secure the future," said Mr Gordon.

The foundation will provide education facilities and housing, help ease poverty and prepare talented black entrepreneurs and other community leaders for economic leadership.

"The foundation further aims to help the creation of an environment which will ensure a peaceful and stable transition to a democratic, just and equitable society in South Africa, espousing the highest ideals and standards of the Western world."

Mr Gordon said he hoped other companies would follow Liberty Life's example in "encouraging the courageous initiatives of our political leadership — both black and white — with the full understanding of the horrific consequences to be faced if they fail us".

He said they believed the gesture was appropriate now as the political initiatives underway could be a major turning point in South Africa's history.

Quakes rattle bay

SAN FRANCISCO. — Three mild earthquakes rattled the San Francisco Bay area yesterday but no damage was caused, officials said. — Sapa-Reuter.

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Councils take a tumble

A whole new ball game as officials respond to MDM call

Lekoa councillor Esau Mahlatsi ... urged residents to pay their rents.

LOCAL governments in black townships are beginning to tumble.

The recent resignation of 19 Lekoa councillors, who resigned following a call by the MDM and residents to disband, appears to bear evidence to this fact.

ANC deputy president Nelson Mandela had a meeting recently with the Soweto Council behind closed doors. This is thought to be a prelude to the possible dismantling of the council.

Mandela said he would first have to consult his colleagues, the Soweto People's Delegation (SPD) and the Soweto Civic Association (SCA) to inform them about the issues raised by council members.

Now, even the United Municipalities of South Africa (Umsa) has joined the call for the dismantling of local government and their replacement by a metropolitan type of government.

Groups in some areas have called on the government to appoint administrators to replace the councils, while others want it to revert to the method whereby Soweto and other townships were controlled by white municipalities such as the Johannesburg City Council.

Some people who served on local councils were attacked by elements opposed to their involvement in government bodies.

Several had their homes destroyed by petrol bombs while others lost their lives.

In an attempt to deal with residents' grievances, the government embarked on the upgrading of several programmes in many urban townships to provide services, jobs and houses. However, this upgrading strategy did not gain favour with the residents and political organisations who argued the time for upgrading certain projects was overdue.

Rent boycotts involving the non-payment of rent and service charges, which began in 1984, spread to 55 black townships countrywide, and although local authorities attempted to use a variety of strategies during 1988 to collect all arrears on rent and service charges they were generally unsuccessful.

In its 1988/89 survey report, the South African Institute of Race Relations pointed out that by the end of 1988, negotiations between black local authorities and township residents in the Transvaal indicated the boycott might be resolved in 1989.

According to the survey report the then Minister of Constitutional Development and Planning, Chris Heunis, had told Parliament that by December 31, 1987, arrears in rent and service charges owed to black local authorities amounted to R387 million.

In August, the Bureau for Information said the amount in arrears stood at R475 million, of which R361 million was owing on the Witwatersrand alone, and the townships which had the largest arrears were Soweto (Johannesburg), Diepmeadow (Johannesburg), Lekoa (Vaal), Mamelodi (Pretoria) and Tembisa (East Rand).

Scores of families were also evicted from their homes in townships all over Soweto and other areas including the Vaal for non-payment of rent and service charges.

ANC deputy president Nelson Mandela ... met the Soweto City Council recently.

The rent crisis showdown came in Febraury 1987 when 1 000 residents of White City Jabavu marched to the local municipal offices to protest against the evictions of 28 families in their area.

A few months later the council adopted a new strategy to break the rent boycott and ordered that the doors be removed from the houses of evicted tenants to stop them from moving back into the houses.

Later residents of the Vaal Triangle townships held a meeting in Sharpeville at which it was proposed that tenants pay R30 a month for rent and service charges to the Lekoa Town Council.

The meeting also called on the council to write off the rent arrears that had accumulated since September 1984, which were reported to be no less than R50 million.

But the council, that was headed by Esau Mahlatsi, rejected the offer and urged residents to pay the full amount of R67,32 for rent and service charges.

Requests by different political and community organisations including the SPD, to have the entire arrears of all townships affected by the rent boycott written off, were turned down by the Transvaal Provincial Administration.

In the same month residents in Diepkloof and Meadowlands agreed at a meeting to pay R15 a month for site rent and R30 for the consumption of water and electricity.

Electricity cuts were also introduced in most townships in Soweto and in Tembisa in the East Rand – some reported to have lasted for periods ranging from a week to over a month.

The ball is now in the government's court – to decide whether these local governments should be dismantled or whether they should continue existing much against the wishes of the people.

ANDREW GILL

Delphin deal gives ITC a debtor administration arm

Bday 9/4/90

(58)

CREDIT information supplier Information Trust Corporation (ITC) has taken a 51% controlling interest in debtor administrators Delphin Securities for an undisclosed sum, ITC chairman Paul Edwards announced last week.

Delphin will be renamed ITC Business Administration (ITCBA) and, according to newly appointed MD Larry Sive, will provide a professional debtor administration service.

Edwards said ITCBA would fill a vital niche in the marketplace. Poor administration of debtors was an important contributor to business failure. The service would benefit small to medium-sized businesses.

"Most smaller businesses have difficulty raising loan facilities of above, say, 30% of total value on the strength of their debtors book."

ITCBA will negotiate on behalf of businesses and attempt to raise that limit to over 60%.

Standard linked to West African bank

ROBERT GENTLE

NEGOTIATIONS which could see Standard Bank of SA becoming the major shareholder of the Paris-based International Bank of West Africa are under way, according to a radio report from Paris.

The BIAO (Banque Internationale de l'Afrique Occidentale), though based in Paris, has branches in a number of West African countries and in Swaziland.

Radio France Internationale last week quoted Central Bank of West African States governor Allassane Ouattara as saying the BIAO's probable new financial partner would be Standard, which would become the major shareholder and take over the BIAO in Paris.

While West African states would prefer the BIAO to be taken over by partners within the franc monetary zone, Ouattara said, other shareholders would be accepted if this was not possible.

The BIAO's major shareholders are understood to be the French bank BNP (Banque Nationale de Paris), Union Bank of Switzerland and a major Brazilian bank.

The radio report said Standard's interest in the BIAO was linked to a desire to revive the Ivory Coast and Senegal branches, said to have debts of more than $130m.

Standard Bank group MD Conrad Strauss said yesterday he was aware of the reported interest in the BIAO, but was not able to comment. BDay 9/4/90

If successful, a takeover of the BIAO would represent a major thrust into Africa for Standard, whose only presence on the continent beyond Namibia is a 49% stake in Union Bank of Swaziland.

Though Standard has foreign associate companies in the UK and Luxembourg, it does not have a stake in any fully fledged bank elsewhere in the world.

(58)

Some lending rates likely to rise

Banks facing tough new credit curbs

(58)

B/Day 9/4/90

GRETA STEYN

THE Reserve Bank is set to deal some major banks a severe blow with a new plan that seeks to crack down on excessive credit expansion while creating a more sound financial system.

The effect of the plan will be to raise the cost of banks' funds. They are likely to respond by tightening the credit squeeze even further and raising certain lending rates. Some will not be able to avoid taking a knock on their profits.

Bank Governor Chris Stals met senior bankers on Thursday to discuss the strategy, and more talks are scheduled for this week to finalise the plan. The Bank intends compelling the banking sector to bring certain off-balance sheet transactions back onto balance sheets where they become subject to expensive cash and liquid asset requirements.

The off-balance sheet transactions targeted by the Bank — money that is not included in official money supply and credit statistics — are estimated at between R8bn and R12bn.

Stals confirmed at the weekend the Bank's intention was to bring certain transactions back on balance sheet. "The move is required by the new Deposit-Taking Intermediaries Bill, which should come into effect towards the end of the year. But we are seriously considering an immediate phasing-in of the new requirements as part of tight monetary policy."

Bankers who are heavily involved in the off-balance sheet market had hoped the change would either not materialise or that the phase-in would be started only when the Bill became law.

An early phase-in would form part of restrictive monetary policy, but the ultimate motivation, Stals said, was to create a more sound financial system.

"The Reserve Bank is the banks' lender of last resort. Because we are ultimately responsible for the soundness of the banking sector, we believe the banks should keep the correct prudential requirements against their liabilities to the public."

Obviously, deposit-taking institutions other than banks would also be affected.

Another factor was that many grey market transactions represented money creation and should therefore be included in the money supply statistics. As a result, the overall figure for broadly defined money, M-3, would be higher after the change.

"But the inclusion of these figures means the trend in the overall money supply growth will be a purer reflection of the situation. It will give us a better grip on what is really happening," Stals said.

Bankers said the move, which raises the amount of liquid assets banks have to keep, will reduce the number of surplus liquid assets available for rediscounting for cash at the Bank's discount window.

This would force banks to exchange more expensive securities for cash from the Bank. More banks would now be forced to pay interest rates in excess of the prime overdraft rate of 21%.

Senior bankers believed the move would be phased in early as a sign of the Bank's displeasure at their failure to comply with its request to keep credit growth to 1% a month. Stals warned last month that ways and means would be discussed to bring about the desired monthly credit growth.

Bankers will inform him of the effects of his plan this week so that the phase-in details can be finalised.

● See Pages 3 and 8

Severe blow for some major banks

Reserve Bank to tighten credit squeeze

CAPE TIMES 9/4/90 58

Own Correspondent

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Standard Bank seen as new shareholder in West African bank

Own Correspondent

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Star 9/4/90 (58)

Novel ways sought to finance mortgages

By Michael Chester

The plight of the bottom layer of low-income families, unable to meet the rigid standards normally laid down by banks and building societies when it comes to home loans, has inspired new thinking about ingenious ways to crack the problem.

One novel answer was outlined at a recent business seminar by Mr Guy Leitch, general manager of African Life Homes. His solution — using pension funds as collateral to back loan deals.

The audience gasped when he spelt out the impact if fund managers broke out of their traditional conservatism and used pension schemes to provide loan guarantees to fund members.

If they mobilised no more than a modest 10 percent of their combined R153 billion committed to retirement funds alone, it would unlock the resources to build a staggering 765 000 starter homes worth R20 000 each over the next 10 years.

Not only that, it would also create thousands and thousands of new jobs inside and outside the building industry.

The notion of using pension funds as collateral behind home mortgages is typical of a new generation of thinking about cracking the financial conundrums faced by low-income home-buyers.

This solution would of course, depend on the potential home-buyer having the good fortune of holding a secure job, with a fair-sized pay packet and with a sound retirement fund behind him in the first place.

What about the still far bigger total of black families — two-thirds of black society — with little chance of raising even the deposit for a house purchase, let alone meeting minimum bond repayment requirements needed in buying a formal conventional home?

They are inclined to think in terms of a modest few hundred rands rather than thousands — often content to settle for buying a plot, with basic services, and setting about buying the raw materials to build homes themselves.

And that is the segment of the market that the Urban Foundation has in mind with the launch of a radical new loan scheme under a new offshoot named the Group Credit Company.

A R2 million pilot scheme has been started, with help from the Southern Africa Development Bank, and if all goes well it will swell into a R50 million project.

It is based not on the formal western approach to high finance — beyond the resources of most black families — but on the traditional African savings club approach of *stokvels*.

In short, the company allocates a block of cash to a specific group of potential home-buyers, with loans going out to members of the group in rotation. Each group will have about 25 members and loans will be anywhere between R500 and R5 000.

Repayments will be spread over about five years if necessary — and each group will be responsible for seeing to it that payments arrive on time.

Ms Christine Glover, manager of the company, has little fear about the risk involved in the operation — because each group, like the *stokvels*, will rely on peer pressure among members to see that everyone keeps a clean record. In short: one default and the whole group is locked out of further loans.

The only snag she sees is that interest rates on loans must inevitably be pitched higher than the rates on bank or building society loans. They have had to kick off at 33 percent.

But that, believe it or not, is chicken feed compared with the charges on alternative sources of loans — private moneylenders. Moneylenders, who have often held a monopoly on loans needed by many black families until now, charge anything between 100 percent and 300 percent for short-term loans.

Sanlam unit trusts lead field in last quarter capital gains stakes

Star 9/4/90 (58).

By Derek Tommey

Leaders in the unit trusts' capital gains stakes in the March quarter were the five in the Sanlam stable.

But this does not surprise Stafford Thomas, a senior portfolio manager at Sanlam.

This above-average performance, he says, is the result of the continued restructuring of the trusts' portfolios and of concentration on blue chips.

An analysis of the performance of the five trusts managed by Sanlam shows that San lam Trust had the biggest capital appreciation of all the trusts in the period from January 3 to March 30.

Repurchase price

In this three-month period the repurchase price of Sanlam Trust units rose almost 15 percent.

But the other four trusts were close behind, taking third, fifth, six, and seventh position in the unit-trust league.

Mr Thomas says the trusts maintained their strategy of concentrating on high-quality gold shares and mining financials.

"These were not so severely affected by the lower gold price at the end of the quarter.

"We also started the quarter being almost fully invested in all our trusts. Then the market took off.

"In February, when prices were high, and again in March, we increased our cash content.

"We are much more liquid now than at the beginning of the quarter."

His policy of investing only in top-quality blue chips comes out clearly in an analysis of the five trusts' Top 10 shares — in which the bulk of their investment funds are to be found.

The analysis shows that if De Beers and Anamint are regarded as a similar investment, the 50 Top 10 spots of the five trusts are filled by only 20 shares. This is a good example of concentration.

The share of mining house Gencor, which has recently shown dynamic growth, is found in all the five Top 10 portfolios.

De Beers/Anamint, the randhedge share Richemont, gold mine Oryx, the beer and retail investment giant SA Breweries, and the mining/industrial investment house Barlows are found in four of the five Top 10 portfolios, while shares of food giant Tiger Oats, Gencor Beherend (which owns part of Gencor), the tobacco and investment group Rembrandt and mining house Anglo American are found in three.

Granite producer Keeley and Anglo American's off-shore arm Minorco are each found in two.

Shares found in only one of the five Top 10 portfolios are manganese exporter Samancor, glass manufacturer and retailer Plate Glass, sugar producer CG Smith, paper manufacturer Sappi, diamond producer Trans Hex, investment company Genbel and mining investment company Mid Wits.

Shares sold

The quarterly reports of the five unit trusts show that between them they bought shares in De Beers, Oryx, Anglo American, Minorco, Barlows, SA Breweries, HLH, Anamint, Plate Glass, CG Smith, Implats, Charter, Sasol, Keeley, Gencor, Mid Wits, Richemont and Rembrandt.

Shares sold were East Dagga, Hiveld, Iscor, Kinross, Kloof, Santam, Yabeng, Malhold, Vogels, M&R, Sentrachem, Grinaker, Gants, Copi, Sappi, Sunpak, Sunvest, Harties, Vaal Reefs, GFSA, Altron, Reunert, Pick 'n Pay, Randfontein, Kudu, Vansa and Amgold.

The Top 10 shares in the portfolios of the five unit trusts are as follows:

- **Sanlam Trust:** Richemont, Tiger Oats, Gencor, Gencor Beherend, SA Breweries, De Beers, Oryx, Anamint, Anglos, Barlows.
- **Sanlam Index Trust:** Anamint, Richemont, Anglos, Gencor, SA Breweries, Remgro, Oryx, Tiger Oats, Keeley, Barlows.
- **Sanlam Industrial Trust:** Richemont, Tiger Oats, Gencor, Suncrush, SA Breweries, Barlows, Plate Glass, Remgro, CG Smith, Sappi.
- **Sanlam Mining Trust:** Trans Hex, Gencor Beherend, Richemont, Gencor, Genbel, Oryx, Minorco, De Beers, Anglos, Barlows.
- **Sanlam Dividend Trust:** Keeley, De Beers, Rembrandt Beh, Remgro, Gencor Beherend, SA Breweries, Minorco, Gencor, Oryx, Mid Wits.

Spearheading changes to the insurance industry

(58)

B Day 10/4/90

LINDA ENSOR

MAJOR reviews and changes to the regulatory framework of the insurance and related industries are afoot, and spearheading them will be new Registrar of Financial Institutions Piet Badenhorst.

Broadly, Badenhorst sees his major task as being "to further implement the important policy decisions government has taken regarding the liberalisation of the markets, placing greater emphasis on the private sector and allowing for greater price determination by the market".

Badenhorst, 48, a firm believer in self-regulation, acted as deputy to former Registrar Theo van Wyk, who left at the end of March to take up a position with Rembrandt.

Badenhorst's appointment is the culmination of six years in the Financial Institutions Office and 30 years in the civil service.

Of great import to the way the industry is run, will be the introduction of the SA Financial Services Board (SAFSB) and the promulgation of new and amending legislation, including a new Insurance Act.

Badenhorst says the enabling legislation for the SAFSB will be passed in the present parliamentary session and it will hopefully be set up early next year when all the logistics — such as remuneration, employment packages and the appointment of the board by the President — have been completed.

One of the most urgent matters which the board will have to decide upon will be the mix of funding between Treasury and the private sector which will be levied for services rendered.

Badenhorst says the Financial Institutions Office (FIO) will become more effective as a statutory council as it will have the financial capability to attract accountants and B Com graduates that in the past it could not retain because of the relatively low salaries.

He sees the board as being less involved in routine supervisory functions, which will either be handed over to the industry to perform or will be computerised.

Returns by insurers are at present submitted by disk, and by feeding the information into a computer, the data base is immediately updated.

There is further scope for computerisation, Badenhorst says.

"There are routine things which the industry itself can do and this will free the board to pursue policy issues, attend to research and keep abreast of developments.

"That is the kind of approach we would like to propagate as much as possible," he says.

The aim would be to ensure a greater responsiveness by the authorities to the trends in the market and to provide a framework for the industry to function to its optimum.

This does not, however, imply a disappearance of the supervisory function, he says.

Badenhorst believes this will become increasingly important due to technological developments which will enable the industry to process information at extreme speeds and because of the development of new financial instruments and services.

Also, the integration of financial services will demand greater expertise and new approaches on the part of the FIO/SAFSB to see that the financial requirements for measuring performance remain adequate.

The draft insurance Bill will hopefully be circulated to the industry for final comment before June, scrutinised by the state law advisors by December and considered by Parliament in early 1991.

A significant element of this draft legislation is the emphasis on consumer protection and the need for greater disclosure of information.

"I see it as a great challenge to enable the public to become fully enlightened consumers by providing them with the right information so that they can make the right choices between products.

"As regards the First/Third World nature of our society, I also find it a challenge to get those members of the community who have not been making use of investment and retirement plans, to become part of the system and to provide for their own needs.

"This would also enable the huge capital resources of the informal sector to be mobilised for development," Badenhorst says.

Born in Maritzburg in 1941, Badenhorst matriculated at Jan van Riebeeck High School in Cape Town and after a year in the airforce gymnasium, joined the Interior Department in December 1959.

While working, he completed a B Com law degree through Unisa and obtained a certificate in tax law from that university and a national diploma in public administration from the Pretoria Technikon.

He worked in the parliamentary division of the Department of Trade and Industry for nine years, the last three years as undersecretary in charge of legislation and parliamentary services.

After serving for about three years as Deputy Registrar of Companies, Badenhorst was promoted to Director of Import and Export Control. On May 1 1984 he was promoted to Deputy Registrar of Investment Institutions in the FIO.

Three years later he took over the other deputy position in charge of provident and pension funds, long-term and short-term insurers and friendly societies.

Badenhorst has been married for 27 years and he and his wife Betsy have two sons aged 26 and 15 and a daughter aged 12.

☐ BADENHORST . . . a firm believer in self-regulation

According to the latest chart read-

LIZ ROUSE

Sage's unit trusts record strong growth

LINDA ENSOR

UNIT trusts in the Sage stable recorded strong growth in the first quarter of 1990 with the Sage Fund notching a total return (capital appreciation plus income) of 33,2% and the Sage Resources Fund a total return of 27,9%. (58)

Sage Fund's total assets grew 10,5% to R713,5m (R645,6m) while those of the Resources Fund grew 8,3% to R57,4m (R53m). Liquidity in the Sage Fund represented 14,15% of the total portfolio by end-March and 13,93% of the Resources Fund.

The Sage Fund established new holdings in Impala, Lonrho and Sunbop, while its holding in Federale Volksbeleggings was sold.

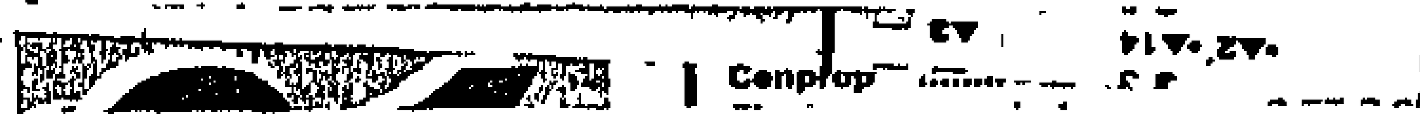
Additions were made to holdings in De Beers, Driefontein, Kinross, Gencor, Allied, Nedcor, Southvaal and Nampak.

Sage Fund's 10 largest holdings by the end of the quarter were Richemont, Anglo American, De Beers, JCI, Rembrandt Beheer, Remgro, Gencor, Goldfields SA, Tiger Oats and Allied Group.

Sage Fund's international portfolio, valued at R47,4m, was expanded to include new holdings in Hewlett Packard and Newmont Mining.

New acquisitions were made by the Sage Resources Fund in Anamint, Impala, Kloof, Ofsil and Trek, while the Sentrachem holding was sold. Additions were made to Deelkraal, Elsburg, Winkelhaak, Gencor and Vogels. The Impala offer for 55% of the holding of Messina was accepted.

Sage Resources Fund's ten largest holdings were Gencor, JCI, Anglo American, Mid Wits, De Beers, Lebowa Platinum, Deelkraal, Samancor, Southvaal and Trek.



Old Mutual's unit trusts grow to a record R2,5bn

(58) 8/04/04/90

A RECORD R215m flowed into Old Mutual's four unit trusts in the March quarter, bringing total investments at market value to a new high of R2,5bn, twice as large as its closest rival.

The Gold Fund, launched in February this year, attracted over 7 000 account holders and an inflow of R49m in its first two months.

These are remarkable achievements, seen against volatile equity market conditions during the quarter. Old Mutual portfolio managers, who are now looking after 250 000 account holders, took a positive view on longer-term prospects, retaining liquidity at fairly low levels.

The latest University of Pretoria unit trust survey indicates that Old Mutual Investors' Fund achieved the highest investment returns in the industry over the five, seven, 10 and 12-year periods and second over the one and three-year periods.

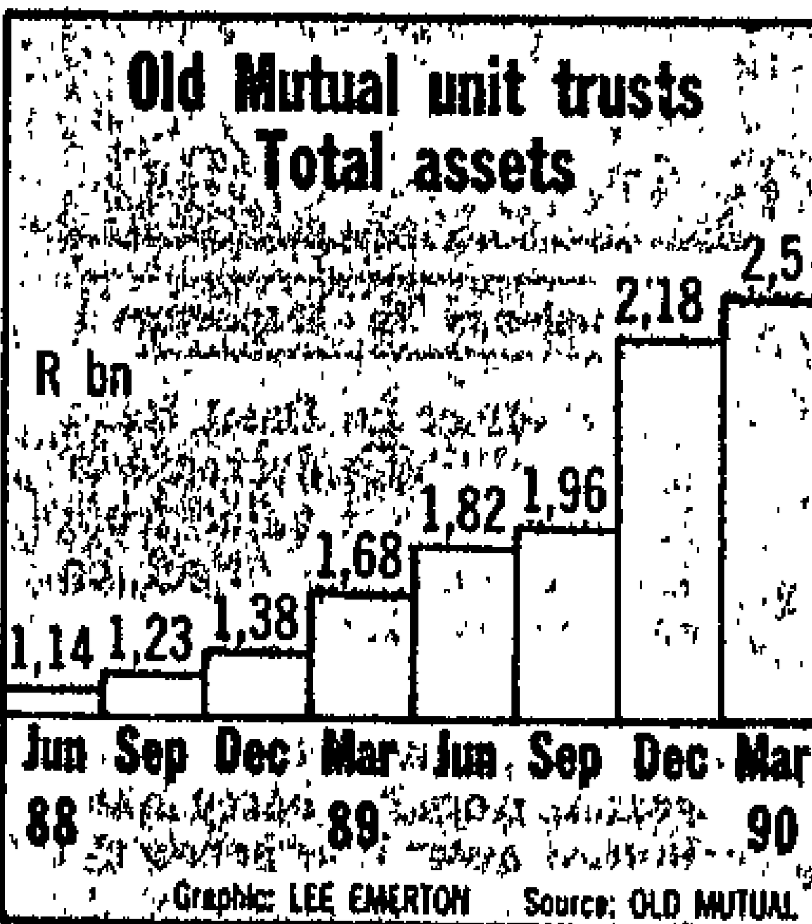
The Investors Fund has declared a record distribution of 53,69c a unit, which brings distribution for the year to 105,73c. This is 34,8% higher than the year before.

Its 10 largest holdings are Anamint/De Beers, Richemont, Rem-

LIZ ROUSE

brandt Group, Anglos, Safren, Sasol, JCI, Gencor, Rand Mines and AVI. Liquid assets acounted for R326,9m (14,62%) of total assets of over R2,2bn.

The Gold Fund followed the fully invested policy it committed itself to and closed the quarter with R26,2m (59,6%) in direct gold shares, R15,5m (35,2%) in gold related mining financials and a liquidity of only 5,1% (R2,25m). Total assets amounted to nearly R44m.



Its 10 largest holdings are Kloof, Amgold, New Central Wits, GFSA, Anglos, Dries, Southvaal, Elands, Vaal Reefs and Zandpan.

The portfolio has a good spread across the gold/mining finance board, including holdings in Eersteling, Gazgold, Knights in golds, and Southgo and Wit Deep in mining financials.

The Mining Fund reduced liquidity to 11,37% — R22,9m out of total assets of nearly R202m — riding the volatile market to utilise buying opportunities.

Significant buying took place in De Beers, Southvaal, Venters, East Dagga, Samancor, New Central Wits and Lydex.

Its 10 largest holdings are Anamint/De Beers, Anglos, JCI, Genbel, Sasol, Gencor, ET Cons, Dries, Rand Mines and Lebowa Plat.

Old Mutal Income Fund has declared a distribution of 4,75c a unit for the quarter, bringing the total for the year to 17,43c, representing an effective income return of 17,2%.

Major activity during the quarter involved taking advantage of the high interest rates offered. Liquid assets amounted to R16,4m (77,68%) of total assets of nearly R21,1m.

Vehicle thefts alarm insurers

MATTHEW CURTIN

VEHICLE theft was costing the economy more than R900m a year and insurers at least R300m each year, the industry said yesterday.

Santam Insurance Witwatersrand assistant GM Ockie van Wyk said theft was at an unacceptably high level, and an increase in vehicle hijackings in recent months was compounding short-term insurers' problems.

In 1987, 60 000 vehicles — worth on average R30 000 — were stolen, of which 62% were recovered. But only 10% or 3 400 of these recovered vehicles were identified and returned.

Santam's concern was echoed by fellow insurers.

SA Eagle operations GM Jimmy Mackintosh said vehicle theft, after a lull since 1987's high, was once more becoming cause for concern.

The hijacking of commercial vehicles was becoming prevalent, forcing insurance companies to pay out for stolen loads, invariably exceeding the value of the vehicle.

Mackintosh said police records showed 43% of stolen vehicles left SA's borders.

Old Mutual MD Ken Saggers said thefts were on the increase, but stressed of the 60 000 vehicles stolen annually, less than a third were insured.

Pay-outs due to thefts were less dramatic than the rise in claims for vehicle accidents.

Repair costs had increased by 40% and the numbers of accidents had risen by 4%-5% in the last year. Insurers were having to phase in substantial price rises for the consumer.

SA Insurance Association chairman Ron Carter described the situation as "horrific", referring to both vehicle theft and accident claims.

Careless

Vehicle owners would have to expect higher premiums and he expected South Africans to abandon comprehensive vehicle insurance for third party fire and theft cover in line with their European counterparts.

Guardian National acting MD Andy Jack said there had been a significant rise in thefts in Natal, and suggested people were becoming careless in the use of vehicle immobilisers.

Guardian National recovered their own vehicles, he said.

The Vehicle Security Association (Vesa) said yesterday a range of car anti-hijacking devices were available in SA.

A spokesman said Vesa was investigating an extension of its coding for immobiliser systems to accommodate anti-hijacking devices.

Aurora proves not to be as solid as granite

Star 10/4/90 (58)

Diagonal Street

MAGNUS HEYSTEK

Something must be seriously wrong in the investment world when a company, listed on the Johannesburg Stock Exchange amid much fanfare and glowing reports, has to be rescued from bankruptcy just nine months later.

This is the case of Aurora, listed on the JSE in the granite sector on June 1 last year by means of a private placing at R2 per share. It went to a high of 265c before consolidating at slightly lower levels.

Now it is being sold to Kudu Granite for the meagre sum of 23 cents a share, which is below the forecast earning of 26,9c a share so confidently predicted in the pre-listing statement, which also forecast a dividend of 9c for the year to end-June 1990.

Barely six months after listing it was clear something had gone horribly wrong. Aurora shocked the market with a loss of R2,48 million and an announcement that no dividend was to be paid.

Chairman Ted Grobicki blamed the dismal results on over-optimism and lower-than-expected recovery grades.

Yesterday construction and civil engineering company Basil Read ended its short-lived flirtation with granite mining by selling its controlling interests in Aurora to Kudu Granite.

In terms of the agreement rival granite producer Kudu has acquired 13 million Aurora shares at 23c a share, effective May 1. The consideration payable by Kudu will be one deferred Kudu share for seven Aurora shares. The deferred Kudu shares will not rank for dividend until April 1991.

Details of the offer to minority shareholders will be announced in the near future.

Investors may well ask how can such a situation arise.This type of behaviour can be expected from unlisted companies pushing their shares on an unsuspecting and often unsophisticated investing public.

Aurora had to pass not only the stringent scrutiny of the JSE listings department, but that of the two sponsoring broking firms (Fergusson Bros, Hall, Stewart and Co. and Hayes, Rinaldi, Kilroe), technical mining advisers (JB Mudd and Partners) and expert geologists (Dr FJ Rahn and Mr RC Hochreiter) as well as accounting firm Coopers and Lybrand.

Based on the technical and financial reports contained in the pre-listing statement, minority shareholders must have thought they were on to a good good thing.

At the time granite fever was riding high on the JSE and along came Aurora, described in the pre-listing statement by its technical analysts as being "very profitable" with a "proven management team" and outstanding "long term contracts".

In the media blitz that ran up to Aurora's listing, managing director Dave Wassung (also financial director of Basil Read) was confidently forecasting minimum revenues based on purported dollar-denominated long-term contracts with overseas clients.

In the interests of the investing public some answers are needed. The JSE has the power to determine if there was a possible case of misrepresentation. It can also call for stockbrokers' notes to determine who the heavy sellers were prior to the release of the bad figures early in January this year, when the share prices started plummeting in heavy volumes.

Many small shareholders have no doubt lost money on Aurora, some heavily. There remains a small hope of recovering some of these losses via Kudu, but in the end some answers are needed to restore the confidence of investors.

Cash pours into OM unit trusts

By Derek Tommey

Unit-trust investors appear to have been highly impressed by State President FW de Klerk at the opening of Parliament and by Finance Minister Barend du Plessis on Budget day.

Bastiaan Tvan der Westhuizen, Old Mutual's assistant general manager, unit trusts, said yesterday that investors had poured R215 million into its four trusts in the March quarter — the second-highest quarterly inflow it has had.

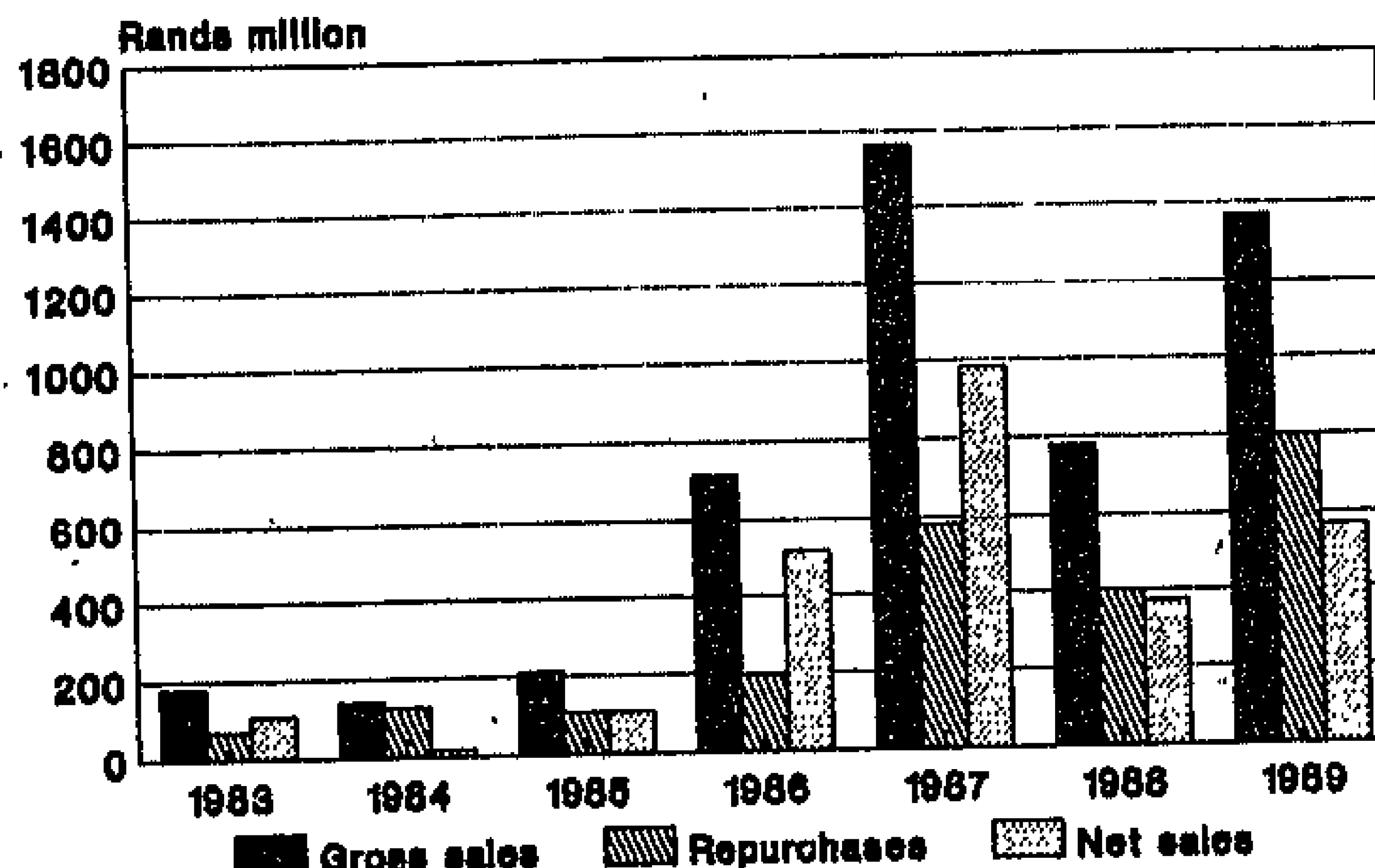
The highest inflow was achieved in vastly different conditions — in the fourth quarter of 1987 when shares prices worldwide had jumped to new peaks.

The inflow continued throughout the quarter just ended, though with an upsurge in the few weeks after Mr du Plessis announced that dividends on share and unit-trust investments would be free from tax.

An important factor in the inflow was the launching of Old Mutual's Gold Fund in February. This attracted over 7 000 account-holders and an inflow of R49 million in its first two months.

By the end of the quarter Old Mutual's four funds had investments worth R2,5 billion.

Old Mutual's Unit Trust — the investors' fund — shows investors get more than just capital appreciation. The trust has declared a record payment of 53,69c a unit, making a total of 105,73c for the year — 34,8 percent more than it paid in the previous year.



Largest holdings

At March 30 the fund's 10 largest holdings were Anamint/De Beers, Richemont, Rembrandt group, Anglos, Safren, Sasol, JCI, Gencor, Rand Mines and Anglovaal Industries.

However, it seems there could be a good chance of Iscor joining the ranks of the Top 10 if the fund keeps on buying Iscor shares the way it did in the March quarter, or if Iscor shares start to recover.

Over the quarter the fund bought almost 6 million Iscor shares to increase its holdings fom 9,2 million to 15,0 million worth R33,3 million.

Other shares bought included De Beers, Beatrix, Vaal Reefs, Anglovaal, JCI, Rand Mines, Amgold, and Minorco.

The new gold fund was almost fully invested at the end of the quarter, with R26,2 million (59,6 percent) in direct gold shares, R15,5 million (35,2 percent) in gold-related mining financials and a liquidity of only 5,1 percent.

Its ten largest holdings were Kloof, Amgold, New Central Wits, GFSA, Anglos, Driefontein, Southvaal, Elandsrand, Vaal Reefs and Zandpan.

The Mining Fund fund reduced liquidity from 16,2 percent to 11,4 percent, riding the volatile market to utilise buying opportunities.

Significant buying took place in De Beers, Southvaal, Venters, East Daggafontein, Samancor, New Central Wits and Lydex.

Its ten largest holdings are Anamint/De Beers, Anglos, JCI, Gendel, Sasol, Gencor, ET Cons, Driefontein Cons, Rand Mines and Lebowa Plat.

The Income Fund paid 4,75c a unit for the quarter, bringing the total for the year to 17,43c, representing an effective income return of 17,2 percent.

Major activity in the quarter involved taking advantage of high interest rates offered by the money market.

● Sage Group unit trusts highlight the return achieved by investors in the year to March. Investors in Sage Fund achieved a total return (capital appreciation plus income) of 33,2 percent and those in Sage Resources Fund 27,9 percent.

Sage Fund's total assets grew from R645,6 million at year-end to R713,5 million. Sage Resources Fund showed an increase to R57,4 million from R53,0 million over the quarter.

In Sage Fund, new holdings were established in Impala, Lonrho and Sunbop.

The holding in Federale Volksbeleggings was disposed of. Holdings were reduced in Mid Wits, Plate Glass, SA Breweries, Afrox, ICS and Sappi.

Additions were made to holdings in De Beers, Driefontein, Kinross, Gencor, Allied, Nedcor, Southvaal and Nampak.

Sage Fund is the only unit trust with permission to invest money overseas. In the quarter it invested in Hewlett Packard and Newmont Mining.

Although cash was diversified to include Swiss francs, Deutschemarks remain the highest foreign component in cash holdings.

Sage Fund's 10 largest holdings at end-March were Richemont, Anglo American, De Beers, JCI, Rembrandt Beheer, Remgro, Gencor, Goldfields SA, Tiger Oats and Allied Group.

Investment strategy in Sage Resources Fund resulted in new acquisitions in Anamint, Impala, Kloof, Ofsil and Trek, while the Sentrachem holding was sold.

Additions were made to Deelkraal, Elsburg, Winkelhaak, Gencor Beheerend and Vogels. The holdings in Harties, Mid Wits and Sappi were reduced. The Impala offer for 55 percent of the holding in Messina was accepted.

At March 30, the 10 largest holdings in Sage Resources Fund were Gencor, JCI, Anglo American, Mid Wits, De Beers, Lebowa Platinum, Deelkraal, Samancor, Southvaal and Trek.

SA bank is on West African trail

ROBERT GENTLE

STANDARD Bank of SA's reported interest in taking over the International Bank of West Africa comes at a time when leading French banks with investments there have been leaving because of deteriorating economic conditions. BDay 11/4/90

A leading article in the September 1989 issue of The Banker said that the dire economic state of most French-speaking African countries was starting to "irritate" France's banks.

In 1988, Société Générale withdrew its minority holding in Union Congolaise de Banques in Congo, and from Union Bancaire en Afrique in the Central African Republic.

In cash-strapped Cameroon, officials were apparently so slow in "putting their house in order" that Crédit Lyonnais announced in August last year it had withdrawn from Société Camerounaise de Banque — subsequently put into liquidation.

Now it appears to be the turn of France's largest banking group, BNP (Banque Internationale de Paris) to liquidate its majority shareholding in the troubled BIAO, whose Senegal and Ivory Coast affiliates are said to have losses of up to $130m.

BNP is apparently all the more eager to get out because its present status as controlling shareholder was not willingly sought.

Forced to make major provisions for losses last year, BIAO had to increase its share capital. It was only in the ensuing permutations that BNP ended up with a 51% stake.

According to The Banker, BNP subsequently found itself running duplicate operations with BIAO in many countries and had a shrinking volume of business to chase — a situation exacerbated by major liquidity crises in Franc Zone states.

When BNP finally sells out — suggestions are in two month's time — the new controlling shareholder will be taking over one of Africa's oldest banks. (58)

According to the 1989 edition of Bankers Almanac, BIAO (Banque Internationale pour l'Afrique Occidentale), was formed in 1965 to take over the banking activities of Banque de l'Afrique Occidentale, founded in 1853.

Though headquartered in Paris, it has close on 20 subsidiary and associate companies throughout Francophone Africa.

The most recent statistics in Bankers Almanac pertain to 1986, when total assets were Ff42bn or R19,7bn at prevailing exchange rates.

If Standard does end up as the controlling shareholder, SA banking expertise will have made deep inroads into the African continent.

□ A survey in the same issue of The Banker showed that in the ranking of Africa's leading banks, the top five were South African, led by Stanbic.

Bank lost on cheap cover

BDay 11/4/90 (58)

GRETA STEYN

HUGE demand for forward cover at preferential rates saw the Reserve Bank's sale of cheaper cover average R1,7bn a month in the fourth quarter of last year — almost half the average monthly import bill for the period.

A report on the Bank's activities in the forward market, published in the latest Quarterly Bulletin, noted that cheaper cover was one of the reasons why the Bank had incurred large losses.

Preferential rates had encouraged cover on import deals and of outstanding loans during a period when the rand was generally expected to depreciate. The Bank's oversold position had reached $23bn in 1989.

The Bulletin report said a possible effect of the Bank's role in the forward market was the encouraging of imports, at the cost of locally produced goods. The low cost of cover could also result in an early "lead" in the volume of imports.

Another effect was money creation — new cash reserves are pumped into the banking system when the spot exchange rate is worse than the exchange rate fixed in a forward cover contract. According to the Bank's money supply analysis, about R6bn was added to M-3 as a result of forward exchange losses in 1989.

The Bank's latest statement of assets and liabilities released this week shows the weakening of the rand in March caused further losses of R186m after some months of profit.

The article in the Bulletin stresses the Bank's role in the forward market is necessary to protect the country's foreign exchange reserves. On the issue of avoiding losses, it notes the possibility of developing an alternative method of cover in the derivatives market.

"At present this seems an unlikely alternative for SA owing to the fact that the futures and options markets are still relatively undeveloped."

But even these markets had their disadvantages.

"Probably the only truly satisfactory solution to this problem, as for so many other economic problems experienced in SA, is to bring the inflation rate down to levels at least as low as those in trading partner countries."

● See Page 6

M&M sells development properties for R8m

MONEY & Management Holdings sold its portfolio of development properties in the Sandton/Randburg municipal areas to a group of Randburg businessmen for more than R8m.

These properties, as well as some already owned by the purchasers, are to be put into a company focusing its efforts on property development in the Sandton/Randburg area.

Its initial portfolio will have a present land-only value of more than R12m. Total development costs over the next two years will be more than R50m, to be funded by development loans through financial institutions.

M & M property director Peter Wood says this is a further step in the rationalisation of M & M towards becoming a clearly focused financial, investment and management services group.

But, he says, the company is not withdrawing totally from the property market. "M & M will focus on selective buying, upgrading, letting and selling."

M & M has sold the properties outright to the purchasers, but has retained an option to acquire up to 50% of the shares in the new property group at any time during the next two years for a price linked to net asset value.

Cash generated by the sale of the properties will be used to reduce bank loans and to fund further expansion in the leisure and tourism industries through Forum Group Ltd, a company formed by M & M with other investors.

COMPANIES

Norwich NBS Unit Trust shows 30% asset growth

B Day 11/4/90

LIZ ROUSE

NORWICH NBS Unit Trust achieved a 30% asset growth in the March quarter as a result of higher market values and strong cash inflows.

Notwithstanding being net buyers of shares during the quarter, the fund's liquidity increased to 24% because of the strong cash flow.

Although this figure is relatively high, Norwich Life as the fund manager is comfortable with this cash cushion because of short-term uncertainties associated with gold, the political climate and vulnerable international stock markets.

Nevertheless, MD of the fund's management company John Bowman endorses the Association of Unit Trusts' recent reminder of unit trusts' merits as a long-term investment vehicle, and says investors should not be too concerned about short-term volatility.

During the quarter the fund added to several of its existing holdings, principally in mining shares, and opened new holdings in Amgold, Fraser Alexander, Genbel, Kersaf and Western Deep.

Sales were made in Turner & Newall, Sunbop and Eskom stock. The holding in Midas was reduced.

An income distribution of 11,64c has been declared. The fund's overall performance for the past 12 months was 20,5%.

58

SA bank is on West African trail

ROBERT GENTLE

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Higher vehicle sales 'depend on lower interest rates'

CHARLOTTE MATHEWS

TOTAL new vehicle sales for the first quarter of 1990, which are affected by the overall performance of the SA economy, declined by 1,7% to 84 872 units compared with 86 348 units sold in the same period in 1989.

According to the latest figures released by the National Association of Automobile Manufacturers of SA (Naamsa) yesterday, the current difficult conditions were expected to persist into the second half of the year.

"However, provided interest rates decline during the latter part of the year, sales of new motor vehicles are expected to improve gradually," the association said in a statement.

New car sales in March improved by 13,4% to 19 043 units compared with February's 16 799 units as a result of seasonal factors and a slightly improved manufacturers' supply position.

But March 1990 new car sales fell by 7% against the 20 477 units sold in March 1989. Overall passenger car sales for the first quarter of 1990 declined by 7,2% to 52 094 units.

"The underlying trend in new car sales in March 1990 remained weak and sales comparisons with the corresponding months of the preceding year have been negative over the past nine months," Naamsa commented.

Sales of light commercial vehicles were comparatively stronger. In the first quarter of 1990 29 503 light commercial vehicles were sold against 27 161 in 1989, a 8,6% increase.

"The light commercial vehicle and minibus market has established itself as the sector with the highest propensity for growth," Naamsa said.

Sales of heavy commercial vehicles, adversely affected by supply constraints, declined by 13,4% to 1 918 units in the first quarter from 2 216 in 1989.

Investors return to residential market as sectional title revives

BI Day 11/4/90 (58).

THE sectional title concept is continuing to gain ground in the residential property market and investors are returning to the arena, according to Sable Holdings MD Paul Nash.

Sable's property arm is well established as property investor and, more recently, developer.

The company now has four office blocks, three industrial complexes and one block of flats on its investment portfolio, as well as seven developments on stream. In addition, it owns two hotels including the 340-room Protea Gardens in Berea.

Its total property portfolio has an estimated value of R65m. This division of the company's operations will account for 40% of its profits this year, the balance being made by its industrial division Steiner Services.

"Investors are now increasingly recognising the value of a sectional title investment, and frequently buy up three or four flats at a time," said financial director Andy Bolleurs.

He said sectional title office blocks were generally less successful than flats, since businessmen tended to prefer to own an individual stand-alone block.

"We have developed and sold six mini-office blocks in Randburg. In addition, we're planning a similar development of two- to three-storey buildings, each amounting to 600-800m², on another 8 000m² site in Randburg," he said.

"There is a strong demand for this type of development, which enables the smaller company to own its own readily identifiable office property, without having to take the sectional title option."

But Bolleurs stressed that sectional title residential development remained one of Sable's major property interests.

On the industrial side, Sable is currently involved with Abcon in the joint R35m development of a 5ha property in Strydom Park.

Revamped Unidev easily meets earnings forecast

Star 11/4/90 (58)

Unidev posted a 31 percent increase in profit for the year to last December from R9,9 million to R11,7 million, achieving the forecast of 55,5c a share.

A feature was Unidev's executive management acquisition of control of the group through the listed pyramid company, Unicorn, which now holds 54 percent of Unidev.

The financial statement says that all of Unidev's main investments performed well and contributed to group profits.

Prestige, of which Unidev holds 81 percent, pushed up operating profits by 20 percent in the year under review.

Equikor Holdings met its profit forecast of R3,6 million in the first year of trading in the wake of the injection of Equikor's business into the old National Property shell.

Cortech, which is 71 percent-held by Unidev, produced satisfactory results, with earnings in excess of R4 million in the first 10 months of trading.

Hyperette, having successfully shed the old Milly's image, posted R1 million in profit in its first six months of trading following its restructuring under the new managing director.

Managing director Ronnie Steyn says the group is now concentrating on investng in established companies such as Rustfurn in which it acquired a 23 percent stake.

"Unidev is now well-established. With the management and infrastructure in place, it will be in a position to generate a steady and consistent growth pattern for the future," he says. — Sapa.

SA's net reserves boosted by R3 billion in 2 months

Star, 11/4/90 (58)

By Sven Lünsche

South Africa's net foreign exchange reserves soared by almost R3 billion in the first two months of this year, following on improved overseas perceptions of the country's political developments.

This dramatic improvement, reported by the Reserve Bank in its March Quarterly Bulletin, will go a long way in helping the country to meet its $3 billion foreign debt commitments this year.

Economists added, however, that the net reserves could have fallen back slightly in March as the ANC's commitment to nationalisation and the escalating violence in black townships halted foreign inflows.

Nevertheless, the R2,913 billion surge in the net foreign exchange reserves in January and February, which followed on a R632 million improvement in the gross reserves, is a welcome change on the substantial falls over the previous quarters.

The net reserves recorded a surplus of R430 million in the third quarter last year, after five successive quarterly declines, but shrank again by R307 million in the last three months of 1989.

Reserve Bank Governor Dr Chris Stals indicated previously that in the week alone following the State President's landmark opening of Parliament speech on February 2, the reserves were boosted by about R1,5 billion, with some further inflows following on the release of Nelson Mandela.

He said that the windfall was largely used to reduce the country's short-term foreign liabilies, which had been built up by R2,9 billion last year to provide bridging finance in the face of capital outflows of R5,6 billion.

Commenting on the R3 billion boost the Reserve Bank said: "Apart from reflecting the present large curent account surpluses, the recent strengthenings of the foreign exchange reserves would also appear to have incorporated the effect of foreigners' more favourable impressions of South Africa's socio-political situation and of increased availability and accessibility of overseas trade and trade-related credit facilities."

The improvement in the reserves followed on a further strengthening of the current account of the balance of payments to R5,9 billion last year, "after a pronounced slackening of aggregate real domestic expenditure".

However, the outflow of capital not related to reserves, increased substantially again in the fourth quarter to R1,4 billion as South African residents increased their holdings of foreign assets by some R800 million.

COMMENT ON THE RESULTS

The cautionary comments expressed in the 1989 an

NEWS FOCUS

B/Day 12/4/90 (58)

Lloyd's objects to SA proposal to prohibit some of its policies

LINDA ENSOR

LLOYD'S strongly objects to several recommendation by the Melamet Commission of Inquiry into the outflow of premiums and the operations of "captive" insurance companies established by SA corporations.

One of the recommendations was that Lloyd's single premium insurance business covering different classes of risk be prohibited.

Lloyd's SA representative Ronnie Napier said such policies were perfectly legitimate and SA insurers should learn to compete with them.

Napier said that while on the whole the report was favourable towards Lloyd's and its place in the SA insurance market, he was concerned about several recommendations and would be taking them up with the authorities.

He had already obtained clarity on the recommendation that the total commission payable by Lloyd's underwriters to brokers should be the same as the maximum allowed for SA brokers.

Napier said this recommendation failed to take into account the fact that there was an extra link in the Lloyd's chain — the London broker — and the effect of the recommendation would be to require the maximum commission payable to be split.

He had met the chairman of the commission, Mr Justice D A Melamet, last week and it had been agreed that commission would not be prescribed for the London broker, only for the SA broker.

The commission report also recommended the withdrawal of the preferential commission accorded to Lloyd's in terms of "binders" — agreements where a local broker is authorised to write certain classes of business.

Napier said a good reason for the extra 5% commission was that the broker writing business under the binder also had to handle claims. The issue would be taken up with the authorities.

The other recommendation — that the prescribed deposit of Lloyd's intermediaries be increased from R20 000 to R200 000 — would not have too great an effect, Napier said, because the commission also recommended that a bank guarantee could serve as an alternative deposit to current prescribed securities and cash.

Lloyd's said its share of the SA market had remained at 5% for many years.

Standard's Mutual Fund at 30,5% liquidity

BDay 14/4/90

LINDA ENSOR

58

UNCERTAINTY in world and local markets has led to Standard Bank's Mutual Fund having a 30,5% level of liquidity at the end of the first quarter.

And managers of Standard Bank's Gold Fund have adopted a cautious stance towards gold share investments due to the sharp drop in the gold price. Gold's fall has increased concern about mines' operating margins.

At the end of the March quarter, the general fund consisted of 29% mining shares, 10% banks and insurance, and 30,3% industrial. The "clean" repurchase price increased by 12,1%, excluding a 28,93c dividend per unit compared with the net capital gain of 9,52% in the JSE's overall index.

The Standard Bank fund's announcement said: "On the world front, bond markets are in turmoil and the Japanese equity market has declined some 22,9% since the beginning of the year.

"During the quarter, the gold bullion price came under pressure and with the difficulties facing the current socio-political changes in SA, it is likely that local markets will be more realistically appraised in the future, we therefore think there is enough uncertainty to maintain our current asset mix."

The same uncertainty was reflected in the capital markets, which Standard believed were unlikely to show much appreciation in the near term. Movements in long-dated interest rates showed only a marginal change.

The bank's Extra Income Fund showed a price appreciation of 4,12c (3,51c interest income and 0,61c capital appreciation), representing an annualised compounded total return for the quarter of 20,2%.

An interest income distribution of 3,51c has been declared by the Extra Income Fund investments of which at end-March were comprised 17,59% of debentures and notes, 15,62% gilts (11% short to medium dated and 4,62% long dated), and 66,79% liquid assets.

Time Holdings targets 51% rise in turnover

SYLVIA DU PLESSIS

B/Day 12/4/90

MANAGEMENT and financial services group Time Holdings, strongly positioned in its key areas of activity, is targeting a turnover approaching R350m (R231,3m) in the current year — an increase of about 51%.

And chairman Colin Hibbert says that, barring unforeseen circumstances, he is confident attributable earnings and earnings per ordinary share will show "real meaningful growth" during this period.

Time, whose three major operating divisions are property, housing and financial services, upped bottom-line earnings by 11% to R9m up to December 1989 on turnover of R231,3m. Earnings of 25c (26c) a share were achieved on an increase in the average number of shares in issue.

Hibbert says in the group's latest annual review indications are that the current economic slowdown is set to continue through most of 1990 and interest rates are unlikely to drop significantly before the third quarter of the year.

But strong ties with large institutional investors and a cross-section of private developers hold "considerable promise" for the group's property and housing divisions.

Growth in the housing division will be anchored in expanding into the lower cost housing market and it is well positioned to benefit from any upturn in the market, given its established infrastructure throughout SA, he says.

Time Properties, now handling about R500m worth of commercial development projects, is well-placed to contribute strongly to the group's earnings base, while the medium-term outlook for Time Life Insurance — where profits declared last year were conservatively estimated at about R1m — is "most promising".

On financing requirements, Hibbert says the group has more than adequate financial facilities to fund its current businesses.

"Growth in its core businesses, particularly in the financial services and property divisions, however, will require a better mix of short and long-term finance both to ensure adequate funding and to strengthen the balance sheet in preparation for the next growth phase."

Accordingly, directors hope to propose the issue of 10-million convertible redeemable 14% shares of R1 each by way of a rights issue to shareholders, Hibbert says.

Talk of nationalisation tempers unit trust euphoria

By Derek Tommey

A more positive political outlook initially sent investors rushing to put their savings into unit trusts in the March quarter.

But when the ANC said its policy would be to nationalise major industries, the mood changed and many investors rushed to get their money out again, says the Association of Unit Trusts.

Investors put a record R638 million into unit trusts in the March quarter, much of it in the first six weeks.

This was a 74 percent increase on the R366,2 million inflow in the December 1989 quarter and comfortably exceeded the previous record of R599,3 million in the September 1987 quarter.

Roy McAlpine, chairman of the association, says "The mood in the country was euphhoric — the gold price was rising, the socio-political climate was extremely optimistic and share markets were firm internationally. In addition, investors were attracted by some new unit trusts.

But repurchases from mid-February started to rise, jumping to a record R273,9 million. This was a 32,6 percent increase on the December 1989 outflow of R206,6 million.

Mr McAlpine says the mood of optimism was tempered by a lower gold price, the poor performance of international markets, especially Tokyo, and the ANC's public pronouncements on nationalisation.

"This had an impact on unit sales, which slowed quite noticeably."

Nonetheless, although the resultant net inflow inflow of R364,7 million was below the record R453,8 million achieved in the September 1987 quarter, it was still more than double the net inflow of R159,6 million in the December 1989 quarter.

In the March quarter, the total value of assets managed by the unit trust industry rose by almost R1 billion from R6 643 billion to R7 624 billion.

Mr McAlpine said there were now more than 600 000 unit trust accounts in South Africa, an increase of 15 percent on a year ago.

One reason for the increase was the excellent performance of unit trusts.

The seven general equity trusts that were operating in 1986 have achieved compound average annual growth (including dividends) of 27,2 to 32,5 percent.

Over the past 12 months the 13 general equity trusts have shown 21 to 44,3 percent growth. The average is 35,4 percent.

The specialist equity trusts have also performed well, achieving a compound average annual return over the past five years of 25,2 percent and an average of 30,3 percent over the past 12 months.

But Mr Alpine feels it would be unrealistic for investors to expect unit trusts to continue achieving the returns of the past 12 months, saying that investors have become more cautious.

This view appears to be shared by Standard Bank. Although its general mutual fund must hve shared in the huge inflow of funds in the March quarter, its only purchase in the quarter with this additional money was 3 500 Liberty Life shares, bringing its holding up to 3 500.

Instead of buying shares it went liquid, and at March 31 had R100,3 million (30,5 percent of its total assets) in cash.

The bank says uncertainties caused by the pressure on gold and the difficulties likely to arise from socio-economic changes are causing it to maintain its current asset mix.

The Standard Extra Income Fund was highly liquid, with 66,79 percent of its portfolio in cash.

This was designed to maximise income while protecting the capital value of its portfolio in a market which is not likely to show much appreciation in the near term.

The Standard Bank Gold Fund showed no changes in its portfolio, the fund managers saying the drop in the gold price has increased concern about operating margins in the mines.

This points to the need for increased caution in gold share investment.

simultaneously.

LIFE ASSURERS

Tax favours

(58)

Are life assurers as badly treated by the taxman as they claim? Two weeks ago we argued life offices had a legitimate complaint when this year's Budget failed to extend tax concessions on dividend income to them and as Finance Minister Barend du Plessis again shelved his commitment to the trusteeship principle (*FM* March 30).

Life offices complain that competitive advantage has been tilted in favour of the banks and building societies. Building societies concede this but argue, in private, that the picture is incomplete and probably comprehensible only to a handful of actuaries or tax experts. FM 13/4/90

The Receiver of Revenue has developed special expertise in taxing mining and banking companies. Few, if any, tax officials understand the assurance business and, as a result, the Receiver is happy to adhere to well-tried, if well-worn, taxation principles.

Basically, life assurers have two types of business — taxed and untaxed. The former is linked to life and endowment policies and the latter to pensions or retirement annuities. The assurer pays tax on investment income

FM 13/4/90

accruing to life and endowment business but not on income accruing to pensions and RA businesses. It does not take much imagination to realise there is a considerable advantage to be gained if as much dividend income as possible can be credited to the untaxed side. (58)

Building societies argue that apportionment is done on the basis of the actuarial reserves of taxed and untaxed businesses — in other words, the present value of the eventual liability the assurer's actuaries calculate will accrue when policies, RAs or pension funds reach maturity.

Fair enough, except that taxed and untaxed actuarial reserves are calculated differently and that apportionment on the basis of actuarial liabilities does not accurately reflect the relative sizes of the two income flows.

Normally, for example, guarantees on life policies are small — the assurer promises only a small percentage growth even though he might have achieved a considerably better performance by the time a policy matures. Terminal bonuses, paid at the assurer's discretion, make up the difference between actual and guaranteed performance.

In contrast, pension business normally carries guarantees linked to the worker's final salary — and that implies a more generous performance guarantee than given on life business. The effect of this, so the argument goes, is that the actuarial valuation of pension business is based on higher reserve requirements than life business and that, in turn, means the apportionment of investment income for tax purposes is skewed towards the untaxed business sectors.

This is perfectly legitimate — it is permitted by the Income Tax Act of 1962 — but building societies believe the apportionment provides a hidden competitive advantage to assurance companies. They argue that assurers' management information systems are sufficiently sophisticated to allow investment income to be apportioned precisely between taxed and untaxed business, and need not be

FM 13/4/90

(58)

apportioned by means of the simple formula devised when computers with enormous number crunching power were not available.

Precise apportionment, says a Liberty Life actuary, is what happens. Particularly since the development of unit-linked policies whose guarantees are based on the performance of an underlying managed investment fund. Income from the managed fund is thus allocated directly to different types of policies — taxed or untaxed — and there is little scope for bias in the calculation of tax liability. These days, less than 20% of the current policies issued by a life office such as Liberty are not unit-linked, so there is little bias because of the older ways of calculating tax.

Building societies' next concern is the trusteeship principle — life offices argue that, because they effectively act as a trustee for their policyholders, they should be taxed on the same basis as those policyholders. The assurers would like to be taxed at the average rate applicable to policyholders, not at 45% — a whole percentage point above private individuals' top marginal tax rate.

The argument is reasonable as far as it goes, but tax is levied on income less 55% of expenses. And the building societies point out that private individuals who manage their own portfolios cannot offset any implied management fees against income for tax purposes. Nor can they offset their policy marketing costs and commissions.

So assurers get tax relief which is not available to policyholders and, under those circumstances, the life offices' competitors claim, they should not be allowed to claim some tax-deductible expenses, if the trusteeship principle is to be strictly interpreted for assurers.

Jim Jones

MONETARY POLICY FM 13/4/90 (58)

Knocking banks off balance

Reserve Bank Governor Chris Stals' big squeeze on banks could cut their bottom lines by about R160m — over 15% of the latest reported profits of the five major groups. Last week bank CEs were told they may have to move off-balance sheet repurchase agreements (repos) on-balance sheet.

Whether this is Stals' final word is not clear. He says he simply asked bankers to respond to this suggestion and is waiting to hear what its impact would be on their balance sheets. But banks are under the impression repos — any asset a bank holds off-balance sheet and finances with a repurchase agreement with another depositor — must come on-balance sheet from now on.

The consequence is that cash and liquid asset reserves banks must hold against liabilities will be significantly increased. Under the existing Banks Act, 5% of short-term and 2% of medium-term liabilities of on-balance sheet assets must be held as interest-free cash deposits, either at the Reserve Bank or in their own vaults. They must also hold 15% in liquid assets against short-term liabilities and 13% against medium-term liabilities.

As liabilities are swelled by off-balance sheet items, officially estimated at R7bn-R12bn though possibly as high as R15bn, banks will have to place cash reserves worth about R500m on repos worth a ball-park R10bn. This will be taken out of the system within two weeks and will cost banks R100m a year in interest foregone.

Liquid asset holdings can be phased in over five months. Once completed they will have to hold about R1,5bn more liquid assets, at an interest cost of about R60m.

The market surplus of liquid assets, now estimated at about R2,5bn, will fall to about R1bn. Because of this, more banks will have to borrow from the Central Bank at the 22,75% penalty rate against prescribed assets instead of 18,75% charged on liquid assets.

The move was to come under the Deposit Taking Intermediaries Act, due to come before parliament this session. It has been accelerated because of Stals' determination to reduce banks' lending activity to the 1% monthly limit (see "Under scrutiny"). "It is a longer-term action to create a sounder financial system rather than a short-term measure to curb credit extension," he says.

Bankers' reactions relate to the structure of their repo book. Hardest hit will be Standard Bank with February repos totalling R4,5bn (R3,9bn in January). Standard MD Mike Vosloo says some action had to be taken by the authorities because of past monetary policy which continues to spur M3 growth. However, banks might decide to rearrange their money market portfolios by trying to sell assets.

A spokesman for First National, on the other hand, with only R348m (R53m) repos in February says the pending changes are not a problem.

Repos entered into by other banks in February are: Bankorp R1,7bn (R1,5bn); Nedcor R1,4bn (R1,2bn); and Volkskas R173m (R472m). The official total for the five major banks is R7,6bn (R7,1bn).

Only Standard and Bankorp entered into repos at the Reserve Bank in February — R1,4bn and R271m respectively.

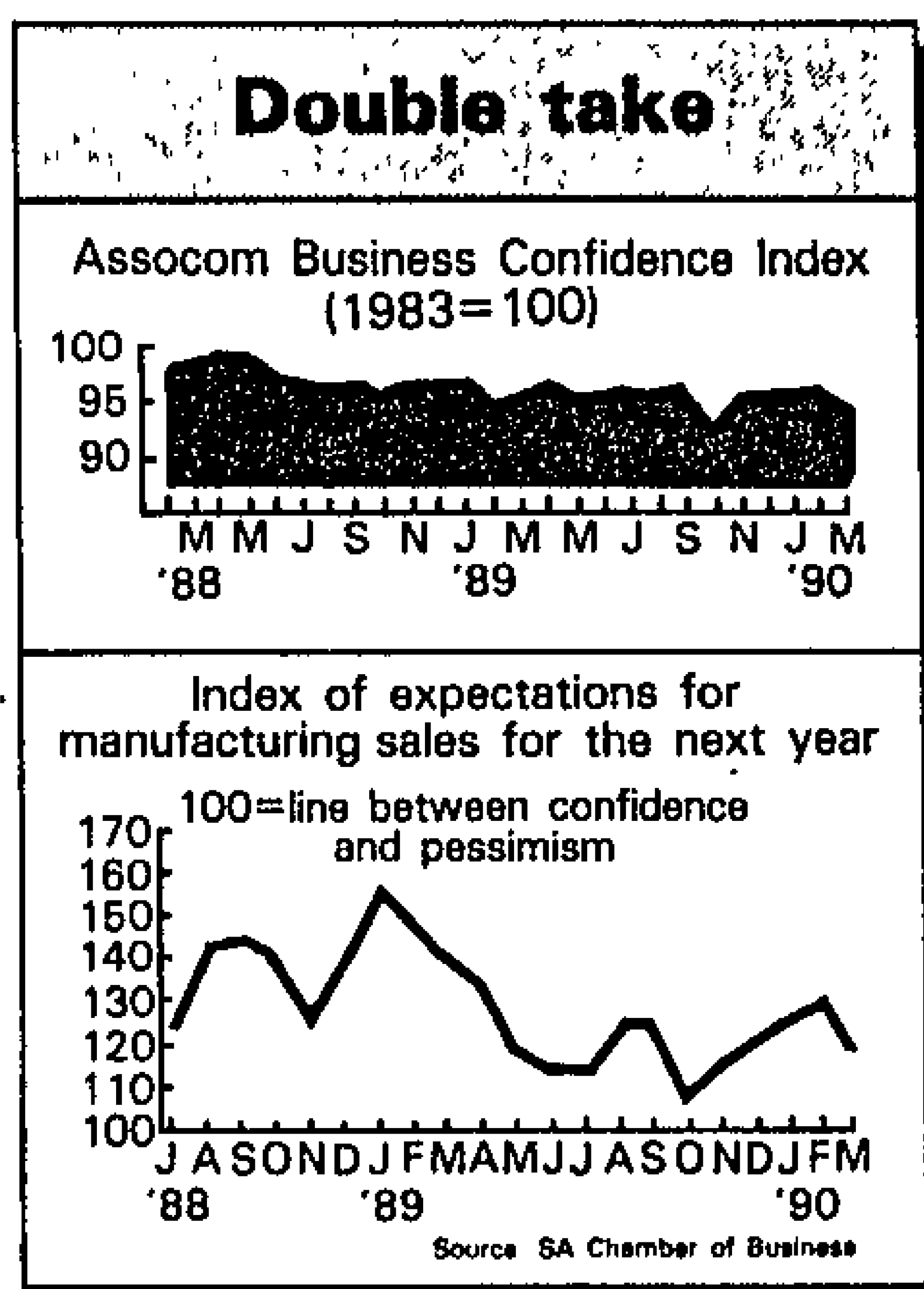
Money supply figures are also set to soar. Previously no off-balance sheet assets were accounted for in these. "There will have to be a statistical adjustment," Stals says. "We will have to add off-balance sheet figures of the past to past money supply figures to get the right picture." He says, when the figures are added, the rate of increase in money supply has declined since October.

Heather Formby

CONFIDENCE INDICES

Going down

Two SA Chamber of Business confidence indices show a degree of pessimism. The old Assocom Business Confidence Index fell 1,7 points in March to 94,2, its second lowest since June 1987. (The lowest was October, when interest rates went up 1%.)



FM 13/4/90

Of 16 components, five were negative:

- ☐ A lower dollar gold price;
- ☐ Declining imports;
- ☐ A lower JSE index;
- ☐ Fewer company registrations; and
- ☐ A 1,5% fall in retail sales from February.

These were partially offset by:

- ☐ Falling inflation;
- ☐ Lower three-month BA rates;
- ☐ Slightly increased vehicle sales; and
- ☐ An upturn in exports.

Other indicators were unchanged.

The Industrial Confidence Index, inherited from the FCI, fell from 132 in February to 118 in March.

It measures industrialists' expectations of sales, production and stock volumes for the next month and following 12 months. Any figure above 100 predicts at least some growth.

The benefit to sentiment of State President F W de Klerk's positive actions was offset by ANC policy statements and an increase in violence. Unstable world markets, the possibility of higher interest rates and a lack of tax concessions for manufacturers in the March 14 Budget also affected confidence.

In future, the two indices will be published simultaneously. ■

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PIET BADENHORST

FM/13/4/90 (58)

Getting the talent

Piet Badenhorst replaces Theo van Wyk as Registrar of Financial Institutions at a time when the office is being restructured into a semi-privatised statutory council. This move is in line with government's attempts to liberalise markets and place greater emphasis on private sector involvement.

In many ways Badenhorst is the antithesis of his exuberant predecessor. He is softly spoken and somewhat reticent, though colleagues describe him as highly efficient and a pleasure to work with.

He has been a civil servant for almost 30 years and his experience includes a six-year stint as deputy Registrar since 1984. Initially, he was responsible for the supervision of investment institutions — unit trust schemes, the stock exchange, participation bonds and the Usury Act. The past three years have seen his responsibilities redirected to provident institutions — long-term and short-term insurers, pension funds and friendly societies.

Badenhorst ... a wealth of experience

Badenhorst is excited about both his appointment and changing working environment.

He says the change will in fact mean greater private sector involvement in the promotion of the financial services industry. He believes this will attract people of stature from the private sector who will see their expertise influence national policy. "This will benefit the whole country," he says.

He explains that the Institutions' office has, as part of the civil service, been unable to retain the services of young BCom graduates, because of uncompetitive service conditions.

"In the past two years, the staff turnover has been around 50% and we are completely unable to attract CAs or actuaries. We recruit and train people but as soon as they become productive they leave. No organisation can build up expertise with this type of erosion," he says.

The newly constituted board will be able to employ the necessary people and determine, with the minister, suitable market-related packages.

Badenhorst hints that there may be a greater emphasis on consumer protection. He says the thinking on this issue is that "the doctrine of disclosure" should to a greater extent be applicable to financial services and products.

After matriculating at Cape Town's Jan van Riebeeck High School, Badenhorst completed his military service at the SAAF Gymnasium in Pretoria. In 1959 he joined the Department of Home Affairs and began studying part-time.

He obtained a diploma in public administration from Pretoria Technikon in 1972 and a BCom (Law) from Unisa in 1982.

"I consider myself to be a career civil servant and have found my choice stimulating and challenging," he says. He and his wife, Betsy, have three children. He is particularly fond of outdoor living and enjoys snorkelling on the Natal North Coast.

ROY MACFARLANE

FM 13/4/90

Secure position

At the age of 65 most people think about retirement. But workaholic and fitness fanatic Roy Macfarlane has added years to his working life by organising the management buyout of Fidelity Guards and agreeing to remain as MD.

For those who know him, he *is* Fidelity Guards.

He rescued it from bankruptcy in 1966 and (despite being told by an industrial psychologist that he would never become a businessman) he turned the firm into a R160m-a-year company — by far the biggest guard and cash-in-transit company.

Macfarlane opted for the management buyout route six months ago, after Rennies

BANKING FM 13/4/90

Under scrutiny (S8)

By December only one bank had met the Reserve Bank request last March to limit growth in certain asset categories to 1% a month. This is established in an analysis by First National Bank of returns to the Registrar of Banks & Building Societies.

FNB was up only 0,2% in the nine months to December. A decision to restrict growth was taken before the Bank's request "to avoid a capital shortfall," says FNB's Ian Anderson. "We decided to concentrate on quality business rather than growth."

The target was not met by other banks. Between March and December Standard showed a 28,1% increase. It is not, however, flouting the Bank's wishes. Says Standard's commercial bank MD Mike Vosloo: "Excess capitalisation after the rights issue in 1985 and acquisition of Unisec in 1986 generated momentum which has been hard to slow down."

Then comes Volkskas at 22,1%, Bankorp 19,5%, and Nedperm 16,5%. Average growth of the five was 1,8% a month.

On the liabilities side, short-term deposits

FM 13/4/90 (S8)

rose 7% for banks and 24,5% for building societies. These are clearly taking advantage of relaxed restrictions on short-term money but still raised their share of short-term money to only 5,9% compared with 25,3% in medium-term and 45,6% in long-term.

Falls in long-term funds were reported by both banks (12,4%) and societies (3,8%).

Standard and Bankorp had the highest market share of short-term deposits: 28,6% and 20,7%, respectively. Because of the cost of wholesale money, Standard and TrustBank (which contributes about half Bankorp's deposits) have been targeting retail funds, offering real interest rates of 19% for six-month deposits ahead of the other banks. They also lead in market share of total deposits with 19,9% and 17,3%, followed by FNB 17%, Nedcor 15,9% and Volkskas 9,4%. Building societies in total held only 20,5%.

FNB lost 3,3% market share of total assets from December 1988 to December 1989. Standard gained 2,2%, believed to be to some extent attributable to its 50% increase in home loans. Nedcor's assets grew 1,2%.

Societies lost market share, as banks took a big chunk of home loans. ■

Mutual's man at the helm

W/t Argus 14/4/90

58

By TOM HOOD
Business Editor

THE biggest co-operative in the land — that's how Old Mutual is described by its new chief operating officer, Gerhard van Niekerk.

Politicians have cast a beady eye on the millions the life insurance industry invests daily as they debate the merits of nationalising the country's key industries.

However, Mutual's man at the helm points out: "We are not owned by faceless shareholders. We already belong to the people through their provident and pension funds as well as individual insurance policies.

"We have many trade unions as clients. We are dealing with their money and we have to act responsibly. We consult regularly with them on our investment strategy"

He says pension funds give people a joint share of the productive wealth of the country.

In the United States, for instance, pension funds own between 50 and 60 percent of the shares on Wall Street and members of those funds share in the benefits.

Mr Van Niekerk is a supporter of privatisation, which has run into flak from some quarters.

He sees privatisation as a way of raising more capital which could be diverted into schools or something else — "it makes a lot of sense."

Gerhard van Niekerk .. at the insurance forefront.

Mr Van Niekerk is regarded as one of the country's foremost authorities on pensions. He joined Mutual in 1962 and worked his way through the ranks, becoming the company's youngest general manager and collecting a masters degree in economics from Northwest University, Chicago, on the way.

He sees major changes coming to help people in inflationary times, with the industry moving away from the principle of building up a pension fund only for retirement.

The industry is beginning to take a different philosophical approach.

"We have to move much closer to see what people need and apportion it for short-term and long-term benefits."

Employers and employees have a limited amount of cash available each year for employee benefits such as retirement, death, housing and financial assistance.

"We are working to integrate housing as a specific benefit into retirement funds.

"You can enjoy some of that pension money up front and move into a house while the money going into the retirement fund helps to pay for the house. That is as good as lending it to the employee.

"It removes cross subsidisation and helps to reconcile short and long-term needs.

"Obviously there are legal obstacles and tax issues but we are finding it a more acceptable concept."

Almost every employee had a medical aid and pension or provident fund and the total costs were escalating fast. The lower income group's contribution to medical aid was expensive for

(See page 2)

P.T.O

Stals gives banks a breathing space

B/Day 24/4/90 (58)

GRETA STEYN

BANKS will have some months of breathing space to get their balance sheets in order after the Reserve Bank decision against an early implementation of tighter banking legislation.

Market talk is that this emerged at meetings with senior bankers at the Reserve Bank yesterday.

Although bankers who attended the meetings were tight-lipped, talk is that a clampdown on off-balance-sheet activities is inevitable — but only once the new Deposit-Taking Intermediaries Bill becomes law.

Although the Bill will be passed in the current session of Parliament, red tape in formulating the regulations pertaining to the Act could see the eventual implementation take place as late as January next year.

The Bank will release an official statement about the issue this week.

Dealers said Governor Chris Stals had also stressed he was unhappy about rumours that the prime overdraft rate would increase. The Bank's view was that interest rates were at their correct levels.

Interest rates in the capital market continued their upward trend and reached a peak of 15,97% on Eskom's Loan E168 before news of the meetings leaked out.

The bullish news turned the rates around to close at around 15,90% and dealers said short-covering could see a further downward movement in capital market yields today.

Further talk in the market is that a deal involving Saambou, and widely reported last year, had sparked the Bank's ire on off-balance-sheet transactions.

The building society group last year admitted it had suffered a R6,7m capital market loss which had not been recorded on its balance sheet.

The gilts had apparently been sold to a discount house with an agreement to repurchase them — and were therefore not on Saambou's books when the March balance sheet was drawn up.

Banks make widespread use of such repurchase agreements — repos, or buybacks — to reduce the size of their balance sheet.

They take this action to cut the expensive cash and liquid assets they are legally required to keep against their balance sheets.

MR DONALD GORDON: "The formation of The Liberty Life Foundation has nothing to do with our stance on nationalisation."

Liberty defends motive for R100-m 'gesture'

Star 14/4/90

CHRIS MOERDYK

THE decision by local insurance giant Liberty Life to spend R100 million on the "social upliftment of disadvantaged South Africans" was an investment and not intended to counter the threat of nationalisation.

Liberty chairman Donald Gordon said this week: "The formation of The Liberty Life Foundation has nothing to do with our stance on nationalisation. If, however, our work on upliftment and the process of preparation for economic leadership exposes nationalisation as the negative force it is, we would have partially, albeit coincidentally, succeeded in one of our objectives which is the creation of a more stable and prosperous economy."

He said the new Liberty Life Foundation initiative was a strong gesture of the company's support of "the dream of a great new democratic South Africa and we regard this R100 million as the best investment we could make in our investment portfolio to secure the future".

Five-year plan

According to Mr Gordon the foundation would over the next five years spend more than R100 million on urban and rural upliftment of not only black but all disadvantaged communities in South Africa including improved educational facilities, housing, the alleviation of poverty and the preparation for economic leadership by talented black entrepreneurs and other community leaders.

"We hope that our example will act as a catalyst and that other companies will follow our lead in encouraging the courageous initiatives of our political leadership — both black and white — with a full understanding of the horrific consequences to be faced if they fail us.

"If our social investment of R100 million can help to create an environment conducive to a peaceful and stable transition to a democratic and equitable society we shall be delighted. No sacrifice is too great if it facilitates our achieving this, but all of business must play its part."

Mr Gordon said the concept of an investment in social upliftment was nothing new to his company.

"Our Social Involvement Programme has always been as large as our resources have justified. In 1989, for example, we spent many millions on hundreds of projects including a R1 million donation to the Urban Foundation. The directors of Liberty Life have for some time been considering a major increase in our social involvement expenditure, particularly after an incredibly successful 1989.

"We believe that a special gesture is appropriate at this stage as we are convinced that the political initiatives now under way could be a major turning point in our history.

"It is vital for business now to come strongly up front and this in itself could play a criticl role in the negotiating process.

"We dare not fail and business must participate — the politicians cannot do this alone. If they fail South Africa could well become a wasteland and our businesses will all be worthless."

He said that a board of trustees was being formed to administer the foundation and that Mrs Helen Suzman had accepted an invitation to serve as a trustee.

Interest screws tightened

SOUTH Africans are reeling from shock increases in bank costs and interest rates on overdrafts, personal loans and other types of advances as the Reserve Bank applies more pressure on banks to curtail lending.

In most instances, banks have increased bank charges and interest rates on personal loans and bank overdrafts to near-record levels, generally without notifying clients.

Whole spectrum

In a snap survey it was revealed that most average bank clients are now being charged between 26 and 29 percent on overdrafts — levels last seen when the prime overdraft rate was 25 percent in 1985 — while most banks are charging up to 30 percent on overdue balances on credit cards.

Bank charges across a whole spectrum of services, have also been adjusted sharply higher in recent weeks, also with very little pre-notification.

This comes in the wake of recent moves by the Reserve Bank to curb even more the growth in money supply, a key factor in the country's high inflation rate. Banks have been hard-hit by the reluctance of the Governor of the Reserve Bank to increase the prime overdraft rate from its present level of 21 percent.

Clients reel with rates reaching levels of 'bad old days' of 1985

MAGNUS HEYSTEK
Finance Editor

According to banking sources Dr Chris Stals, Governor of the Reserve Bank, has several times turned down approaches by the country's leading bankers to increase the prime overdraft rate by another 1 percent.

While this provides some relief for ordinary homeowners with mortgage bonds, interest rates on all other types of loans, unless specifically tied to the prime overdraft rate, have risen sharply in recent weeks. This is done by the banks in an effort to reduce the pressure on their profit margins.

According to informed sources banks are now paying the price of their policy of easy credit, pursued until recently in an effort to gain market share. The former Governor of the Reserve Bank, Dr Gerhard de Kock, last year requested the large banks to restrain their lending to a growth of only 1 percent per month. This request, with the exception of one or two banks, were mostly disregarded.

By law, banks are not obliged to notify clients of increases in interest rates and bank charges until three months after the event.

In many instances, bank clients are not even aware of what interest rate they are charged on overdrafts and can only obtain this information on request. While banks are paying interest on credit balances on credit of between 9,5 percent and 16 percent — depending on the balance — overdue clients are charged between 28 and 30 percent.

Banks charge different rates for different services, making it difficult for clients to make comparisons on banking costs. For example, the cost of debit orders ranges from 60c (United Bank) to R1,80 (Nedbank) to process a debit order of R150.

For a debit order of R1 233, for example, the range stretches from R3,90 (United) to R7,55 in the case of Nedbank.

The same applies to all other services offered by banks. The cost of drawing a cheque of R1 000 ranges from R3,30 to R5,94.

For transactions at automatic teller machines (ATMs) the costs also vary significantly, from as little as 25c to R1, depending on the size of the withdrawal.

According to one disgruntled client, administration charges are levied on services that until recently were offered free.

Banks counter the accusations by claiming that services cannot be expected to be rendered free of charge and that banks have to protect their profitability and look after the interest of their shareholders.

Even users of credit cards have seen the annual costs of credit cards nearly double, while bankers are forecasting that annual charges will rise further in the near future.

Lending transactions linked to the prime overdraft rate, including the mortgage rate, are not effected by the current squeeze.

Outside pressure

But outside pressure is building up on interest rates, which might result in even higher interest rates in the near future, despite the efforts of the Reserve Bank to maintain the prime overdraft rate at present levels.

Internationally, interest rates are still rising with further increases in store. On Thursday it was announced that Britain's inflation rate rose sharply to more than 8 percent, which could be a precursor to higher rates.

This would make it more difficult for the SA Reserve Bank to keep a lid on interest rate increases, as it would result in a sharp and damaging outflow of capital.

Plan ahead and build capital for investment

C/Press 15/4/90

BUILDING up capital – the basic prerequisite for wealth in any society – seems to be a great problem for so many of us.

Yet, by following a few simple principles, anyone can create capital.

The very first principle is to change the management of your financial affairs.

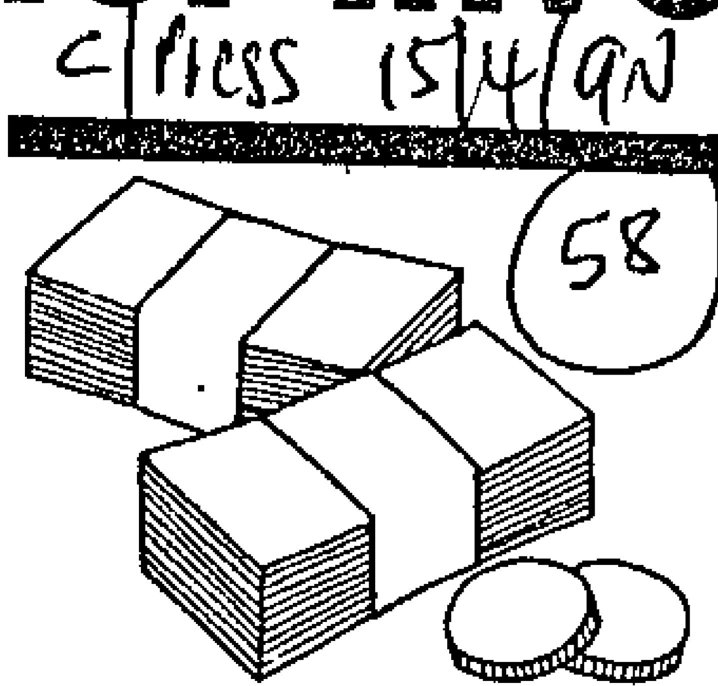
Most people – when they get paid – start by working out what they want to buy.

They think and act like consumers – they only worry about fulfilling their needs.

And there is always something you think you need.

What does this tell us?

Simply that be making your needs your point of departure in planning your monthly finances.



MONEY TALK

most profitable – produce something or provide a specialist service.

The second alternative, which most of us will probably use, is to place money in the hands of experts.

High interest rates, coupled with absolute safety, are available.

Don't simply go to the nearest bank or building society to invest money.

You also have to be patient.

Only the lucky few who win the jackpot at the races can ever hope to have instant capital and winners tend to blow this very soon.

One final principle.

Adopt a positive frame of mind by telling yourself you can discipline yourself to build up capital.

You will eventually accept what you are intent on doing and new ideas and new opportunities will start presenting themselves to you.

Start building capital this month!

Rank reclaims i

C/Press 15/4/90

BUSINESS NEWS ★ BUSINESS NEWS ★ BUSINESS NEWS

Private sector chips in to improve black prospects

By PATRICK MAFAFO

THIS week saw the first positive gesture by the private sector to complement President FW de Klerk's R3 billion upliftment initiative.

Liberty Life Group chairman Donald Gordon formed a major R100 million social foundation for black upliftment. It is expected a major portion of this amount will go to bringing blacks into the mainstream of the economy. Reasons given are that the government has contributed significantly through the Budget and other means to address socio-economic issues.

Part of the fund will be spent on education facilities and housing. Details as to how the scheme will operate are expected soon.

Black business optimists see Liberty's gesture as the beginning of a process. Liberty will review its position after five years. Depending on the success of this scheme, a further cash injection is expected.

Black business leadership sees the Liberty move as sincere. The group's exposure to the black market is minimal.

Other insurance companies like Sanlam and Old Mutual are expected to follow Liberty. Their funds will be proportional to their assets.

According to reports Old Mutual estimates that 30 percent of its 4-million policy holders are black.

Sanlam, through its subsidiary Metropolitan Life, estimates that 70 percent of its 6,5-million policy holders are black. Southern Life and its subsidiary African Life have close to 100 000 black policy holders. Southern Life also administers the provident fund of the National Union of Mineworkers, estimated at R400 million.

Great quarter for the unit trust industry

THE first three months of this year have been a bumper quarter for the unit trust industry.

Unit sales hit a record, as did the market value of the country's 33 unit trusts – and the number of unit trust accounts exceeded 600 000 for the first time.

Sales of units for the period topped the R638-million mark – comfortably exceeding the previous record of R599,3 million for the September 1987 quarter.

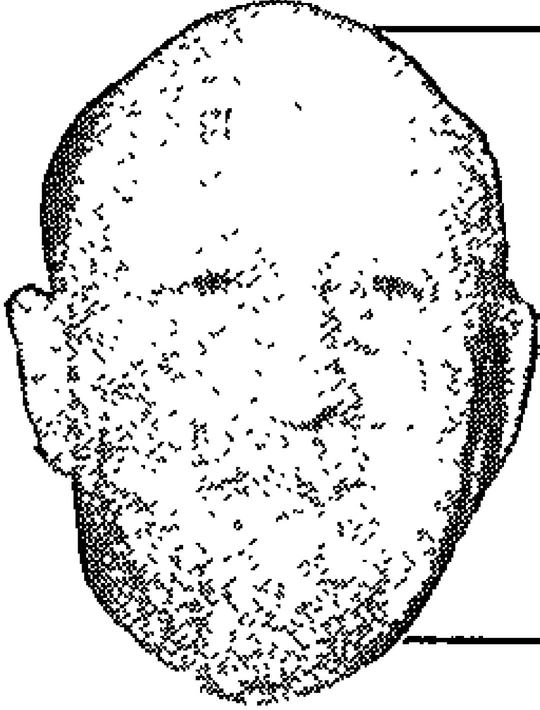
As a result of a significantly higher level of repurchases during the March quarter, however, the net inflow into the industry (R364,7 million) was below the record R453,8 million achieved in the September 1987 quarter.

Association of Unit Trusts chairman Roy McAlpine said there were now more than 600 000 unit trust accounts in South Africa – a 15 percent increase in the past 12 months.

McAlpine said the market value of the funds climbed almost 45 percent from March last year to March this year. This impressive increase was an indication of the growing public awareness of the benefits of unit trusts, he said.

Putting our money where our faith is

S/Times 15/4/90. (58)



Donald Gordon

chairman of Liberty Life, explains why his company is investing R100-million in South Africa's future

ALTHOUGH South African business in general, including Liberty Life, has previously played an important role in the social upliftment of our country, this clearly has been at an inadequate level.

Our degree of engagement, though acceptable in a normalised society, has doubtless created a perception in some minds that business is content to maintain the status quo in a turbulent and evolutionary environment.

But South Africa has now reached a turning point. A major and fundamental process of accommodation between the disparate peoples and their traditionally divisive philosophies is now irreversibly in train.

A seminal change is occurring and we are convinced that at this critical moment business must demonstrate unequivocally its constructive support and involvement in the major new political dispensation that is painstakingly being structured.

Of course there are scenarios where events could go wrong and the politicians could well fail to deliver the promised land.

Threshold

However, we are encouraged by the boldness of the poltical leadership — both black and white — which, with the right encouragement and support, we believe could create the political dispensation so necessary for South Africa's long-term future, involving the dream of a just and equitable free enterprise system which we believe is so appropriate for our country.

We stand on the threshold of a new era in which our natural resources, coupled with the highly developed and sophisticated financial and industrial infrastructure which is our heritage, will enable us to be the economic powerhouse of the subcontinent.

It is, however, vital that all communities should feel that they have an equal opportunity of participating in the economy and that the business establishment is fully prepared to make a major effort to enable the disadvantaged to share in the system.

It is here that South African business must at this moment be prepared to take the most meaningful initiatives to alleviate the natural suspicions of the majority of our black people who, to date, have perceived themselves as being precluded from the benefits of a free enterprise society.

Evidence

Last week Liberty Life, in a major initiative, announced the formation of the Liberty Life Foundation, which, over a period of five years, will expend over R100-million in providing a financial base to enable disadvantaged urban and rural commmunities to achieve significant and meaningful upliftment in the quality of their lives, by the provision, inter alia, of improved educational facilities and housing and the alleviation of poverty.

More significant is the objectve of preparing talented entrepreneurs from the disadvantaged communities for economic and business leadership.

Liberty Life's exciting initiative is tangible evidence of its support and commitment to the realisation of a great new vision for South African society. It is vitally important to record a strong vote of confidence in South Africa today, especially when so many people from all communities are feeling insecure, threatened and hesitant about the future.

Sacrifice

If, at the same time, our investment of R100-million, matched by comparable amounts from other corporations in a position to emulate our example, encourages our political leadership, both black and white, in their difficult task of negotiating a dispensation that is reasonably acceptable to the population as a whole, we will have achieved a major forward move by the business community.

If the dedication and the combined social investment of South African business is sufficiently meaningful, this could well facilitate the creation of an environment conducive to a peaceful and stable transition to an equitable, democratic society espousing the highest ideals and standards of the Western world — and we shall have achieved a major breakthrough.

No sacrifice should be too great to accomplish this objective in an atmosphere of co-operation, stability and peace, and it is of critical importance that business as a whole, individually or collectively, plays its part in this process.

Catalyst

It is unreasonable, if not impossible, for the politicians to do it in a vacuum.

We need to demonstrate tangible and meaningful financial commitment and provide incontrovertible evidence that business can play its part in the massive changes that will be required in the next decade and beyond. Rhetoric is not enough. Meaningful financial commitment and determination must be the order of the day. Our collective effort could just make the difference between success and failure.

Liberty Life's initiative comes from shareholders' money, with some support from the Donald Gordon Foundation. Policyholders' interests are not affected. The major contribution emanates from the reserves that we have built up for our shareholders over many years.

By taking this broader, long-term view, we believe the nation and the prospects of shareholders and policyholders of Liberty Life will be immeasurably enhanced.

We hope that Liberty Life's example and the vital imperatives of the moment will act as a catalyst and a stimulus to induce other major corporations and economic leaders to follow our lead.

'Strong rand needed to curb inflation'

CAPE TIMES 17/4/90

(58)

AUDREY D'ANGELO
Financial Editor

A FALLING exchange rate results in higher inflation. The Reserve Bank should therefore allow the rand to strengthen, in spite of the need to promote exports and protect the balance of payments, Standard Bank economists advise.

They concede, in their Economic Review, that an under-valued rand encourages exports and penalises imports — resulting in bigger current account surpluses and improved gold and foreign exchange reserves — and stimulates growth through export promotion.

"However," they point out, "such a weak-rand policy inevitably raises the domestic cost of foreign debt servicing and repayment.

"It also increases domestic price pressures as the cost of importing goods rises when the exchange rate falls."

The 32,6% rise in the imported component of the producer price index (PPI) between January 1985 and January 1986, at a time when international prices rose only slightly, showed the effect of the weakening of the rand in this period.

Price escalation

But, the Standard warns, "a more insidious effect of a sustained fall in the exchange rate over time is that international competition ceases to act as a check on domestic costs and prices.

"Price escalation results from the undesirable practice of 'import parity pricing', where local manufacturers in an environment of limited domestic competition often set their prices, not in terms of cost, but according to the cost of importing similar products from overseas suppliers.

"Moreover, domestic producers will not resist rising costs resulting from higher wages or inefficient productive techniques if protection from international competition is automatically provided by a weakening exchange rate."

Even exporters, they continue, "have little incentive to enhance their global competititiveness by introducing cost saving techniques if increased competitiveness is gained anyway from exchange rate depreciations.

"Thus a weak and declining exchange rate impacts negatively on domestic productive efficiency and therefore on long-term inflationary pressures."

Urging the Reserve Bank to resist calls to stimulate exports by pushing the rand down further than is required by capital flows, the Standard points out that the "significant slowdown" is already reflected in falling imports.

Political climate

"A healthy trade surplus is already being achieved and it now seems likely that a current account surplus approximately equal to anticipated capital outflows will be recorded in 1990.

"Moreover, improved political perceptions of this country could result in actual net capital outflows being somewhat smaller than the R2,4bn originally estimated.

"Under such circumstances, downward pressures on the rand may not be as severe as was initially feared. This may act as a spur to greater domestic productive efficiency and, therefore, lower inflation."

Risk managers concerned about Melamet proposal

BDay 17/4/90 58

LINDA ENSOR

THE SA Risk & Insurance Management Association (Sarima) — representing 100 risk managers of SA's top corporations — has expressed concern over the huge costs involved if offshore captive insurance companies are relocated onshore.

Such a step was recommended by the Melamet Commission of Inquiry's report into the outflow of premiums and the operations of captives.

Considerable sums have already been spent in setting up offshore companies, says Sarima chairman Mike Jones, who emphasises that despite its reservations Sarima finds much good in the report.

Its views will be presented to the Registrar of Financial Institutions.

Jones points out that offshore captives were established because of the virtual impossibility of establishing onshore ones.

"The commission hints that retroactive legislation may be brought in to investigate the taxation structures of offshore captives. This could mean the taxing of premiums being paid to these captives. It appears that under the commission's recommendations on shore captives attract premiums on a tax deductible basis.

"Many Sarima members have undertaken in-house surveys for their companies and found that the amount of money spent on risk control and on risk management is usually between three and 10 times that spent on insurance premiums."

Jones says that while the local market should in most cases have first option in covering corporate risks, and any company abusing local insurance channels should be brought to task, Sarima feels strongly that "carte blanche legislation should not be introduced to curtail the free trading activities of the innocent parties.

"Sarima believes that the Melamet report is generally insensitive to the insurance customer. The implementation of the recommended restrictive practices must inevitably considerably raise the cost of insurance on a simple supply and demand basis."

Penalised

While accepting that local capacity for mega risks is inadequate, the commission recommended that the consent of the Registrar of Financial Institutions be obtained before an insurer was allowed to cede more than 50% of its reinsurance premiums to foreign re-insurers.

"The effect of these measures will be that the local market may be prohibited from placing more than 50% of its reinsurance overseas and that, if any other way is used, the insured will be penalised for merely attempting to protect its assets situated in RSA," Jones says.

☐ Insurance brokers have been given a relatively clean bill of health by the ombudsman of the short-term insurance industry, advocate Bill Schreiner.

Of the 150 complaints dealt with between the date of inception on August 1 1989 and end-February, about 5% were against brokers, according to Santam Insurance's newsletter Focus.

The complaints against brokers included the collection of premiums which were not paid to insurance companies and delay in processing a claim.

Protea to withdraw from the rates war

BDay 17/4/90

(58)

LINDA ENSOR

COMPOSITE assurer Protea Assurance is to adopt a tough pricing policy and will no longer submit to competitive pressures in the short-term insurance industry to drop rates.

"It is clear that we cannot continue along this path and that we will instead have to accept the probable loss of some business at the cost of an erosion of the premium base," says chairman Cedric Walton in his annual review to end-December. "It is essential that rates be brought into a more realistic alignment with inflation."

In the 1989 year the short-term division showed a loss of R2,6m (profit of R2,4m), with the motor and burglary accounts showing substantial losses.

While the Marine account contributed R1m (R200 000), this was due to the transfer of the 1987 surplus and Walton says the marine market currently affords no growth.

Adequate

"Lloyd's remains the main player with regard to cut rates and hybrid policies, and market information indicates that in the three years prior to 1988 the premium income of this major foreign insurer rose by an average of 31% against an average of 12% for domestic companies. There is no reason to believe that this trend has not been continuing."

The Marine Fund remains at 103% of absolute net premium — more than adequate, Walton submits, to meet Protea's liabilities.

The Life division recorded a rise of 35% in net recurring premium income to R17,7m in 1989. Shareholders' life profits increased from R374 000 to R431 000.

The investment returns during the year on managed portfolios were 43% (untaxed fund) and 47% (taxed fund) but Walton says a cautious approach in the uncertain investment climate will be necessary. He did not believe the 50% average increase in share prices during 1989 could be sustained.

Protea's investment income increased from R14,3m to R19,6m on a portfolio of R305m (R222m) and Walton says it is in a sound financial position.

RM's ERPM mine posts R20m loss

Star 17/4/90

Finance Staff

New plans for survival are being considered for Rand Mines' highly marginal **East Rand Proprietary Mines** (ERPM), which showed a loss of R20,2 million in the first quarter of this year on top of a R7 million loss in the previous quarter.

The mine was hit by the combined effect of lower gold prices and continued poor grades, and will need additional funding to maintain it as an ongoing concern once the precent facilities have been exhausted.

The mine has drawn R297 million out of the R300 million made available by the government and various institutions and further rationalisation plans are afoot, although Rand Mines has not yet made a decision.

However, timely rationalisations and labour cutbacks towards the end of 1989 and early this year, when gold prices were higher, have paid dividends for Rand Mines (RM) three other gold producers.

Harmony, Blyvooruitzicht and Durban Deep between them earned after-tax profits of R31 million in the March quarter — R7 million higher than the previous quarter's R24 million. The group's star performer was Blyvoor, which showed a five-fold increase in bottom-line profits from R2,1 million to R11,4 million.

Tonnage was up from 572 000 to 603 000 tons, which with higher grades (4,01 g/t against 3,93 g/t) led to an increase in gold production from 2 249 kg to 2 421 kg.

The margin between cost a kg of R28 869 and the gold price received of R33 886 a kg was a comfortable R5 000 (R1 200 in the previous quarter).

A highlight of the quarter was the strong turnaround in the group's other marginal producer, **Durban Deep**, thanks to an injection of R18,7 million (equal to R8 a share) as a result of a Transvaal Provincial Administration expropriation of 667 ha of its property. The mine lifted bottom line profit from R1 million to R2,5 million.

Harmony had a steady quarter, with both tonnage and grade unchanged from the previous quarter.

Costs a kg were R31 773, leaving a margin of just under R2 000 a kg on the average selling price of R33 691 a kg. Taxed profit was R17,2 million, down from R21 million in the December quarter.

Capex was just under R4 million (R5 million) and there are commitments for a further R3,5 million.

UAL Unit Trust funds rise by 41%

LIZ ROUSE

UAL Unit Trust funds under management increased by 41% to R906,7m at the end of March from R641,7m at the end of March 1989.

UAL senior manager Peter Anschutz says the rise was attributable to increased sales of units as well as capital growth of the portfolios under management.

Each of UAL's four funds showed positive inflows of funds net after repurchases for the quarter ended March and all funds other than the Gilt Unit Trust showed increased net inflows over the previous quarter.

By lightening the gold holdings and increasing liquidity in its major funds, UAL has positioned itself to take advantage of buying opportunities which are beginning to present themselves in the market, says Anschutz.

Cash holdings in the flagship UAL Unit Trust were increased to R86,6m, representing 19,5% of total assets of R446,2m at the end of March.

The UAL Mining and Resources Unit Trust benefited from a decision to have a relatively low weighting in gold shares and heavy weightings in mining houses and base metals.

The trust's total liquid asset amounted to R36,6m (12,78%) of total assets of R286,21m.

The portfolio managers took advantage of opportunities presented by volatile share prices and significant inflows from investors to consolidate further UAL Selected Opportunities Unit Trust.

Liquid assets made up R10,3m (12,05%) of the trust's total assets amounting to R85,84m.

The UAL Gilt Unit Trust maintained a high level of liquidity (R46,3m or 52,32% of total assets of R88,5m) to benefit from the continued tight monetary policy.

R11,9m property scheme allows in small investors

B/Day 18/4/90

(58)

CHARLOTTE MATHEWS

AN R11,9m property participation scheme is being launched by Masterbond Trust in conjunction with the Health & Racquet Club (HRC).

Masterbond Trust MD Laurence Perrin explained yesterday that property participation enabled the small investor to invest in specific commercial properties, unlike property trust investment which involved a predetermined portfolio.

The investor was paid debenture interest monthly. His investment was negotiable and could be used as collateral for loans.

Masterbond Trust offered an over-the-counter market where units could be realised at about 14 days notice, Perrin said.

Health & Racquet Club operations director Rod Mitchell said in an interview the clubs had expanded to a point where management had to decide whether the business would become operating the clubs or owning property.

It decided to continue operating the clubs and offer the public an opportunity to participate in the property holding side.

Lease

According to the prospectus, the Health & Racquet Club Property Participation scheme, which is fully underwritten by Masterbond Trust, consists of 11 893 ordinary shares of R1 each and 11 893 debentures of R1 000 each. Each share is linked to one debenture and sold in units.

The investment is in three properties, each tenanted on long lease by the Health & Racquet Club group — one in Sandton estimated to be worth R8m, one in Cape Town worth R5,7m and one in Tygervalley worth R4,7m.

The leases provide for an annual escalation of 11% for a five-year lease with a further 15-year renewal option. The tenant is responsible for all repairs, maintenance and running costs.

According to the prospectus, the average rate of return over five years is forecast at 33,81% a year. The internal rate of return is 24,19%.

The Health & Racquet Club has a membership of 22 000 at present and by December 1991 this is projected to rise to 65 000.

The group now has four clubs and a further four are planned for the next 18 months. Each centre costs about R6m-R10m to construct and the equipment costs between R1m and R2m.

The property participation offer opened on February 1 and closes on April 30.

Central Bank for Namibia

Star 18/4/90

By Dale Lautenbach,
The Star's Africa News Service

WINDHOEK — Namibia has set June this year as the target date for the establishment of its own Central Bank but the independent country will not have its own currency until April 1992, Finance Minister Mr Otto Herrigel said at a press conference in Windhoek yesterday.

He said a team of International Monetary Fund advisers had arrived in Windhoek to help with the establishment of a Central Bank as required by the Constitution. The operation was "well under way" and more IMF advisers would arrive soon.

Foreign exchange and customs control independent of South Africa could only be established once Namibia had its own currency.

Until the establishment of the Central Bank, the South African Reserve Bank had agreed to provide those functions for Namibia. This would include the use of the financial rand and any aid which came to Namibia in the form of a grant could be channelled through the finrand, he said.

In a previous address, Mr Herrigel indicated that Namibian exchange controls might be "liberalised". This could only be considered once the country was out of the rand monetary system though, the said yesterday.

He hoped to present independent Namibia's first budget in June, but this too was a target date. In the interim, the new government is running on an interim budget of roughly one third of last year's budget.

Sluggish bullion price scuppers UK gold trust

S[illegible] 18/4/90

By Neil Behrmann

LONDON — The failure of the bullion price to break out of its narrow trading barrier of the past two years has scuppered Britain's first gold investment trust.

Brokers James Capel and investment bank Robert Flemming, which planned to launch a huge £300 million bullion and gold share investment trust, called off the launch of the fund last week.

Originally hoping that the fund would fill the investment gap left by Consolidated Gold Fields, Capel and Flemming may try to save the issue by applying for a listing in both Johannesburg and London.

But less than £50 million is estimated to have been pledged to the issue and uncertainty surrounding bullion and gold shares has forced the backers to postpone it.

Julian Baring, already in charge of a successful mining fund at Capel, hoped to raise £100 million initially. At the time of the launch at the end of last month he thought the timing was good, even though gold had crashed back to the lows of last year.

Although gold unit trusts generally underperformed during the 1980s, Mr Baring believed "that gold had reached natural support levels, and that the timing is good for a UK investment vehicle which offers liquidity and ready marketability."

The trust aimed at holding 15 percent of its funds in bullion and investing the rest in South African, North American and Australian gold shares. The fund manager, Mr Andrew Spencer, of Fleming Investment Trust Management said that the trust was aiming for "stable growth in the long term".

As a closed-end trust it would not be vulnerable to redemptions and Capel hoped that it would in some ways replace Consolidated Gold Fields as a gold hedge. The minimum investment was £1 000 and charges, including commission, were 3 percent.

Yet the projected yield after expenses was only one percent. Given this poor return, institutions did not believe the issue was attractive in view of the disappointing performance of gold.

Ahead of the launch, James Capel was embarrassingly over-optimistic about gold's prospects.

After bullion rallied and broke through $380 in October and gold shares were already substantially above their 1969 lows, its chief gold analyst, Robert Weinberg, insisted that bullion had entered a new long-term bull market, which would end at very much higher prices.

Although Mr Weinberg still claims that gold is in a bull trend, it has remained trapped within a narrow $355 to $425 range for nearly two years and according to other analysts shows no sign of moving out of this level.

In a recent report the International Gold Mining Newsletter said that if gold failed to lift itself from the current bear sentiment within the next few months the price consequences for the metal were dire.

"Gold will have lost its appeal to investors in troubled times, perhaps for ever," the magazine said, adding that the metal's price has sunk recently despite considerable economic and political uncertainty.

"Certainly a case can be made for abandoning gold and its equity proxies.

"The fundamentals suggest that the world economy is not overheating, and there is no serious threat to world inflation. Moreover, interest rates are high and rising.

On the political front bearish factors which could affect the metal are the ANC's talk of nationalising the gold mines as well as the Australian gold tax to be introduced next year, the magazine writes.

It adds, however, that the failure of gold to respond to the recent political problems in Lithuania and Japan's economic volatility, remained a major mystery.

Finances of Reps' House in disarray

CAPE 18/4/90 (58)

Political Staff

CAPE TOWN — Auditor-General Mr Peter Wronsley has slammed the financial affairs of the House of Representatives in a report that highlights wide-ranging "serious deficiencies and shortcomings" in administration.

Inadequate information and the failure of officials to provide details in time prevented him from giving an opinion of the true state of the administration's finances, the report says.

Random audit queries led to the recovery of more than R49 700 while amounts totalling R3,3 million pending recovery or adjustment, have been disallowed.

'Fraudulent'

Mr Wronsley says in his audit report for last year that a random check on the job creation programme revealed R99 976 had been paid to the Ennerdale management committee and "presumably used for wages in a fraudulent way".

A further R279 778 was involved in an alleged fraud by two officials, one of whom later resigned and paid back the full amount.

Over-payments in housing subsidies — now being recovered through monthly instalments — amounted to R183 965 and a further 8 183 cases are being investigated.

In hundreds of cases, people leasing official quarters from the administration have been paying old rentals.

More than R17 000 has been recovered from 59 lessees, but there are still arrears in 580 cases.

Over-payments on social pensions and allowances, the report says, are not getting adequate attention and repayments are unrealistically low: The outstanding debt went up from R6,4 million in March 1988 to R8,5 million in March last year.

Other irregularities highlighted in the report are:

- "Stocktaking has not been properly carried out at the administration's stores.
- "Apart from the alleged fraud involving job creation scheme money, theft and fraud amounting to R300 407 in 69 cases were reported during the year. The figure for the previous year was R116 610.
- "In several cases, higher salaries were paid to staff on the basis of forged school certificates ... involving R76 692 paid to three officials in the Department of Education and Culture and R10 953 paid to a Health Services and Welfare official.
- "Inadequate details on the accounts of the Development Fund and the Housing Fund prevented a proper audit being done."

UAL posts 41 percent rise in unit trust funds

Star 18/4/90 (58)

UAL Unit Trust Funds under management rose from R641,7 million to R906,7 million, an increase of 41 percent, for the 12 months ended March 31.

UAL Senior Manager Peter Anschutz says the rise was due to the increased sales of unit trusts as well as the capital growth of the portfolios under management.

Each of UAL's four funds showed positive inflows of funds after repurchases for the last quarter, and all funds other than the Gilt Unit Trust showed increased nett inflows over the previous quarter.

Cash holdings in the flagship UAL Unit Trust were increased to R86,6 million, representing 19,4 percent of the total assets. While the core holdings in the portfolio were retained, a residual investment in the gold sector through Vaal Reefs was sold and a further 265 000 shares in Samancor were purchased.

The UAL Mining and Resources Unit Trust benefited from management's decision to have a relatively low weighting in gold shares and heavy weightings in mining houses and base metals.

Pressure on liquidity levels, generated through the strong rise in the equity value of the portfolio, was eased through the sale of Iscor shares, which constituted two percent of the trust.

The managers took advantage of opportunities presented by volatile share prices and significant inflows from investors to consolidate the UAL Selected Opportunities Unit Trust further.

The UAL Gilt Unit Trust maintained a high level of liquidity (53,3 percent) to benefit from the continued tight monetary policy adopted by the Reserve Bank. Exposure to long-dated gilts was reduced and replaced with the conversion option into a South African Transport Services stock.— Sapa.

Cenprop asks unitholders for R65-m

18/4/90 (SS)

Centrecity Property Fund (Cenprop) is to make a rights issue of 20 new units for every 100 units held.

Unitholders who subscribe for new units at 240 cents each and continue to hold them, can expect total distributions during the 1990 financial year of 25,88c a unit, an increase of 26 percent over the the year to December 1989. The yield on the issue price represents 10,78 percent.

After the rights issue, Cenprop will have raised about R65 million which, together with its cash resources, will give it R110 million to enable it to proceed with planned developments.

The rights issue opens on Friday and closes on May 11. It is underwritten by UAL Merchant Bank. — Sapa

R47m fraud: Man convicted

CAL Trust 19/4/90 (28) 98

JOHANNESBURG. — The alleged mastermind of the R47-million Trust Bank fraud, Niko Shefer, 39, yesterday pleaded guilty and was convicted on four counts of fraud, three of forgery, three of uttering and one count of theft at the start of his trial in the Rand Supreme Court.

Shefer admitted he was part of a conspiracy, but said he was not the main instigator behind the scheme.

The portions of the indictment which were not admitted were that he deliberately cultivated former bank clerk Gotz Guntenhoner and persuaded him to take part in the scheme; that Shefer's common-law wife, Ms Tania Ross, and her brother Bradley, were co-conspirators, and that Shefer was the main beneficiary of the scheme.

It was admitted that Guntenhoner, who stood trial earlier, stole clearance vouchers and that a group of co-conspirators used the forged vouchers to buy assets such as Krugerrands and emeralds. — Sapa

Trust Bank fraud: Swiss hold suspect

Arg. 19/4/90 58

The Argus Correspondent

JOHANNESBURG. — The alleged mastermind behind the R47-million Trust Bank fraud has been arrested in Switzerland.

A South African Police spokesman said today Mr Stuart Pegg had been arrested by Swiss police on April 11 as he arrived at Geneva airport.

The SAP had a year ago asked Swiss police to be on the lookout for Mr Pegg, a former rally driver, who left South Africa in the wake of the R47-million fraud.

Mr Pegg has said he is innocent of the fraud but he has not fulfilled his promise, made last year, to return to South Africa voluntarily to prove his innocence.

Johannesburg commercial branch detectives are now working full-out to complete their dossier on the case.

LEGAL BATTLE

It will be handed to Witwatersrand Attorney-General Mr Klaus von Lieres, SC, who will start proceedings to have Mr Pegg extradited to South Africa to stand trial.

But it is not expected that Mr Pegg will arrive in South Africa soon as a protracted legal battle is likely in Switzerland if he contests extradition.

A former business associate of Mr Pegg, Niko Shefer, was yesterday found guilty of theft, forgery, uttering and fraud in the Rand Supreme Court in connection with the fraud. He had pleaded guilty.

He was also arrested by Swiss police and extradited to South Africa after a long legal battle.

Mr Pegg's estate in South Africa has been sequestrated by the Supreme Court.

The Bank's dilemma: between the market and the politicians

B/Day 19/4/90 (58)

HAROLD FRIDJHON

BANK-BASHING by the Reserve Bank — that is, squeezing the margin between the banks' cost of money and their "controlled" selling price — won't curb bank lending and the increases in the money supply. Abolish the ceiling on prime, raising the price of money (credit) to all borrowers, and the demand for funds will recede.

This is the essence of an article by Pierre Faure in the current issue of The Securities Market, a quarterly journal published by the Sechold Group "to promote a better understanding of the financial system and its markets".

The squeeze on the banks has developed with the growth of the market shortage — the extent of the banking sector's borrowing from the Reserve Bank — which has risen from a negligible amount in 1987 to R5.5bn in January 1990 when the banks' prime rates were quoted as 21%

The Reserve Bank's rediscount rates are 18%-18.3% for liquid assets, and on overnight lending on liquid assets 20.5%-21.25%, and 22,75% on various prescribed assets.

Because of the size of the shortage, banks, when all their available liquid assets had been used, were compelled to borrow from the Bank at 22.75%, with prime at 21%.

"A classical squeeze on margins," writes Faure. "Under such circumstances a bank's normal reaction is to raise its lending rates which ultimately would be signalled by an increase in prime."

An increase in prime has been frowned on by the Reserve Bank which wanted to maintain the squeeze on the banks' margins to force them to curb the growth in credit.

The Reserve Bank had indicated that the banks were making excessive use of central bank credit, and that the money market shortage largely reflected the high demand for bank credit.

But is this assumption correct?

Faure says no, and backs up his premise by analysing the elements which contribute to the shortage of liquidity in the monetary system.

Using figures derived from Reserve Bank monthly statements and to a lesser extent making estimates, he shows that the major causes of the shortage are:

☐ The huge pile-up of funds in government deposits, R8,4bn of which is cash siphoned out of the private sector;

☐ The increase in notes in circulation of R2.9bn, for which the banks must pay cash to the Reserve Bank; and

☐ The increase of R1,4bn in the banks' required cash deposits (interest-free) with the Reserve Bank which, Faure says "is the only factor which reflects increases in the demand for credit".

If the Reserve Bank had not granted an increase of credit to the government (largely to finance losses on forward cover transactions) and some net credit to the private sector to the tune of R7,4bn, the total shortage would have soared to R13bn.

The Reserve Bank is quoted as saying that to force the banks to curb credit growth it wishes to maintain the squeeze on the banks by its high rates at the discount window. This increases the banks' costs on the liability side of their balance sheets without permitting them to recoup these costs on the priced assets (mainly prime) side of their businesses.

This, Faure claims, is a fallacious argument. Monetary policy is aimed at determining the costs of money at the Reserve Bank's discount window which influences lending rates. Lending rates, in turn, influence the demand for credit and money supply.

"In SA's competitive banking environment, banks react to the demand for credit: they do not, and should not be expected to, determine or influence the demand for credit."

The central bank, by influencing the lending rates, should, by so doing, also influence the borrowing rates. If the rates prove too low, the level must be adjusted.

"It cannot be expected of banks to curb credit growth. Banks are in the business of granting credit.

"They do not willingly give up clients to their competitors — client relationships are built up over a period of years."

The squeeze on the banks has several undesirable results, says Faure.

☐ High deposit rates stemming from the Reserve Bank's high charges at the discount window encourage blue chip companies to borrow at prime from their banks and to lend these funds at high rates to other banks. This "round-tripping" inflates bank balance sheets and is recorded as an increase in the stock of money in one balance sheet, and an increase in credit in the other.

☐ The squeeze on bank margins could affect their profitability, which could influence overseas banks when extending credit lines to SA banks.

☐ The widening of the differential between prime and other lending rates to non-blue chip companies and to individuals could strain banker-client relationships.

☐ A prolonged squeeze on the banks would lead to their seeking longer-term deposits and could affect future decisions to reduce prime. This could be contrary to the wishes of the monetary authorities.

☐ The volume and quality of bankers acceptances (BAs) could be affected. To reduce the cost of borrowing at the Reserve Bank's discount window, banks create greater amounts of BAs, encouraging smaller companies to use BA facilities rather than loan finance

☐ The increased demand for liquid assets in preference to non-liquids tends to widen the differential between these two assets. As open market operations are conducted in liquid assets, this could be prejudicial to central bank open market operations with the non-bank private sector.

☐ The present style of monetary policy could lead to strained relationships between bankers and the central bank The banks have an accepted obligation to assist in the execution of monetary policy but they cannot be expected to operate indefinitely at a financial loss at the margin without readjusting the prices of their assets.

And that really means raising their prime rates. Faure quotes from the report of the De Kock Commission "that each bank be allowed to determine its own prime overdaft rate in response to market forces and in competition with other banks".

Faure's arguments are irrefutable, except for one flaw: he has ignored the sad truth that in SA, political expediency overrides market-based considerations when monetary policies are formulated The record of monetary policy has been, consistently over the years, one of timidity, too-little-too-late, so as not to rock the political boat.

The authorities when pushed have always leaned towards controls rather than to the disciplines of the market, with the result that players in the controlled, or partially controlled, markets have had to devise ways and means of bucking these controls, distorting the market place even more.

If the Reserve Bank were to follow the recommendations of the De Kock Commission and relinquish its control on prime, the politicians would rebel because higher rates would affect their constituencies at the margin.

LETTERS

Freeing of prime rate discussed

Banks in bid to stave off new clamps

(58)

B/Day 19/4/90

GRETA STEYN

A CRIPPLING squeeze on banks' margins and the possibility of freeing the prime overdraft rate — allowing it to be entirely market-determined — were discussed at a meeting between Reserve Bank officials and bankers in Pretoria this week.

In an effort to ward off a damaging hike in their cost of funds, banks are trying hard to persuade Reserve Bank Governor Chris Stals to change his mind on the latest move to tighten the monetary screws.

The Bank has not yet given its final word on the plan to force banks to bring certain off-balance-sheet transactions back on balance sheet. The move, if implemented immediately without a phase-in period, could knock bank profits by about R160m.

If the Bank goes ahead, margins will suffer as banks have to top up expensive cash and liquid asset reserves held against their balance sheets.

The new squeeze, and the possibility of letting the prime overdraft rate become entirely market-determined, were discussed at a confidential meeting between merchant bankers and monetary officials this week. Bankers who attended the meeting were tight-lipped, as negotiations with the Bank are at a delicate stage.

But talk is that they presented the Bank with a response to the plan that their off-balance-sheet repurchase agreements (repos) be moved back on balance sheet.

They made two points: firstly, they believed the crackdown would not succeed in curbing credit growth. Their view was that a bank's business was the extension of credit and it could not stop lending if its margins were squeezed. The only way to stop lending, they said, was to raise interest rates. Within this context, the possibility was discussed of freeing the prime overdraft rate to reflect demand and supply of liquidity in the market.

Bankers are considering the consequences of such a move and are expected to report back soon to the Reserve Bank.

Stals has been a staunch advocate of putting margins into a vice-grip to compel self-restraint among banks. It forces them to tighten credit criteria and to charge realistic interest rates.

The second point the bankers raised at the meeting was the negative effect the new crackdown would have on the market. The volume of trade in securities would be seriously affected, they said, and the market would become less efficient. In a worst-case scenario, they believed, the Bank could "kill" the market.

Meanwhile, jitters in anticipation of the squeeze have put upward pressure on interest rates in the money market. The discount house call rate is at 19,50%-19,75%, with dealers saying this was up to a percentage point higher than current liquidity conditions warranted. Rates on Negotiable Certificates of Deposit are about 20 points higher.

The size of the off-balance-sheet "repo" market is estimated at R8bn-R12bn — about 8% of the total money supply. These transactions are not included in the official money supply and credit figures. They will go back on balance sheet in terms of the Deposit Taking Intermediaries Bill, which should become law later this year.

However, Stals has said he wants to implement the move immediately as part of monetary policy to curb credit growth.

One of the spin-offs of the move would be higher money supply and credit figures — a statistical adjustment to previous data would be necessary.

● See Page 4

Judge convicts 'mastermind' Trust Bank defrauder Shefer

STAR 19/4/90

By Cathy Stagg

The alleged "mastermind" behind the R47 million Trust Bank fraud, Niko Shefer (39), yesterday pleaded guilty and was convicted of theft, forgery, uttering and fraud at the start of his trial in the Rand Supreme Court.

Shefer was described in evi dence in mitigation as a man with a genius-level IQ but who felt inadequate and overcompensated by being a braggart.

Shefer pleaded guilty to 11 counts on the indictment relating to the loss of R47,3 million by the Trust Bank of Africa Ltd during March last year.

Although each crime was admitted, Shefer's counsel stressed his client had taken part in them as part of a conspiracy and had not committed each offence personally — nor was he the main instigator.

Mr Justice M S Stegman convicted Shefer as charged.

The court heard Shefer was arrested in April last year and was extradited from Switzerland in December. Since then he had been in custody at Diepkloof prison and had assisted the SAP. He had given valuable information which might lead to the recovery of more gold coins and the arrest of other co-conspirators whose identities were not generally known.

Krugerrands

According to the indictment, the money defrauded from the bank was turned into assets which included Krugerrands.

Mr J Rink, a clinical psychologist, said Shefer was born in Equador. His father was a veterinary surgeon with influence in the government but was not financially successful. The family presented a well-to-do facade thanks to contributions from Shefer's maternal grandparents. Shefer's sister, eight years older than he, was exceptionally clever and overshaddowed him.

His parents divorced when Shefer was about 13 and he went to live in the USA. His father began a plastics business and when he died, alone and bitter, Shefer returned to Equador to run it but it went insolvent.

A job offer brought him to South Africa and he moved to Sandton, where he felt relatively deprived in the materialistic environment. He worked for a company involved in "sanctions busting" and learnt to falsify documents and to use Swiss bank accounts.

The hearing continues.

CAT TMF 20/4/90

Stuart Pegg arrested in Geneva

Own Correspondent

JOHANNESBURG. — Swiss authorities have arrested South African businessman Mr Stuart Pegg who is wanted for his part in the R47-million Trust Bank fraud.

He was detained in Geneva on April 11.

This week co-accused Niko Shefer was found guilty in the Rand Supreme Court for his part in the fraud. He was extradited in December last year.

Mr Pegg — a Springbok rally driver — was involved in the Information Scandal about 10 years ago. His estate has been sequestrated during his absence.

Life assurers to comment on valuation

LINDA ENSOR

THE State Actuary has distributed draft regulations for the valuation of the assets and liabilities of life assurers to the industry for comment.

Formulated in part by the financial soundness committee of the Actuarial Society of SA, the regulations — when in final form — will append the new Insurance Bill. It is thought unlikely that they will have a material effect on the balance sheets of life assurers.

State Actuary Piet Robbertze said the valuation proposals introduced greater flexibility in the valuation of assets, allowing for differences in the financial structures of life offices.

For instance, not all insurers had the same rate of interest, so prescribing one in the Act was not feasible. The proposals were more in line with international trends, he said.

In terms of the draft the actuary would have to value both assets and liabilities and would have to undertake a cashflow forecast to obtain a total and realistic picture of the company's financial soundness.

Assets and liabilities would have to be matched, the investment policies of the assurer evaluated and the expense ratio examined.

Another key change is to broaden the regulations to cover equity-linked and universal policies, uncovered by the existing Act.

Time Life CE Bill Haslam found the proposals for valuating the liabilities of equity-linked policies inappropriate.

The Actuarial Society has, Haslam said, endorsed the view that these proposals were not actuarially sound, seeing them as temporary measures until principles relating to financial soundness valuations were developed.

More rationalisation in finance services sector

NEIL YORKE SMITH

INADEQUATE economic growth and the importance of economies of scale will ensure continued rationalisation of the financial services sector, say analysts.

Smaller companies in particular were expected to experience an increase in mergers, acquisitions and closures because they could not rely on economies of scale, especially where technology was concerned.

"Also, to maintain a thriving financial services environment the economy needs growth of 5% to 6% a year," said an analyst.

"Instead average growth over the past few years has been below 2%."

Too many players chasing too few skills and an inadequate infrastructure made rationalisation necessary, said a financial services consultant.

Sources were sceptical about the need for so called "bucket shops" in the market.

"Few do traditional lending business. They make most of their money from trading operations," said one.

Industry players welcomed last year's rationalisation. which included a number of mergers and some disposals.

Cape Investment Bank (CIB) acquired Corbank in February. Expected benefits include the strengthening of Corbank's asset base and CIB's entry into new markets like foreign exchange dealing.

Management consultancy based group Columbia sold many investments to concentrate on its interest in rural retailer Acrem.

This type of activity is likely to continue this year, analysts said.

Pension fund options viewed

DURBAN — Pension funds should be allowed to invest in unconventional avenues — like housing schemes for lower-income groups — provided their solvency is not put at risk and the schemes are expertly managed, it has been suggested.

This was one of the main points made yesterday by Japie Jacobs, special economic adviser to Finance Minister Barend du Plessis, who delivered the keynote address to the Pensions Institute of Southern Africa congress.

Jacobs also said:

- Du Plessis had called for private sector nominations to a proposed standing advisory committee on the pensions industry;
- Government was ready to review prescribed investment guidelines relating to the pensions industry — and had called for private sector input; and
- The net investment in equities by the pension funds still stemmed largely from the secondary market.

Referring to calls on pension funds to invest in low-cost housing, Jacobs said it would be unsound to score short-term gains at the expense of future sacrifices.

Our correspondent reports that Bobby Godsell, director of industrial relations and public affairs at Anglo American, told the congress unions were no longer opposed to the concept of providing for retirement. A realistic amount of money earned had to be set aside in some form of scheme.

The door was wide open for trade unions that were open to making provision for old age. — Sapa.

Insurance scheme deemed to be a harmful practice

BDay 20/4/90 LESLEY LAMBERT (58)

CAPE TOWN — Findings by the Business Practices Committee that the Set for Life Insurance and Marketing cc was a harmful business practice which should be declared unlawful, were tabled in Parliament yesterday.

A report, which included the findings of an investigation into the close corporation, was submitted after an order in the Government Gazette prevented it and its MD John Drinkwater from marketing the scheme.

Set for Life was marketed as an insurance scheme which offered indefinite security, supplementary income and substantial financial rewards for participants and sales agents. It alleged that participants could earn monthly commissions of up to R29 112.

The committee, chaired by Louise Tager, found consumers were deceived or likely to be deceived as to the likelihood of getting the potentially huge sums advertised.

20/4/90

It found that for one agent to earn the potential R29 112 monthly income, a total of 5 460 transactions worth R546 000 would have to be concluded a month month. Between June 17 and August 6 1989, after which it was suspended, 1 972 transactions (R147 900) were concluded.

By mathematically linking the potential income to the number of additional participants, the scheme was similar to a lottery and to other schemes which were offences in terms of the Gambling Act, the report stated.

The committee found the scheme constituted an unlawful practice and could not be justified in the public interest and recommended it be declared unlawful.

The Business Practices Committee was established in 1988 to investigate "get-rich-quick" and other investment schemes which were assumed to be harmful and not in the public interest.

NATAL UNREST DEATHS

September 1987 — January 1989:........668
February 1989 — April 18 1990:........923
Past 24 hours' official toll:........5
TOTAL:........1 596

Banking shares hit by fear of squeeze

(58)

B/Day 20/4/90.

GRETA STEYN

BANKING shares weakened further yesterday and capital market jitters intensified in continued bearish response in the markets to the proposed squeeze on banks.

The banking index was down 18 points to 1 415, almost 16% lower than in January.

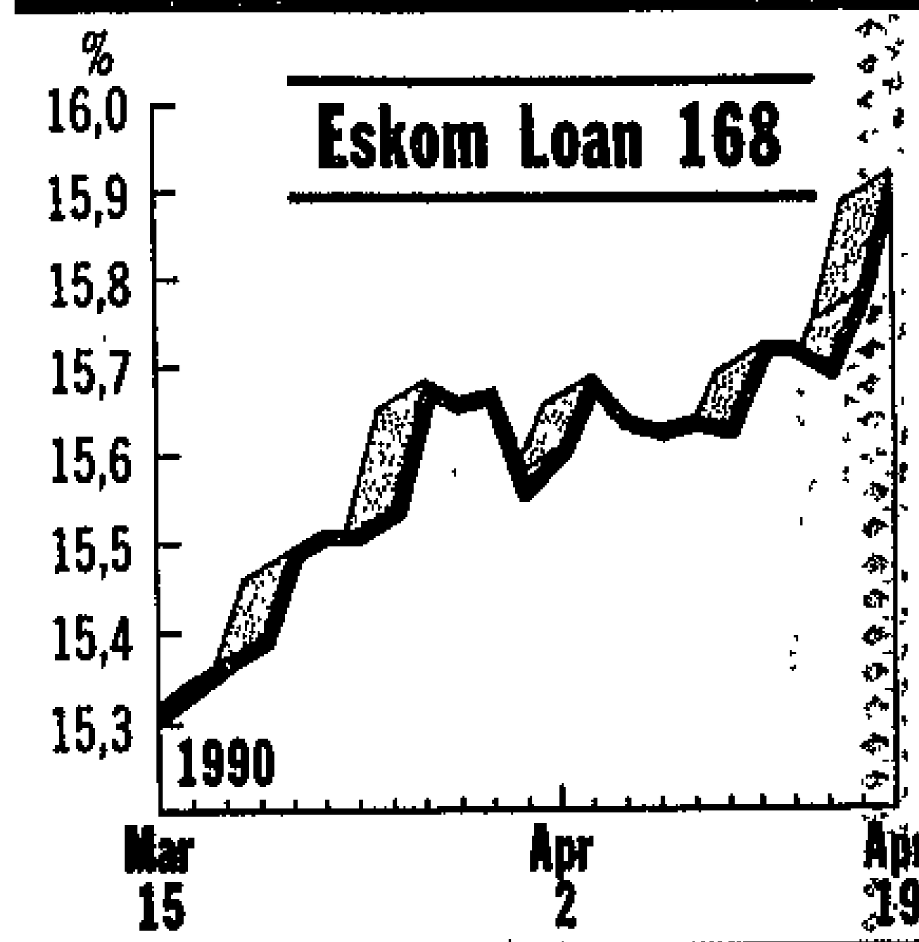
Standard Bank lost 50c to 2 575c yesterday, sharply down from its February peak of 3 275c, while Nedcor lost a further 5c to close at 945c. Sentiment has spilled over to some building society-related shares with blue-chip UBS losing 15c to 575c.

First National Bank, however, closed unchanged at 2 425c. The banking group, expected to release excellent results next week, is emerging relatively unscathed from the monetary squeeze imposed by the Reserve Bank.

The Bank is considering tightening the squeeze by compelling banks to move certain off-balance-sheet transactions back on balance sheet.

Senior GM Jimmy McKenzie said First National had only a small involvement in the off-balance-sheet market. Talk is that FNB is sitting on surplus cash that it is lending to banks battered by the relentless squeeze on margins.

McKenzie said: "We have restrained our asset growth to about 15% over the year, which is close to what the Bank wants. It should be obvious that we are relatively comfortable."



Graphic: FIONA KRISCH Source: STANDARD BANK

Other bankers said the squeeze might be painful but they believed it was part of the fight against inflation. It was a serious effort to arrive at "more correct" money supply figures.

However, they were unanimous in calling for an end to the link between prime rate and Bank rate.

Meanwhile, rates in the capital market yesterday resumed the upward bias started earlier this week as the full impact of

☐ To Page 2

Banking shares

B/Day 20/4/90 (58)

☐ From Page 1

the proposed measures hit the market.

Lending further impetus to the bearish trend is the inverse yield curve — the fact that long-term rates are too low in relation to money market interest rates. Trade is thin against the background of a volatile political scenario and uncertainty over the Reserve Bank's moves.

The yield on the bellwether Eskom Loan E168 has gained about 20 points this week, but yesterday's move was a modest five points in a thin and nervous market. It closed at 15,915% compared with 15,3% little more than a month ago.

But the upward movement will probably be constrained by the lack of paper in the market. A decision by the Reserve Bank not to outlaw off-balance-sheet transactions in one fell swoop could also have a positive impact. The Bank has not yet committed itself in writing to the plan.

BUSINESS DAY

Equities bearish for now — expert

BDay 26/4/90

LINDA ENSOR

THE short-term outlook for equities seemed bearish, Old Mutual investment chief Johannes van der Horst said in Durban yesterday.

Speaking at the annual congress of the Pensions Institute of Southern Africa, Van der Horst said the slowdown in earnings growth and continuing high interest rates carried a downside risk for equities, especially gold shares, which looked expensive.

High interest rates made the opportunity cost of investing in equities very expensive and, said Van der Horst, share prices could come under some pressure as interest rates were expected to remain high for a while.

"With the economy likely to slow down further, company profits are expected to come under pressure, which may lead to a weakening in share prices.

"However, we don't expect the downswing to be as severe as it was during the mid-1980s," he said.

Other bearish factors were continued political uncertainty and high levels of labour disruption.

Finally, Van der Horst said, severe declines in vulnerable world markets, particularly Japan, were possible and — if they occurred — could flow over to the SA market.

However, there were several bullish factors balancing the negative trends.

SA appeared to be under better fiscal and monetary management, improving the prospects for economic growth.

"Another positive factor is that the SA market is not expensive by world standards," he said.

"Institutional cash flows, expected to reach R25bn in the current year, continue to grow strongly and serve to underpin the market. To this must be added any new investment in equities by government and quasi-government pension funds."

Van der Horst expected the new investment regulations to result in most pension funds increasing their equity exposure over time, lending support to the market.

The single most important variable was the rating of shares.

"We will have to see whether we have entered an era of higher p:e ratings in line with international markets, or whether history will repeat itself and the market be derated."

Guidelines

Our Durban correspondent reports that the rules governing how pension and retirement annuity funds could invest their money came under fire from Van der Horst.

He said the system should provide that actuaries and fund managers be given the responsibility to decide where the money should go, rather than be regulated by rules or guidelines made by the Registrar of Pension Funds.

Since the prescribed asset rules were changed last year to provide for maximum investment limits, the industry had had to work to certain ceilings and there were some serious flaws, Van der Horst said.

Rates go haywire as dealers demonstrate

GRETA STEYN

DRIVEN slightly crazy by the Reserve Bank's proposed crackdown on banks, capital market dealers yesterday quoted absurdly high interest rates — or nothing at all — during 45 minutes of morning mayhem. B/Day 20/4/90

Fear that the Bank's plans to outlaw off-balance sheet deals would wipe out trade in the bond market inspired black comedy. Ridiculous rates of 21% conveyed the dealers' message — "don't kill the market".

The temporary eccentricity was a hastily planned demonstration to register dismay over the Bank's planned moves. Dealers that did not scale heights of absurdity with their screen prices preferred to down tools and quote nothing at all.

Asked what they had hoped to achieve with the unprecedented demonstration, a dealer said: "It was just a bit of light relief amidst all the talk of gloom and doom awaiting the market. We wanted to 'play dead' to show what we felt would happen if the Bank went ahead with its plans.

"Seriously, some of us are worried we might become casualties in the war against inflation."

Originally, the protest had been planned to last for an hour but one bank became impatient and started quoting realistic rates, bringing the demonstration to a premature end.

Nonetheless, remarkable solidarity was displayed for about 45 minutes — in spite of the fact that some banks are not being hit as hard as others by the proposed move.

The dealing community is increasingly developing a voice to let regulators of the market know how they feel about new rules. Recently, their strong feelings about the bond and futures traders' exams led to a rethink on the format and relevance of the exams.

Boardprop in R40,4m rights issue

NEIL YORKE SMITH

BOARDPROP, a property investment company in the Board of Executors stable, is to raise R40,4m through a rights issue, it announced yesterday.

The additional capital is to be used to enhance the group's property portfolio.

A Board of Executors securites spokesman said: "The offer will increase Boardprop's capitalisation to over R100m and put it in an excellent position for an organisation of its type."

Of the amount raised, R30,7m is to be used to acquire new properties and refurbish an existing one, R8,8m will be retained for future investment, with the balance used to cover expenses of the offer.

Boardprop has a broad investment base, holding a spread of commercial, industrial and retail properties.

Industry sources said the offer would probably be well received, given the quality of Boardprop's portfolio and its good relationship with institutional investors.

Linked unit property companies were coming into their own as an investment medium. There was strong support for those groups who were big enough to structure well balanced portfolios, they said.

In terms of the offer 7,3-million new linked units, each constituting an ordinary share of 5c and an unsecured variable rate subordinated debenture of 495c, will be offered to existing holders at 550c a new linked unit.

Existing unit-holders will be offered 60 new units for every 100 already held.

Last day for unit-holders to register for the offer is Friday May 4.

Bank's move expected next week

Finance Staff

The Reserve Bank will announce details of its measures, to curb credit expansion by the commercial banks, early next week, a Bank spokesman said yesterday.

While the Bank has not yet specified details of the plan, banking sources believe they will be forced to move certain off-balance sheet transaction back onto the balance sheet.

The Bank could also announce an easing of the link between its Bank rate and prime rates.

The expected regulations on off-balance sheet financing, which could cost the banks up to R160 million in profits, have been widely resisted, but have depressed the share prices of most banks over the last few weeks.

The banking index has declined by almost 16 percent since January. Standard Bank dropped by 50c yesterday to a close of R25,75, bringing its losses since February to 700c. Nedcor shed 5c at 945c.

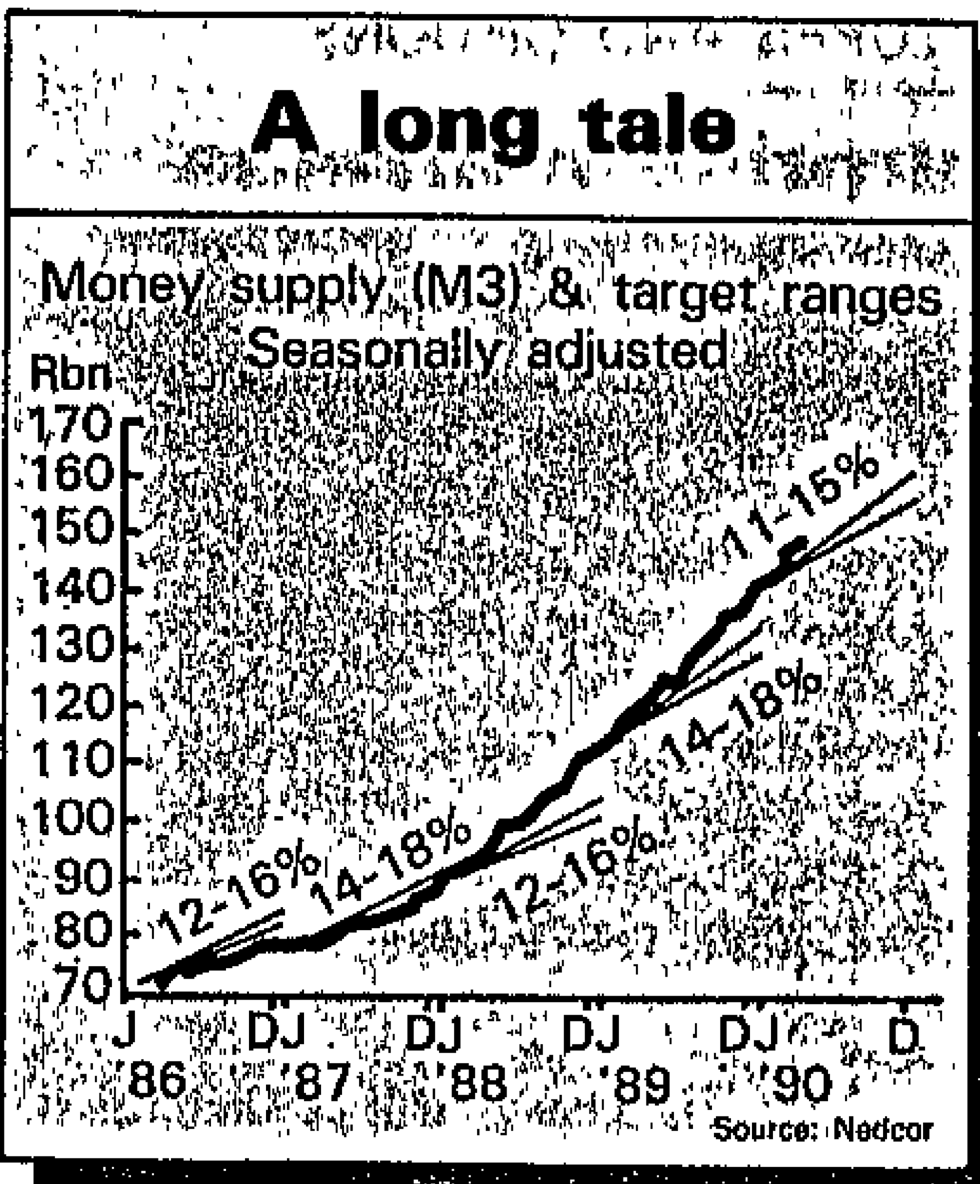
However, First National Bank has been trading steadily at around R24 over the last few week, as it could emerge fairly unscathed from the measures since it has limited off-balance sheet transactions. FNB will release its results next week.

The capital market has also been upset by the expected moves, which could significantly upset trade in the bond market. The rate on the long-term Eskom E168 has risen by about 20 points this week to 15,9 percent.

In a conserted action at noon yesterday, dealers stopped trade or quoted ridiculously high rates for 45 minutes to protest the planned moves.

is distorted by disintermediation, when transactions move off banks' balance sheets and are not recorded in money supply figures, and reintermediation, when they flow back and create a sudden surge in M3.

Since the introduction of targeting in 1986, growth in M3 has almost entirely eluded each year's targeted range (**see graph**). In the first two years, it consistenty underper-



formed, only occasionally scraping the lower level of the cone representing targeted percentage growth; and in subsequent years it substantially overshot the mark.

It is generally believed that, in the first phase, this was due to the low level of confidence which kept the economy depressed despite attempts by the Bank to stimulate growth with artificially low levels of interest rates. And that, in 1988, the surge flowed from a sudden revival in demand and the failure of interest rates to keep pace. While in 1989, it is seen as the overhang from the lax monetary policy in 1988.

Meijer has a different view. "It is the result of constant disintermediation and reintermediation. If you take out velocity changes, we were almost fully on target. The difficulty not foreseen was the unpredictability of velocity. If we could have predicted velocity changes we would have allowed for them. As we couldn't, we have to accommodate whatever happens to velocity."

Nedcor chief economist Edward Osborn comments: "Adjustment by velocity of circulation simply gives nominal GDP figures, which are predictably within the cones — in fact, they are largely the basis for establishing the cones."

Latest example of the complications experienced is the possible restatement of all figures to include repurchase agreements, which banks have recorded off-balance sheet and are now likely to be brought above the line. Though the trend is not expected to change substantially, the absolute level of M3 will be significantly higher.

The authorities are clamping down on much grey market activity (disintermediation) which involves banks in a broking role but they will find it much harder to restrict lending which is not channelled through financial institutions.

To avoid consequent distortions in money supply growth figures, there may be a switch in the targeted aggregate. When he announced the new 11%-15% range for the year, Bank Governor Chris Stals hinted at a change of emphasis. He said the authorities would monitor not only M3 but other indicators including other monetary aggregates.

Other options most frequently suggested are:

□ M1A, which encompasses all means of payments — public coin and note holdings and transmission accounts; and

□ M1, which includes other types of demand deposit and M1A.

These measures, which include only notes and coins and deposits of up to 24 hours, are less likely to be affected by ebbs and flows to and from the grey market — though they are not entirely immune to it because grey market activity includes overnight call funds.

Another option is M0, which some economists argue is the only aggregate within the control of the Central Bank. It is the monetary base — higher powered money — and is qualitatively different from other measures because it includes not only notes and coins held by people to spend, but also money held by banks and building societies and balances held by the Bank.

This measure is tracked by the Bank, says Meijer. Though figures are not published, they are available.

One weakness of the aggregate, says Meijer, is that it has no lead characteristics but simply reflects what has already happened. M1A, he says, has proved to have more leading characteristics and relates more closely to the real economy. But "at the moment, the best policy is to extract information from all aggregates."

Osborn says: "Conceptually the most appropriate measure is M3 because it is the aggregate influenced by major exogenous factors, such as BoP transactions, exchequer account transactions and open market operations. However, it could be distorted by disintermediation and reintermediation. Other measures will be subject to distortions from the same and other factors.

"My feeling is, all this underlines the difficulty of handling money figures at any time and the danger of placing too much reliance on month-to-month variations. I agree that all aggregates should be assessed. I would make one appeal: the Bank desists from publishing preliminary figures, for they are invariably misleading." ■

COMPANY CARS

Swap and drop

Senior executives who gained on the swings of the Budget tax breaks will soon be losing on its roundabouts. They no longer pay tax on dividend income, but any gain could be offset by changes to taxes on fringe benefits. From May 1, the taxable value of company cars is to rise by half and the official rate on employer-supplied loans from 16% to 19%.

The net result for affected individuals will depend on the mix of their income package.

Price Waterhouse's Peter Botha looks at a man with a non-working wife, two children, and gross salary of R100 000 in the tax year ending February 1990 and R115 000 to February 1991. He also has a Mercedes 200, worth R90 000, and an approved housing loan of R100 000 at 5%.

He is a non-contributory member of a medical aid and puts 5% of his salary into a pension fund. He also earns R4 500 dividends, of which R3 000 was taxable in 1989-1990 (**see table**).

His take-home pay will, in nominal terms, increase from R60 107 in 1990 to R68 635 in 1991 — just over 14%. CPI rose 14,9% in the year to February. In the year ahead, it's unlikely to do much better and could do worse. Despite the one percentage point decline in top marginal tax rate to 44%, he will lose ground to inflation, unless his dividend income rises enough to compensate.

The earlier table of car values, which applied since June 1, represents only 50% of the benefit. The new proposal will raise this to about 75% of the full, real benefit.

This is to be fully taxed as soon as possible. Completion of phasing-in would reduce our executive's net income (annualised) to R65 074, which would be an increase of only 8%.

The value of company cars is calculated on cost price combined with engine capacity.

If executives are prepared to swap cars, says Deloitte Haskins & Sells' Willem Cronje, they can reduce tax payable. If a car changes hands its value falls by 15% a year. ■

MONEY SUPPLY

Good measure

Despite last month's publication of new M3 growth targets, the role of this broad monetary aggregate is in doubt. M3 was chosen for targeting, says Reserve Bank economics chief Jaap Meijer, because it includes long-, medium- and short-term deposits, demand deposits, cheque and transmission accounts and notes and coins in circulation. This makes it less vulnerable to internal changes which come about when funds are moved between longer- and shorter-term deposits or different types of account.

However, the official view now is that M3

REDISTRIBUTION

Sharing SA's wealth

■ Here are some practical, helpful suggestions. Nationalisation is no answer

Late-April and early-May could be crucial for SA. From April 28, 60 ANC economists and economics advisers will be at a four-day pow-wow in Harare to advise the organisation's leadership. On May 2, Nelson Mandela leads his delegation to talk to President F W de Klerk.

Basically, the ANC and other liberation organisations are at one with the people and business in wanting a redistribution of wealth for the under-privileged black majority. Trouble is that most proposals are pretty nebulous, remain enmeshed in the ideologies of Left and Right, or seek to promote vested interests. Few address the contention that wealth redistribution is possible only in a growing economy.

The debate must focus on how best to get high growth. Until now, ANC policy statements have owed more to Sixties rhetoric of liberation movements and the Freedom Charter than to economic realities. In contrast, many of the business sector's policies smack more of charity than of contributing towards an environment in which black incomes and wealth can move ahead strongly.

Both appear to be founded on the notion that a quick fix can do the trick — whether it be nationalisation or throwing millions of rands at social upliftment schemes. And both start to founder on dogma. The ANC's colours remain firmly nailed to the mast of nationalisation, while business maintains that greater State ownership will lead to the economic shambles of eastern Europe.

If anything is going to work, it has to be appropriate to our resources. SA is not a basket case likely to struggle from one dollop of foreign aid to the next. But nor is it likely to be a prime target for foreign investment, even were sanctions lifted immediately. The West is preoccupied with rebuilding Europe's collapsed socialist economies and will tend to avoid a country where the rhetoric of black empowerment is synonymous with nationalisation and where potential entrants to the local market are likely to be dissuaded by the clout of existing operators.

We have to achieve our economic miracle largely through our own efforts. We should be able to count on technological inputs from abroad along with foreign loan finance as we cease to be a pariah nation. But we are unlikely to see large-scale industrial development based on inflows of foreign equity.

We already have legal structures which guarantee ownership of property, even if laws such as the Group Areas Act are racially skewed. It must be scrapped soon but most other legal changes should be directed towards facilitating wealth creation and redistribution — designed to promote equal access to economic opportunities.

We also have appropriate organisations, particularly the black unions, with the muscle to win larger shares of the economic cake for their members. In turn, that implies businesses will have to take the reality of redistribution into account rather than simply paying lip service to the concepts of equality.

The danger is that unions which back the ANC could suffer the fate of, for example, their counterparts in Zambia — emasculation and subservience to the party which restricts their ability to enhance members' positions. Anglo American's Michael Spicer subscribes to the concept of union representation on boards or inside corporate management structures. But as he points out, there is little to be gained if union representatives are committed to the destruction of capitalism.

Development Bank of SA special adviser Freek van Eeden points to one appropriate change — lifting restrictions on subdivision of agricultural land. He takes the pragmatic view that peasant farming is an efficient means of generating wealth for large numbers of comparatively ill-educated rural blacks. But they cannot acquire land unless some large white-owned farms can be subdivided into smaller, more-manageable plots.

It worked in Zimbabwe, even though the rest of that economy is creaking to a halt. And some other policies appropriate for Zimbabwe seem appropriate here. The Zimbabwean government did not succumb to the temptation of subsidising townspeople by artificially restraining food prices — rather, it allowed market forces to determine prices.

Of course, it worked but only with the [illegible] of State intervention on another level. Agricultural extension services in place since the days of Southern Rhodesia were built up to provide farmers with the infrastructure needed to get produce to markets; extension services also concentrated on developing appropriate business and agricultural skills; encouragement was given to peasant cooperatives, which led to joint ownership of relatively costly farm implements; and [illegible] availability was ensured so that small farmers could afford inputs such as fertiliser.

It worked, in contrast to Zimbabwe's for

Appropriate technologies and small-scale developments ...

FM 20/4/90 (58)

BANKING

Pricing the product

■ Stals's latest move could wrap up his policy package

If Reserve Bank Governor Chris Stals opts to free the prime rate at which banks lend to customers from Bank rate — the official rate the Central Bank charges at the discount window (see "Skinning a cat") — much of what he has done in recent months will fall into place.

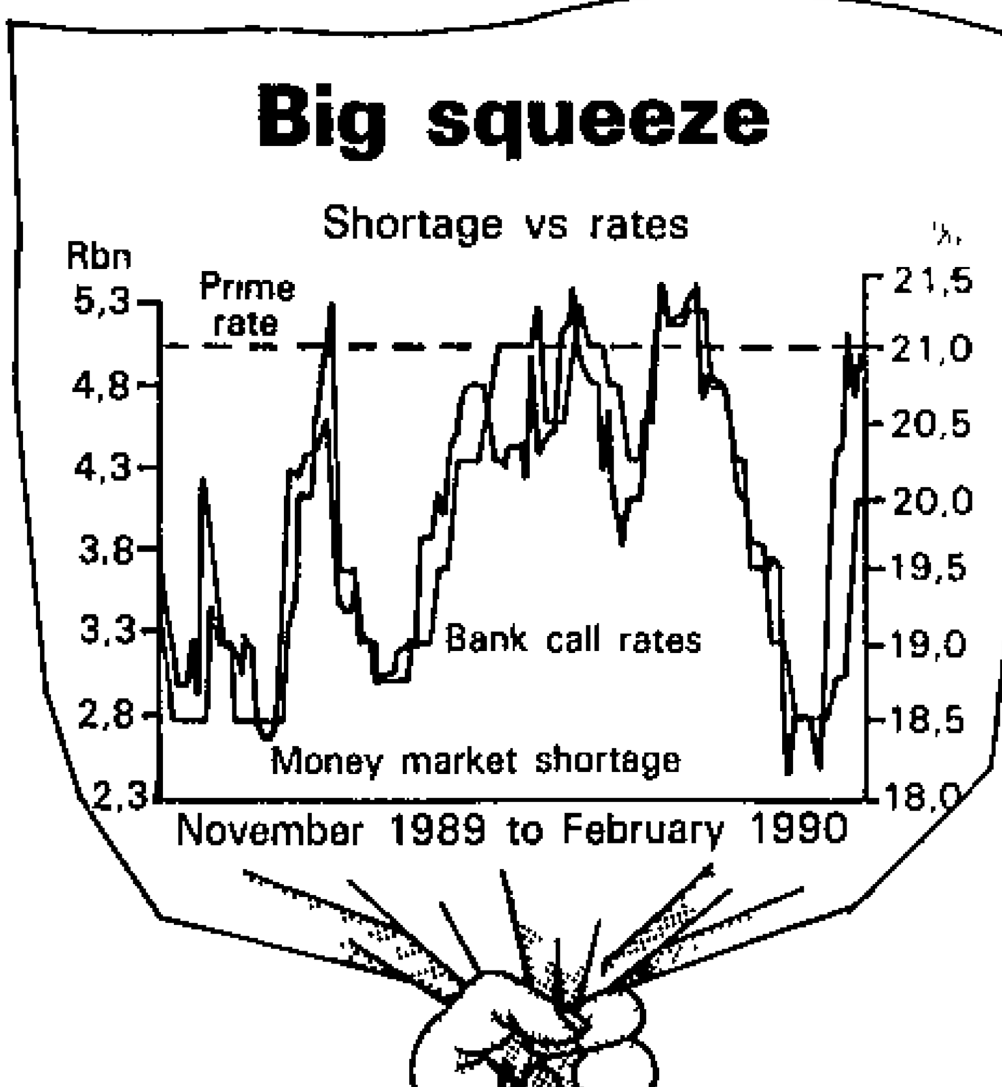
A surprise one percentage point increase in discount rate, to 18%, in October established his credibility as a central banker intent on coming to grips with inflation. But of late he has caused some confusion; while no one doubted his objectives, bankers and observers were puzzled by his means.

He has maintained a stiff penalty rate at the discount window since October, so banks which ran out of liquid assets and borrowed against the security of prescribed assets have had to pay 22,75%. To give this maximum effect, he created a huge shortage in the money market. The month-end shortage, the extent of the Bank's accommodation at the discount window, was already over R3bn by August. Towards the end of 1989 it soared. It has topped R5bn several times this year and has never been under R2bn.

The surge came when higher exchequer revenues and lower government spending sucked money out of the system. At the same time, Treasury, via the Bank, raised far more in the markets than was required to finance government spending. Revenue flows to exchequer account so far exceeded expectations that R754m appropriated from this year's surplus after borrowing was channelled into the stabilisation account. Another R1,8bn was paid directly into that account solely as a monetary policy measure.

These were the first allocations to stabilisation account since fiscal 1982-1983, says Nedcor chief economist Edward Osborn. "In 1980-1981, R1,2bn was allocated to it, and R1,1bn two years later."

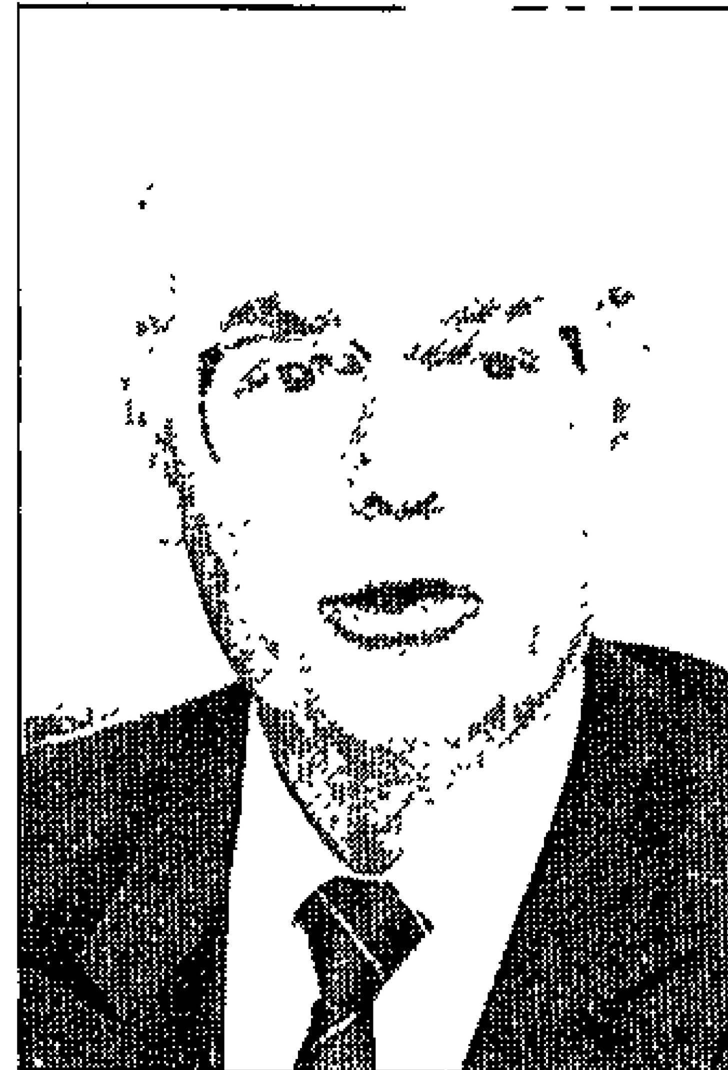
The recent outflows have forced illiquid banks to borrow a greater proportion of money at penalty rather than discount rate.



To what extent this has reduced lending is not clear. In Sechold's latest *The Securities Markets*, editor Pierre Faure argues: "It is the cost of money at margin that is important to banks. A high money market shortage at a given Bank rate is the same as a low shortage at a higher Bank rate."

But while Stals is keeping a tight rein on the market, he has not moved discount rate again. Though the banking sector as a whole has continued to exceed the monthly average 1% growth in credit extension requested of it, he has made it clear no immediate increase in discount rate can be expected.

He has told bankers to put up the price of loans not linked to prime, but this is of limited help. First because much of their portfolios are based on prime; and secondly because, without an official signal, competing banks hesitate to be the first to move.


Strauss

So, at certain points, seasonal outflows of money have forced banks to borrow money at higher interest rates than they earn. As an alternative to the discount window, they have turned to the market, pushing the price of call money over 21% on occasion. Clients have thus been able to borrow at prime and lend to other banks at a profit. This round-tripping has distorted money supply figures and is responsible, in part, for the big increases in M3 in the first months of the year.

And it's played havoc with bank margins.

The latest development is Stals's suggestion that certain transactions, previously off-balance sheet, be brought above the line. This will effectively increase reported liabilities to the public, so will affect cash reserve and liquid asset requirements.

From a prudential point of view, this is wise. As an instrument of monetary policy it could be effective. But by increasing banks' cost of funding and scraping even more off margins it will hit profitability.

It will also open the grey market to non-banks, which are not subject to as much regulation. In a keenly competitive market, banks will have to contend with outsiders who can operate on much tighter margins because of lower capital and other requirements. This is to be remedied by new legislation, which will define deposit-taking more specifically. But if banks have to redefine certain transactions ahead of the legislation, an attractive gap will open up to others eager to broke in the inter-company market.

Banks, already operating in a hostile environment, are unhappy at the prospect. Standard Bank Investment Corp MD Conrad Strauss points out that banking has not been particularly profitable of late. Though the bottom line may sound impressive, it is not the crucial number. What counts most is return on equity.

Banks, he says, "are not generating enough profit to provide shareholders with a real return on investment and, through retentions, support real growth in assets. As a rule of thumb, return on shareholders' funds should be equivalent to the growth rate in assets, plus 30%. Given three times dividend cover and a ratio of capital to total assets of 4%, and with 15% inflation, a bank needs a return on year-end shareholders' funds of almost 21% to be self-funding.

"No SA bank comes near that, which is why some have to ask shareholders fairly often for additional capital to fund growth. This is unhealthy in the longer term."

The fundamental problem is that inflation has dried up the natural source of funds — savings. People have turned to contractual savings which offer better after-tax returns. Dearth of retail deposits has driven banks to the wholesale market, where they have raised funds from clients with more bargaining power than the retail saver.

At the same time they have had to bear:

☐ The cost of new technology;

☐ The cost of building market share to ensure the economies of scale needed to support this technology; and

☐ The imperatives of monetary policy which have not allowed the pricing system to operate freely.

While the first two problems are containable, the third has had effects not only directly — on margins — but indirectly, via inflation. By restating figures for the past five years to take account of inflation, FNB vividly illustrates this in its latest financial report. This cut reported compound growth in:

☐ Net income from 31,4% to 13,7%;

☐ Earnings per share from 21,4% to 5,1%;

☐ Total assets from 13,9% to a negative 1,2%; and

☐ Shareholders' funds from 8,9% to a negative 5,5%.

If the relationship between prime and the discount rate is abandoned, the entire rate

mal sector. Small farming output has grown faster than that of commercial farming, admittedly from a small base. That contrasts with the rest of the economy, which is shifting almost imperceptibly into the hands of Robert Mugabe's Zanu party.

Zanu has bought up businesses across the economy at bargain basement prices acceptable to former owners largely because of guarantees that sales proceeds could be externalised immediately, in hard currencies.

Zimbabwe's treasury was depleted, foreign exchange shortages exacerbated the problems of an ageing industrial base and, in 1989, formal sector employment numbers were little different from 1973 even though the population had doubled. Even more to the point, Zimbabwe has shown that State ownership is elitist and little different from party ownership which, in turn, means jobs for cronies and to hell with the people in whose names nationalisation was done.

Economic policies have to be appropriate. Which does not mean a fatuous choice between capital- and labour-intensive industries. Both are appropriate in their place. Rising black incomes won't lead to rapid growth in demand for European holidays or sophisticated imports; demand will more likely be directed at simple products such as housing, household goods and clothing easily made in labour-intensive factories. Using Henry Ford's dictum, the workers will themselves become the market for factory goods.

In counterpoint sophisticated, capital-intensive manufacturing processes are required by most export industries. You cannot avoid the fact that a stainless steel plant needs a couple of billion rands of specialised equipment and can't be labour-intensive.

Cosatu attacks the matter from a different angle. It believes industrial wages should be raised by 30% or 40% almost overnight, arguing that the spending power that puts in black hands will be a powerful stimulant. Unfortunately, this begs the question of the effect on inflation and would skew cash distribution in favour of organised workers away from the rest of the population.

Rising black incomes have to be based on employment, for that is where redistribution becomes possible. JCI economics adviser Ronnie Bethlehem reckons that if we could sustain an economic growth rate of around 7% and create 4,5% more new jobs each year we would eliminate unemployment by the turn of the century.

How it's done is another matter. Bethlehem argues for make-work schemes such as labour-intensive highway construction or housing projects. That is fine as far as it goes, but who will pay for the houses? In its latest *Update*, the SA Institute of Race Relations notes State subsidies for first-time home owners are increasingly being granted to blacks rather than whites.

Can one follow Afrikanerdom's model, the romantic notion that Afrikaners dragged themselves up by their own bootstraps because they mobilised their own savings? There are few signs that black South Africans are about to take the same route.

Stokvels and union-run provident funds manage tens of millions in cash flow a month. But when it was suggested recently that Numsa's provident fund should invest in subeconomic housing projects, effectively subsidising housing for the less privileged, the response was an unequivocal and pragmatic "no." The fund's managers asked why they should accept greater risk when members' interests were best served by investing for inflation-beating yields.

Perhaps subsidised housing should be a prime target for funds such as the R100m one launched by Liberty Life. Joint MD Dorian Wharton-Hood says R65m will be taken from shareholders' funds and invested along with a further R2m from the Donald Gordon Trust to generate R100m over five years. Wharton-Hood says trustees have still to be appointed; there are no plans how the money shall be spent except that it will be to help under-privileged communities.

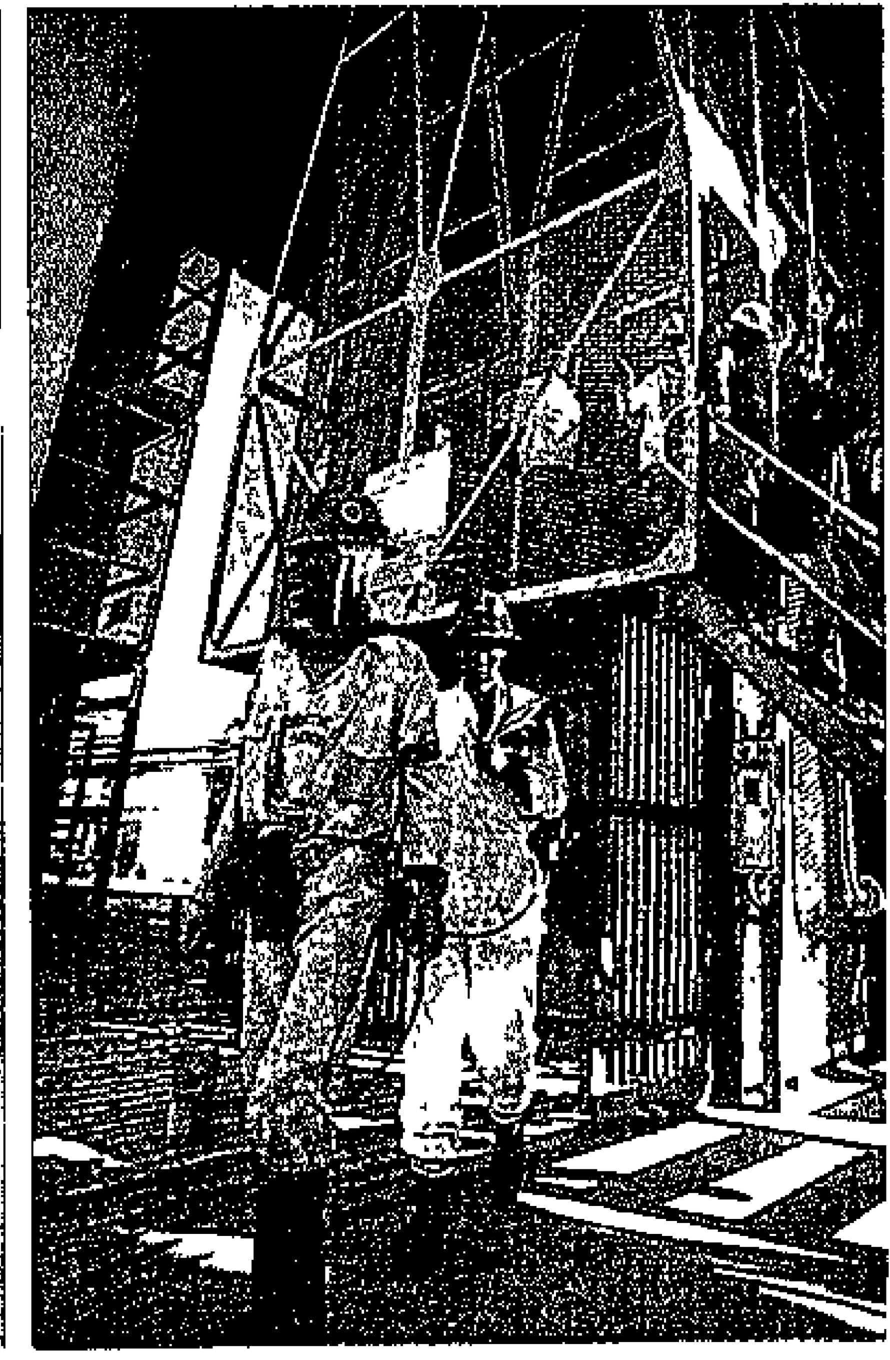
This is not paternalism, Wharton-Hood adds, but an investment in the future, to help create a society in which Liberty itself can flourish. But the bottom line is that the fund's spending will be charitable — Liberty could not justify giving away policyholders' funds, just as Numsa's provident fund managers could not prejudice their members.

Deregulation is the current buzz word. Peruvian economist Hernando de Soto argues in his book *The Other Path* that deregulation unleashes individuals' entrepreneurial drives. We can see it working here — privately owned black taxis and hawkers thronging city centres. Still, deregulation is not a magic wand which produces wealth at a wave. We had deregulation when thousands were forcibly dumped in Dimbasa and no one there made money out of small businesses. No, deregulation of the sort that leads to spaza shops and black taxis can only work when juxtaposed with a formal sector which provides jobs and wages.

The informal sector alone cannot pull the economy along. The State must encourage the growth of formal manufacturing, particularly in the cities, which daily draw thousands of migrants from rural poverty.

SA can surely develop along this road but we still have to ask whether development and wealth redistribution will be fast enough to satisfy black aspirations. De Klerk's perestroika has sharply raised black expectations. But if the economy is unable to deliver to a pretty tight schedule, there is the real danger of politicians opting for the grand gestures of inappropriate quick fixes. That is why privatisation aimed at achieving greater economic efficiencies mustn't now be stalled for imagined political benefits.

The key to this difficult question is leadership. Ordinary people will exercise extraordinary patience if they are convinced that equitable policies will eventually be to their advantage. Mandela and the ANC bear as much responsibility for that as De Klerk and the Nats. ■



.. but we also need the formal sector's capital muscle

FM 20/4/90 (189) (58)

PICHOLD (189) (58)

Blaming government

Interim figures from the Pickard group were released with little fanfare last week. It seems shareholders were informed directly, without advertisements being placed in the press. That may not be altogether surprising, as management can scarcely have been proud of results battered by interest payments and grim trading performances.

Holding company Pichold — whose main subsidiaries are 90%-held Picapli, Picprop (78%) and Union Wine (58%) — slumped to a loss of 44c per share, after turnover dropped and margins narrowed from 9,8% to 5,8%. FM 20/4/90

Among the worst hit was consumer appliances company Picapli, the group's largest income contributor last year. At June 30, Picapli held interest-bearing debt of R163m and shareholders' funds of R46m. At the end-December interim, total debt had been pruned by some R20m but the first half's interest bill still rose to R15,2m from R11,2m in the corresponding period of 1988.

The net result was an after-tax loss of R3,3m (R8,4m profit). GM Jan Pickard Jnr says R30m of brown goods have been sold at a loss to clear stock that was difficult to move.

Union Wine lost R1,3m after payment of the interim preference dividend. Chairman Jan Pickard Snr blames the slump in liquor sales on government's fiscal and monetary measures — the government gets blamed for a lot of things these days. Borrowings have jumped to R44m from the year-ago R33m and the interest charge of R5,5m (R3,7m) more than wiped out the operating profit.

Picprop is the only non-financial company in the group to record a profit after interest and tax. Operating income was healthily higher than in the previous year's interim period. The improvement came largely from sports and leisure wear manufacturing and, strangely, from Logans Sports, the sporting goods retailer just sold to management for R1,2m after being bought barely eight months ago. About half of Picprop's pre-interest profit came from dividends from the R16m investment in preference shares. Here, too, finance costs were the bugbear as the charge of R1m wiped out the dividend receipts of the same amount. After-tax income was R863 000 (R933 000).

Pichold's Pickard ... no rights issue plans

Pickard Jnr, referring particularly to Picapli, says the board will only consider a rights issue to recapitalise the group when the stock market enters another bull phase; after the market's run of the past 18 months that could mean a long wait.

Meanwhile, he says, the white and brown goods industry should stop "killing itself" by competing on price alone. It is, he reckons, "bleeding to death" because of this. Until the capital structure has been bolstered the group will have to rely on cash flow to cover interest charges. But, at this stage, there seems to be no clear plan to lift trading profitability and shareholders could again see some distress inventory sales.

Picapli's share trades at 50c, one-tenth of its August 1987 peak. And there seems little prospect of an early recovery. Pickard Jnr says sales remain depressed; the brown goods market is suffering from over-capacity, while consumer demand is restrained by high interest rates. Considering the group's own debt position, the six-month loss will probably be extended into a loss for the year.

Pichold's price has dropped from R18 in August 1987 to its present 550c, where historical earning and dividend yields are 31,1% and 12,5% respectively. *Gerald Hirshon*

FM 20/4/90 (58)

FINANCIAL MARKETS (58)

FM 20/4/90

Second thoughts

After much criticism from market players about the exams introduced for futures dealers in January, the SA Institute of Financial Markets has been established to re-think their relevance and format. It will also co-ordinate standards of the various exchanges (futures, bond and stock) and improve supervision of those involved in trading of financial instruments.

Among changes with immediate effect is that the futures senior exam, which follows the junior and ordinary exams, will no longer be compulsory. Instead, the standard of the ordinary exam will be raised.

The compliance officer every dealer in futures must have will now not have to sit the senior dealer's exam unless he deals. However, he will be examined on rules and regulations specific to the futures or bond markets after these are promulgated later this year.

The institute may allow the Registrar to extend the exams to people who deal in public money but are not members of financial markets. And it will address the fact that various exchanges have different examination requirements.

A basic exam which would apply across all exchanges has been mooted. Armed with this, a person could sit a specialised exam set by the exchange or exchanges through which he will deal. It is proposed that a trader in listed financial instruments will have to join the institute. Three classes of member are identified, with corresponding exams.

Fellowship will be awarded to those passing the senior exam and full membership to those who pass the ordinary. Those who have already attained the junior futures exam will be entitled to associate membership, if they meet other criteria. The syllabus is likely to be restructured along more general lines.

A constitution is being drafted jointly by the SA Futures Exchange and Bond Market Association. The SA Futures Industry Association will still administer the exams.

Of those who have sat the futures exams, 522 passed the junior dealers' exam with an average score of 73,8%; 164 failed. Ninety-two passed the ordinary exam, for those in charge of a dealing room. Average score was 78,05% and 18 failed. Senior exams will start in May: the preparation workshop will be held at the JSE on April 30. ■

FM 20/4/90 (58)

INSURANCE

Looking at Melamet

Taxation of premiums to captive insurers, standardisation of policy wordings and brokers' commissions emerge as the most contentious issues in the second Melamet report, published in December. This emerges in comments which accompany an analysis of the report by the SA Insurance Brokers' Association (Saiba) Off-shore Committee. Otherwise reaction is largely positive.

Melamet 2, as it is known, was set up as a result of industry concern at the flow of short-term insurance premiums out of SA and the operations of captive insurers. Melamet made recommendations which it believes will help counter the outflow.

FM 20/4/90 (58)

Commission paid to Lloyd's brokers in London comes under fire. It is higher than the statutory 20% paid to local brokers and is often shared between London and the local broker. Melamet recommended the authorities persuade Lloyd's not to pay commission totalling more than 20% because brokers might be tempted to place insurance overseas to get higher commission.

The committee says this is acceptable only if commission left in SA brokers' hands is unchanged. Melamet also recommended that commission to binder holders — agents who traditionally wear two hats, as underwriters for Lloyd's and claims managers — be cut. The Saiba response group believes 5% extra is justified by the dual function.

On reinsurance commissions, Melamet recommends that the Registrar declare undesirable, commission to the insurer of more than 5% "because of the disruptive effect on the local market." A high rate encourages insurers to lay off more risks.

The response group says administrative costs of around 12% makes 5% seem low. ■

MONETARY POLICY F|M 20|4|90 (58)

Skinning a cat

Having watched his predecessor's vain attempts to depoliticise interest rates, Reserve Bank Governor Chris Stals has hit on a simple alternative.

He is considering ending the link between the prime rate at which banks lend money and Bank rate, the official rate they pay the Central Bank for last-resort money. He suggested the move to bankers at a recent meeting in Pretoria, and asked them to consider its possible consequences.

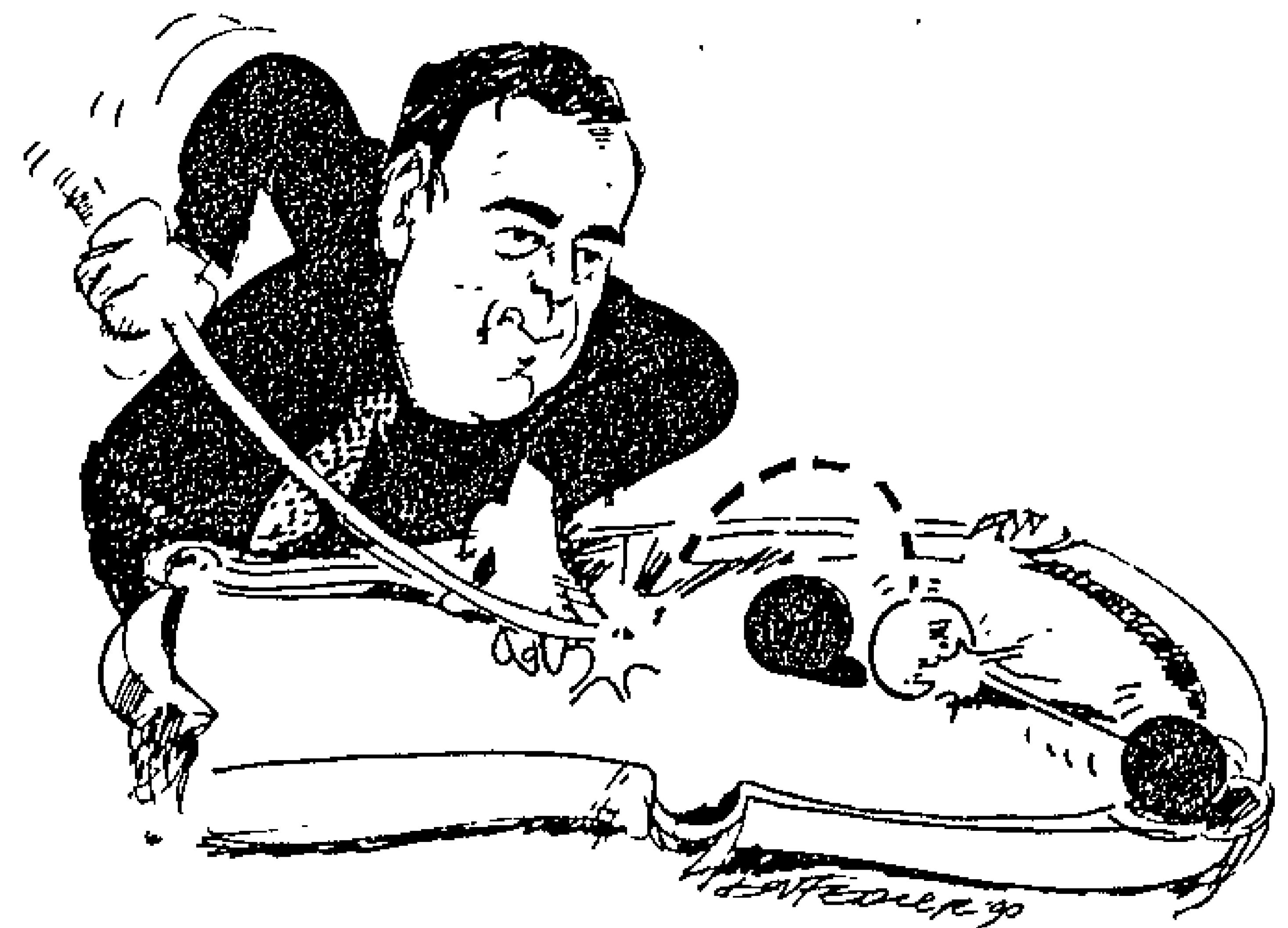
As they have favoured a market-related prime rate for years, it seems only a matter of time before prime is unpegged. "What we are waiting to hear," says a banker, "is precisely how the new system will work."

The idea of scrapping the traditional link is not new. It was advocated by former Governor Gerhard de Kock, whose Commission of Inquiry into Monetary Policy came out against a fixed link between the two rates, both because it tends to politicise prime and because it would conflict with the commission's marketed-orientated approach.

He wanted an entirely different approach. The rediscount rate should be "changed frequently and by small amounts ... in a low key and as a technical matter, of interest principally to money market experts. As a rule, changes should not be accompanied by major policy statements and care should be taken not to magnify their importance. Though this approach might at times entail the loss of some useful announcement effects, it should on balance be conducive to more effective monetary policy."

He said the behaviour of prime would be greatly influenced by changes in the price of accommodation, but recommended that each bank be "allowed to determine its own prime overdraft rate in response to market forces and in competition with other banks."

However, he did not push this recommendation through and in nine years as governor was unable to convey to politicians or the public the need to price money according to supply and demand. Every upward move in prime was viewed with alarm and suspicion.



The symptom was seen as the cause — and the Bank and government were held responsible for hardships that followed.

This is not surprising because, despite De Kock's recommendation, the Bank closely identified itself with prime.

Though not an official interest rate, it was, in practice, linked to the rediscount rate by a margin of about three percentage points. A move in this rate was seen as a signal for prime to follow and, consequently, for an upward shift in the entire pattern of rates. A move without it was unthinkable.

Even a disproportionate move was inadvisable, as banks found in December 1986-January 1987, when they cut prime 1,5 percentage points to 12% while the discount rate fell only half a point to 9,5%. By January, they repented and put it up to 12,5%, restoring half a percentage point to the margin.

This system reinforces misconceptions that the authorities control interest rates. People believe, irrationally, that rising rates are a punishment for their extravagance, inflicted by government. They are, of course, an unavoidable response to excessive demand for credit. As much of this has been due to government spending, blame has not so much been allocated for the wrong reason as to the wrong people.

Now that government appears serious about addressing the root cause of inflation by cutting its spending, Stals is seeking ways to curb banks' credit extension to the private sector.

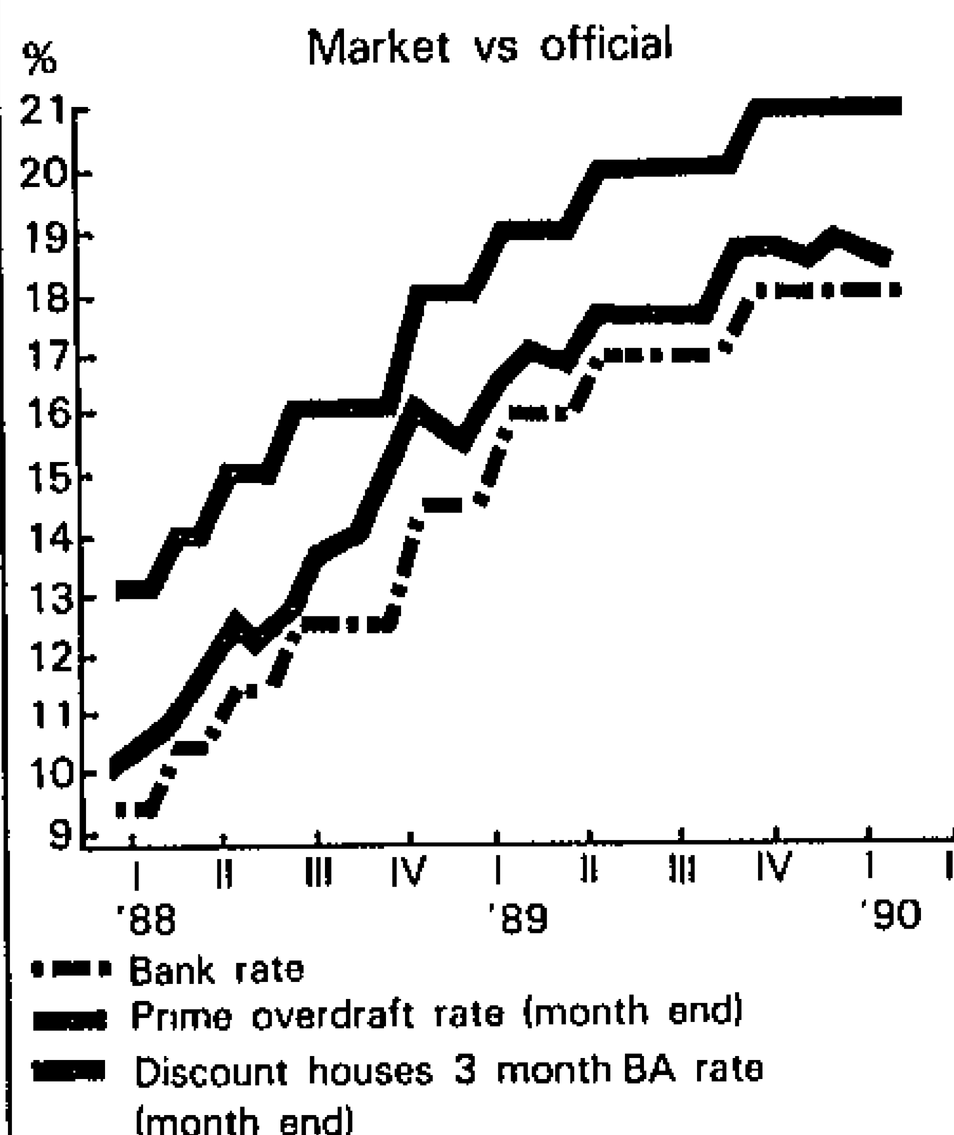
At the same time, he has found a way to distance himself (and, consequently, government) from upward impetus on rates.

By letting banks decide when and by how much to increase prime, he will help make the point that rates are priced in markets.

Unfortunately, the public will persist in its misconceptions and continue to ignore the inevitability of interest rate cycles. If it doesn't blame the authorities, it will blame the banks, who are widely seen as fat cats toying with church mice before making a meal of them.

Ethel Hazelhurst

Tracking Bank rate



OIL

Tactical games

As usual, the Organisation of Petroleum Exporting Countries (Opec) has been caught out by the market. This week, Saudi Arabia's oil minister, Hisham Nazer, reacted to slumping crude prices by calling a meeting with Kuwait and the United Arab Emirates (UAE) (the two worst quota cheaters) and saying that adherence to Opec's agreed output ceiling of 22,1m barrels/day (BPD) is "extremely crucial."

If the Saudis were surprised, nobody else in the business was. Crude has been sliding steadily since the start of the year, when North Sea Brent blend was over US$22 a barrel and Dubai light $19 (both fob). It is a normal pattern as northern hemisphere stocks, built up for the winter, are run down.

Yet Opec carried on pumping, taking its total to 24,5m BPD. For a time, the market was sustained by relatively low US stocks plus threats to Soviet production by a possible strike in Siberia. In addition, Soviet output was already down 2,5%, from around 12m BPD and exports have been cut by 500 000 barrels.

Last week, however, the market was hit by the American Petroleum Institute's figure showing crude stocks up by more than 1m BPD to 371m — nearly 45m over the comparable 1989 figure and the highest for eight years. Brent plunged towards $16,50, Dubai came close to $14 and the average of Opec's basket of seven crudes was down to $15,30.

Traders report tankers queueing up to unload at US Gulf and European ports, with

Sentence to be passed on Shefer today

Star 20/4/90 (58)

By Cathy Stagg

Sentence is expected to be passed today on Niko Shefer, one of the men behind the R47,3 million Trust Bank fraud.

He is on trial in the Rand Supreme Court where he pleaded guilty and was found guilty of theft, forgery, uttering and fraud.

Yesterday, the defence closed its case without calling Shefer to the witness box.

Mr A W Chalmers of Trust Bank said the total loss to Trust Bank was expected to be about R21 million.

Shefer's estate in South Africa is in liquidation and it is possible R1,6 to R1,8 million could be made available from it, the court heard.

Mr Bradley Ross, the brother of Shefer's common-law wife, Ms Tania Ross, was told by Mr Justice M S Stegman that if he answered all questions truthfully and fully, the judge could order him exempt from prosecution for not reporting what he knew after the crimes had been committed.

Mr Ross said he was present in the basement of a Randburg office block on March 23 last year and had helped another of Shefer's employees, Mr Rob Schreuders, to pack boxes of Krugerrands into trunks.

The court heard that the R47 million was made up of R19 million for Krugerrands, R26 million for the "purchase" of an aircraft and R130 000 as "pin money" until the larger amounts filtered through.

Mr R D Levine, SC, for Shefer, argued that the 14-years sentence imposed on Trust Bank employee Götz Guntenhöner could be reduced on appeal.

Experts will boost savings

C/Press 24/4/90 (58)

SAVING part of your regular income must be part of any plan to build up wealth.

But a really successful savings programme needs more than simply putting away a few rand regularly – it needs expert management.

Most people are too busy to manage savings successfully and don't have sufficient knowledge about the stock market or tax issues to ensure the best possible (and secure) return.

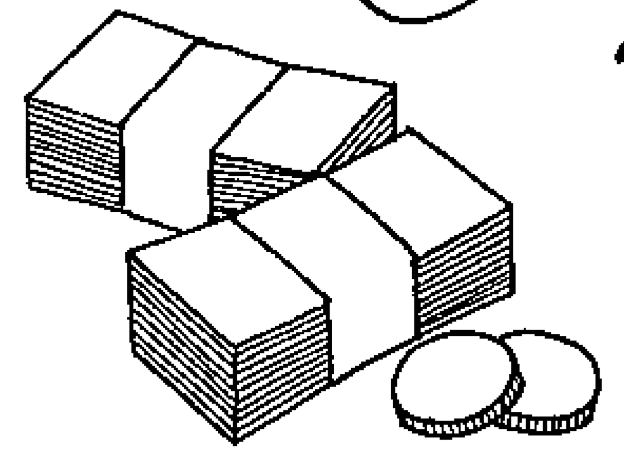
Two main principles will help prospective investors:

■ Seek expert advice. There are a large number of established firms which could be approached for assistance – even though total capital might be small. Organisations such as Syfrets and Metboard are well-equipped to advise on investments varying from unit trusts to property syndicates; and

■ Capital should be spread over different investments. Never put all your money in one investment. All investments are subject to cycles and even the best go through bad patches. In other words, carefully time the investment to obtain the best possible return.

For instance, presently up to 19,5 percent can be obtained on participation mortgage bonds from reputable firms. Some of them even pay the interest monthly and quarterly in advance, ensuring an eventual return well above 20 percent.

Participation bonds obviously represent an opportunity at the moment – and the first R2 000 interest earned is tax free.



■ MONEY TALK

Danger lurks in pension fund guidelines

By Ian Smith

THE prescribed investment guidelines, hailed as the vehicle to launch pension funds into a new era when they came into effect last October, are seriously flawed and should be scrapped as soon as possible.

Old Mutual general manager, investments, Johannes van der Horst shocked fellow insurers with a strong attack on the guidelines this week.

He told the annual congress of the Pensions Institute in Durban that the intention of the "so-called prudent investment guidelines" was sound.

"It envisages prudent management, a proper spread of risk and appropriateness of fund assets in relation to liabilities covered.

Johannes van der Horst ... good intentions in new rules, but there are flaws

"Ironically, the stipulated set of numbers is unlikely to achieve the desired objectives and may perversely encourage people to do things with the assets that could be bad for the fund and its members.

"The regulations are looking for safety in numbers which, inherently, contain no safety."

Dr Van der Horst told Business Times after the speech. "I was not taking a negative swipe at the authorities I was merely trying to point out that the new rules place unfair demands on fund managers and trustees."

In the audience as he made his attack were Japie Jacobs, special economic adviser to the Minister of Finance, and Registrar of Pension Funds Piet Badenhorst.

Dr Jacobs reminded fund managers that the Government had asked for insurers' views about the new regulations for a review which would take place after they had been in operation for a year.

Illustrating his fears, Dr Van der Horst used the case of a fund close to the 65% of fund value limit in equities.

ISSUE OF THE MOMENT

"It may find itself over the limit if the market value of its equity portfolio rises.

"The fund manager now has to decide to correct the position by selling shares or to approach the Registrar for approval. I suspect most fund managers will not want to sell shares.

"This is because of the transaction costs involved, the difficulty in an illiquid market of buying back shares when equity exposure moves back to below the 65% level and the bias towards equity exposure as a result of the superior returns historically achieved in shares."

Dr Van der Horst says that over time pension funds may want, with good reason, to gravitate to positions over, rather than under, 65% of fund value.

"If one takes the 65% limit seriously, the inflation-conscious fund manager may still want to achieve the maximum of 85% in equities plus property.

"However, the target of 20% in property seems unrealistically high against current exposure of the order of 10%."

Institutional cash flow for investment is R25-billion a year. If 20% flows into property, it implies that R5-billion will be looking for property every year — and the amount will grow.

Dr Van der Horst says. "It is little comfort to add JSE-listed property trusts and loan stock issues, which qualify as property under the regulations.

"These vehicles are already heavily owned by pension funds. Their total market capitalisation is only 1% of the JSE and total turnover in units in 1989 was less that R500-million."

Dr Van der Horst warns that the new regulations may lead to a lowering of standards in acquiring property and could encourage speculative development.

"I believe the only sensible way to go would be to scrap the 65% limit on equities while, perhaps, retaining the 85% limit on equities plus property."

The third example of concern cited by Dr Van der Horst is the 10% of fund value limit in the shares of any one company listed on the JSE.

"This implies that it is better to have 20 holdings of 1% each in potentially low-quality high-risk companies, rather than one 20% holding in Anglo, with its widely diversified business and its immensely powerful balance sheet.

"While I have a very positive attitude to small and new companies, there will be times when it is more desirable for a pension fund to hold 20% in Anglo rather than in 20 small, low-quality holdings."

Dr Van der Horst says a final flaw is the assumption in the regulations that one can cut up the investment universe into equities and property and interest-bearing instruments.

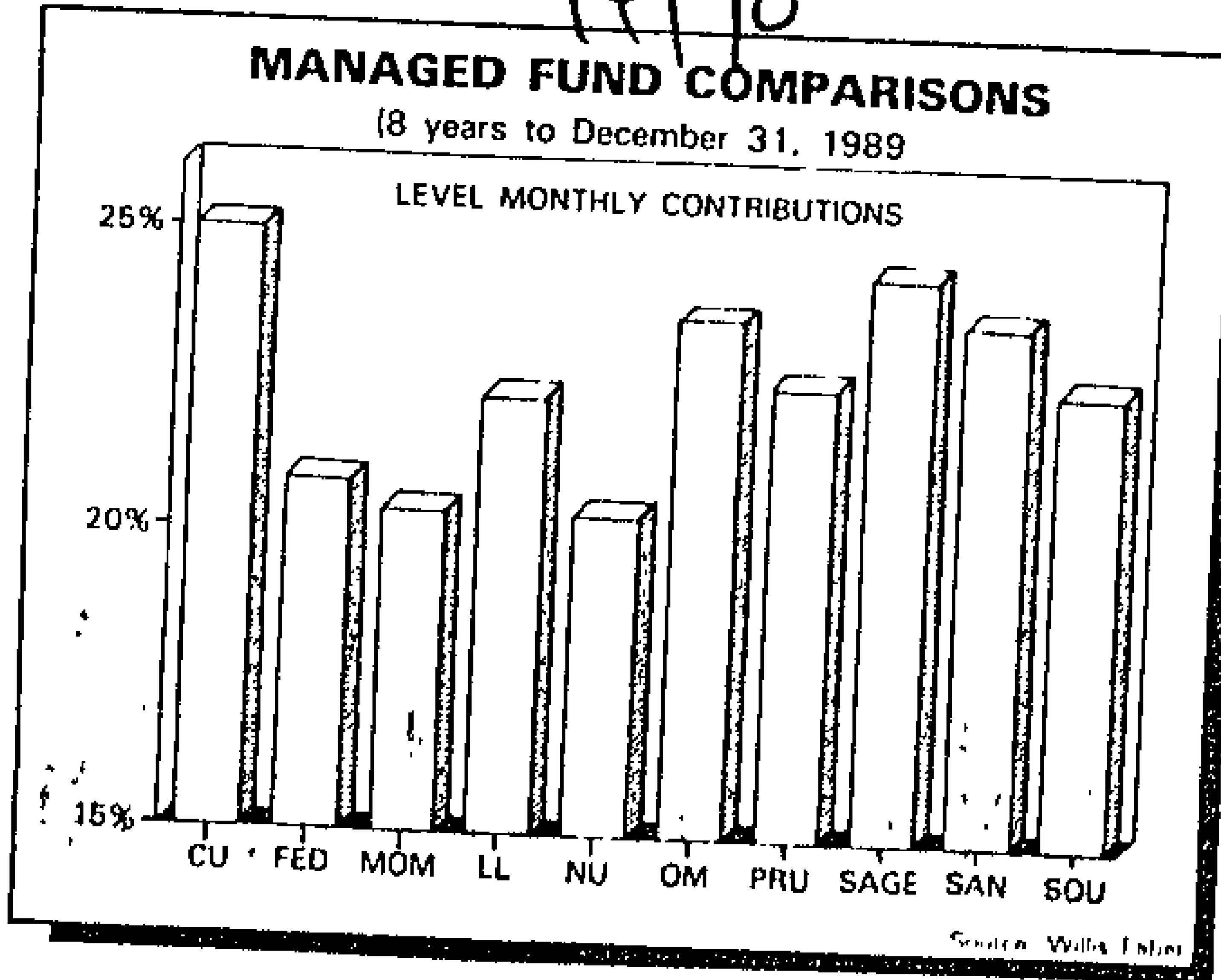
"The lines between market segments are getting increasingly blurred through the presence of hybrid instruments like convertible debentures and loan stock units, and the rapid growth of derivative instruments like Elfi stocks, options and futures.

"I am convicned that aggressive and imaginative use of these instruments can make nonsense of the stipulated percentages and create a nightmare for the regulatory authorities."

Commercial Union tops

S Times 22/4/90

(58)



Business Times Reporter

COMMERCIAL Union's Managed Fund, established in 1982, notched up the best performances both in money-weighted and time-weighted terms in the Willis Faber Enthoven survey of 10 investment funds for the eight years to December 1989.

In the money-weighted rating, Commercial Union achieved 25%. This is the total return a year based on a level monthly premium paid throughout the period.

Sage was second with a 24,4% return, followed by Sanlam and Old Mutual, both 23,6%, Prudential and Southern (both 22,5%), Liberty Life (22,2%), Federated (20,8%), and Momentum and Norwich Union (both 20,3%).

On time-weight, based on a single amount invested at the beginning of each year, Commercial Union achieved the highest total return a year of 23,1%.

It was followed by Sage (22,7%), Momentum and Southern (both 22,1%), Sanlam and Old Mutual (both 22%), Liberty Life (21,9%), Prudential (21,8%), Federated (20,5%) and Norwich Union (19,9%).

Commercial Union's Managed Fund now stands at slightly more than R500-million. Top shares in the portfolio are Amic, Anglo American, Barlows, De Beers, Driefontein, GFSA, Rustenburg and SA Breweries.

Commercial Union general manager John van der Linde says: "Our philosophy has been to carefully time our investment in blue chips.

"But we also have major property developments on the go, such as the Village Walk shopping and office complex in Sandton, which includes the successful Balalaika Hotel, and the major Parktown office development which has been leased to Transnet for its national headquarters.

"We are now more liquid than most other insurers, money earning over 19%, linked to call options which we expect to be able to exercise at favourable rates."

Overall index slides by 9%

Own Correspondent

JOHANNESBURG. — Fishing, bank and Iscor shares were in the forefront of sliding prices on Friday to bring the decline in the JSE overall index to 9% from its month-ago record high of 3 399 to 3 093.

Despondency overhanging the market was deepened by the poor March quarterly results of gold mines in the Anglo fold but dealers said trading was trendless rather than characterised by meaningful selling.

Bert de Klerk, of stockbrokers Meades, De Klerk Inc, said: "The market has been drifting lower on small volumes and this could continue if the gold price does not rebound.

"There has been more selling than buying from overseas investors as reports of the violence in SA could be creating uneasiness among foreign investors.

"But the decline in share prices has resulted in a lot of buying opportunities at the lower levels," he said.

For the second time since its November listing, Iscor fell to its issue price of 200c before finding support and closing at 203c. The shares were dumped by some unit trusts in the March quarter and the offloading showed little signs of abating.

Stals, banks talk on 'freeing' prime rate

CAPE TIMES 23/4/90 (58)

Own Correspondent

JOHANNESBURG. — Reserve Bank governor Chris Stals meets commercial bankers today for crucial talks ahead of the release this week of a statement on the Bank's plans to tighten banking legislation.

It is unlikely the announcement will also "free" the prime overdraft rate to be entirely market-determined, but the issue will be discussed.

Stals said yesterday: "While the freeing of the prime overdraft rate is on the agenda, there are no immediate plans to change the status quo. At this stage further discussions are still necessary. In principle, however, we believe banks should be free to set their own prime overdraft rates."

A squeeze on some banks' margins has fuelled widespread speculation that an across-the-board hike in interest rates was imminent. But Stals indicated monetary policy did not warrant such a move.

In a speech at the Pensions Institute's annual conference in Durban on Friday, he said: "Interest rates have stabilised at a relatively high level but there is no immediate need for any further increase."

He said there was reason for satisfaction at the progress made over the past year in the efforts to restore greater financial stability.

Stals said the Bank would this week announce how it was to phase in new requirements for banks' balance sheets without undue disruption of the markets. He denied it was primarily a crackdown to intensify the squeeze on banks' margins for monetary policy purposes. The motivation was the creation of a sound banking system.

Bankers have appealed to the Bank to go easy on compelling them to bring certain off-balance sheet transactions back on balance sheet — amounting to about R10bn.

Stals said legislation was now being prepared to provide for the inclusion on the balance sheets of off-balance sheet financing activities by banks, and also to give attention to the dangers involved in the escalation of the practice of large-scale funding operations executed outside of the banking system.

"The Bank has recently sought the co-operation of the banking sector for an early implementation of these new requirements. The action now under consideration against this malpractice is not, in the first instance, intended to place any further squeeze on the banks as part of the present anti-inflationary policy, but should rather be seen as an execution by the authorities of their responsibilities for ensuring a sound banking system in SA."

That certain banks have been doing a substantial part of their funding operations off the balance sheets through repurchase transactions had been of concern to the Reserve Bank, as in this way the banks escaped the normal prudential requirements of cash reserves and liquid assets.

The Reserve Bank therefore had a great responsibility to ensure that registered banks and building societies were trustworthy institutions, and remained safe places for the protection of the money supply of the public.

MAY 1990

Sanlam call for lower wage increases in inflation fight

CAPE TOWN — Sanlam has focused on the fight against inflation in its latest economic report and has called for lower wage and salary increases, higher levels of productivity and the passing on of savings in labour costs to consumers.

Chief economist Johan Louw says there are no instant solutions to the deep-rooted inflation problem in countries like SA which have open economies, relatively small domestic markets, extensive socio-economic problems and strong unrest potential rooted in large-scale unemployment.

Because wages and salaries are so closely linked to inflation, a higher inflation rate — which consists of higher labour and other costs — is built into each round of remuneration adjustments and perpetuated by money supply increases.

To break this inflationary spiral, Louw says it may be necessary in the short-term to limit wage and salary increases to levels below the current inflation rate.

But this will only be effective if the savings are passed on to consumers by way of smaller price rises.

Lower salary and wage increases should be accompanied by a programme to improve productivity with greater involvement by the public and private sectors and trade unions in the training and instruction of manpower, Louw says.

But employers will have to convince

LESLEY LAMBERT

trade unions that an improvement in productivity will lead to the creation of new job opportunities rather than worker redundancy.

The promotion of competition by accelerating deregulation and privatisation programmes will also help decrease inflationary pressure, he says.

The financial authorities have applied fiscal and monetary discipline as the cornerstone of the anti-inflationary policy.

For some time, they have tried to limit the excessive granting of credit and the sharp growth in money supply and to maintain positive real interest rates as part of their monetary policy.

On the fiscal side, they have tried to curb inflation by strict control of government spending and a moderate budgetary deficit before borrowing.

In addition, they have been aiming at a fairly stable external rand value as a way of limiting increases in import prices and introducing greater price stability in domestic markets.

"SA's unacceptably high inflation rate can be lowered only if continued monetary and fiscal discipline is supported by a more stable rand, restrained increases in labour remuneration, real efforts to raise productivity and determined steps to effect greater competition in the economy," Louw says.

Market talk of free prime fuelled by BA performance

(?) ROBERT GENTLE (58)

SUSTAINED market talk of the imminent freeing of prime and a rise in interest rates was fuelled further on Friday when the normally quiet three-month liquid BA futures contract saw a sudden upsurge in trading activity.

Statistics released at the weekend by Rand Merchant Bank, the official futures clearer, showed that 62 contracts worth R59,2m were traded in the May, August and November BA futures.

That compares with only R10m the previous day and a total absence of trade the day before that.

Virtually all the R59,2m business — 97% — was registered in the August and November contracts, suggesting that the market expects a rise in interest rates in the longer term. B Day 23/4/90

Also confirming this were the higher yields at which the contracts closed the week. The nearest contract, the May BA future, closed at 18,65%, — or 15 points higher than the spot BA close of 18,50%.

Futures traders will no doubt welcome the rumoured decoupling of prime from the Bank rate as the resultant volatility in the BA rate will force the market to start hedging its interest rate exposure.

The long-neglected BA future should, therefore, receive a considerable boost in trading volumes, and futures brokers will benefit from the increased broking activity.

A trader from Greenwich Futures said: "If prime is indeed freed, everyone from banking managers to corporate treasurers will need to address the problem of how to hedge the resultant interest rate risk."

Genbel tops up its offshore interests

BArry SERGEANT

SANLAM associate Gencor has increased its stake in Liberty Life-controlled, London-listed Transatlantic to 14,3%, worth about R775m, in a deal announced by Gencor associate Genbel at the weekend.

The deal, approved by the Reserve Bank, marks a significant increase in Genbel's offshore interests.

Financial services group Transatlantic, the creation of Liberty's Donald Gordon a decade ago, includes in its directorate Derek Keys, also a director of Genbel and Gencor executive chairman.

The deal marks a significant change in investment policy for Genbel, a departure out of a portfolio totally dominated by mineral resources.

Genbel's stated mission is to maximise shareholders' wealth by its close association with Gencor, "being a major participant in the mining and resource investment markets, and the development of its mineral rights".

Genbel MD Anton Botha argued that the Transatlantic investment was "consistent with Genbel's philosophy of participating in Gencor group projects". He said the deal had been structured "by disposing of a rather diverse portfolio of offshore assets which have performed 'less than satisfactorily' ".

Genbel's latest disclosed list of investments indicates foreign holdings worth less than 2% of its portfolio. The acquisition in Transatlantic represents 9,6% of Genbel's investments.

In the latest deal, Genbel acquired 6,3% of Transatlantic for about R341m, effective from tomorrow. Genbel had R113m in cash resources available at end-January; the source for funding the balance of the price has not been disclosed.

Transatlantic records its business as the making of selected strategic investments with long-term potential in the insurance and real estate sectors and in other fields related to the financial services industry. Its total assets were valued at £1,5bn on December 31; its two major investments are 71% fully diluted in Capital and Counties and 29,8% in Sun Life Assurance, property developer and life assurer, respectively.

Transatlantic's earnings have grown from 8,06 pence per share in 1985 to 17,50 pence per share in 1989. On December 31 Liberty Life Investment Portfolio's most valuable stake was R1,7bn in Transatlantic, 9,5% of its portfolio. At that date, Liberty's largest stake in a mining house was Gold Fields (R910m), followed by Anglo American (R604m), Gencor (R317m) and JCI (R245m). At end-January Genbel's investments were worth about R3,7bn.

Genbel's latest annual report to June 30 shows its investment portfolio's worth at R2,3bn. Investments ranked by value were

☐ To Page 2

Genbel

☐ From Page 1

dominated by gold producers (32%), the most valuable being R176m in Kinross and R158m in Winkelhaak. Both mines have just produced fine results in a generally depressing March quarterlies outcome.

Genbel's most valuable investments after gold producers, in order of rank, were mining financial, platinum, financial commerce and industry, energy, diamonds and exploration. However, its single biggest investment was R326m in Impala Platinum.

Genbel's interim results to end-December disclosed that the most significant transactions for the period (when Genbel had raised about R370m in new equity), were stakes or further stakes in Unisel, De Beers, Samancor, Rusternberg Platinum, and Anglo American.

The interims said Genbel used R229m of new equity funds to expand investments in quality mining and resource industries. "The company still holds about R113m in cash which is available for suitable investment," said the interims.

(58) BDay 23/4/90

Bank's plan for re-pros triggers rates rise

MONEY market rates are rising. The rate for 90-day liquid bankers acceptances (BAs) is up to 18,50% and the key overnight wholesale call rate is pushing 20%, seven trading days before the month ends, with the banks' debt sharply down to R2,5bn.

The trigger for this movement is the uncertainty created by the Reserve Bank's precipitate move to bring repurchase agreements (re-pros) on to bank balance sheets without defining the phasing-in periods and other details. And, possibly, because the Bank has not taken into account the wider ramifications of re-pro financing.

Apparently, it has been assumed that all re-pro financing is credit financing in the narrower meaning of the term. This, however, is not so. A large proportion of re-pro financing is short-term bridging finance, not for financing trade-related demand. The Bank itself is in the re-pro business, lending money to the banks against the pledge of prescribed assets.

Apart from financing bond market activity, re-pros are used by pension fund managers who borrow against the pledge of assets to raise cash to buy further assets, redeeming the loan when they receive their pension fund contributions.

One banker has claimed that the proposed strictures on re-pros will smother the developing interest rate swap business in which the underlying assets involved are held off-balance sheet, sometimes for longer than three years.

Perhaps half of the banks' re-pros are related to longer-term credit creation which has a lasting effect on the money supply figures.

In his admirable desire to bring inflation under control in the shortest possible time span, Reserve Bank Governor Chris Stals might be guilty of throwing the baby out with the bathwater.

IN THE MONEY MARKETS

Harold Fridjhon

And in his haste, Stals is overlooking what should be a pertinent responsibility of his position: keeping the public informed.

The Reserve Bank has, more often than not, been unnecessarily secretive about its actions. Most of its transactions must be private and confidential, but when regulations affecting every business in SA are concerned, the Bank must be outgoing.

Last year, for instance — and this was not exceptional — government stock was sold at a secret rate to a secret buyer, or buyers. This was undesirable. All major institutions should have been invited to bid for stock. Not to have done so smacks of favouritism.

And when open market operations are employed to reinforce monetary policy, they should be "open market" — as in Britain where, when the government broker or the appointed discount house start dealing, the market is aware of what the Old Lady is doing.

One does not expect changes in Bank rate to be signalled ahead of time; that would blunt its sting, although if the Bank were sensitive to the markets as it should be, movements in Bank rate would come as no surprise.

Star Chamber tactics are undesirable. They disturb the business climate and lead to rumours and uncertainty. Business decisions are rarely based on impulse; they are evolved through longer-term strategies which might be aborted by precipitate changes in the rules affecting financial planning.

Meanwhile, I understand bankers are reluctant to take the initiative to declare UDI and raise prime.

The bankers I have spoken to say raising prime means raising mortgage rates and the lending rates on loans to smaller business enterprises, which could have grave socio-political repercussions.

They ask whether they are to be made scapegoats for timorous policymakers who refuse to accept that interest rates, and not sleight-of-hand controls, will curb the demand for credit.

Long-term outlook for equities 'positive'

23/4/90 LIZ ROUSE (58)

METFUND's long-term view of the SA equity market remains positive while the short term promises marked volatility leading to consolidation, administrators Investec Management Company say.

Overseas markets remain a source of concern in the light of the monetary squeeze. A global slowdown in corporate earnings growth will also restrain price growth.

Domestically, the portfolio managers expect the stock market to reflect swings in sentiment on political uncertainties.

On the positive side, last year's scrapping of the prescribed asset requirements, prospects of reduced short-term interest rates later this year and the tax-free status accorded to dividends in the Budget, should underpin the market's performance.

Also, price to earnings ratios of many high quality industrial companies continue to offer good long-term value. Metfund's managers, therefore, remain optimistic on long-term growth prospects. They continue investing in top quality equities.

B Day 23/4/90

Euphoria

The first quarter of 1990 saw the JSE all share index continue its strong advance of 1989, albeit with accompanying volatile conditions. Local institutions, directing large amounts of cash towards the stock market during January, were joined by foreigners in February, following the sharp turnaround in SA political initiatives.

Initial euphoria was followed by a period of volatility as sentiment shifted along with various conflicting political statements. The disappointing performance of the gold price towards the end of the March quarter also contributed to deteriorating sentiment and share prices eased.

However, the strong overall performance of the quarter was reflected in the Metfund unit price, which showed a gain of 6,8% over the period.

Major acquisitions over the quarter included Anamint, Nedcor, Rusplat, Cenprop and Richemont, whereas holdings of Pioneer, Sygro, Umdoni, Chemserv, Cadbury Scwheppes, Sappi and Bidcorp were sold.

Bank briefing on tighter controls

(58)

No plans yet to free prime rate — Stals

B\Day 23/4/90

GRETA STEYN

RESERVE Bank governor Chris Stals meets commercial bankers today for crucial talks ahead of the release this week of a statement on the Bank's plans to tighten banking legislation.

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"The Bank has recently sought the co-operation of the banking sector for an early implementation of these new requirements. The action now under consideration against this malpractice is not, in the first instance, intended to place any further squeeze on the banks as part of the present anti-inflationary policy, but should rather be seen as an execution by the authorities of their responsibilities for ensuring a sound banking system in SA."

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The Reserve Bank therefore had a great responsibility to ensure that registered banks and building societies were trustworthy institutions, and remained safe places for the protection of the money supply of the public.

● See Page 3

New interest rate rises staved off

News 24/4/90

58

By MAGGIE ROWLEY
Business Staff

NEW increases in interest rates have been staved off with banks being given a short reprieve to get their balance sheets in order.

Bankers met Dr Chris Stals, governor of the Reserve Bank yesterday, after his announcement late last week that tighter banking legislation, which was expected to be imminent, would be phased in.

Senior bankers have declined to comment on yesterday's meeting, but a statement from the Reserve Bank is expected later this week.

However, it is understood that a clampdown on off-balance sheet activities is in the offing — but only once the new Deposit-Taking Intermediaries Bill becomes law. This could slash bank profits.

The Bill will be passed in the current session of parliament but due to the red tape involved, the Act could take months to implement.

Moves to increase interest rates, including home loans and overdrafts, have been resisted by the Reserve Bank in its anti-inflation campaign.

Distribution of Boardprop raised by 13,75% a unit

BDay 24/4/90

(58)

CHARLOTTE MATHEWS

BOARDPROP, which is managed by Board of Executors Property Transvaal, has improved distribution on a weighted average of units by 13,75% to 30,86c a unit for the six months to March from 27,13c in March 1989.

Boardprop announced last week it intended to raise about R40m in a rights issue to finance the purchase of additional properties.

Income before debenture interest rose 22,8% to R3,6m (R2,9m) but the number of units in issue increased by 1,5-million in December partly to pay for a property acquired in Durban and partly to buy a property in Sandton's Wierda Valley.

Boardprop director Nikki Vontas said yesterday the rights offer would be targeted only at purchasing prime real estate properties.

"Our long-term strategy is to specialise in prime properties and not go for bargains to push up our income yield in the short term.

"The Wierda Valley property has a forward yield of 10% although the portfolio income yield is 12,3%.

"In the long term the capital appreciation will more than compensate for the low initial investment yield."

He said a prime listed property vehicle should give a similar performance to a traditional institutional portfolio..The internal rate of return (IRR) in the long term should be around 25%.

"Property is a long term investment and you should not apply short-term criteria," he said.

Old Mutual launches new venture to cover health care

LESLEY LAMBERT

CAPE TOWN — Old Mutual has launched a new short-term insurance company that will provide a comprehensive range of new health-care products and cost-effective administration of medical aid schemes.

The company, Old Mutual Health Insurance, represents an extension of the concept of health insurance introduced by Crusader Life and is expected to be copied by other leading life insurers once they have assessed the response to the new company.

Old Mutual's Employee Benefits assistant GM Henk Beets says the company has been established to supplement existing medical aid schemes in an environment where sharply rising costs, restrictive legislation and the growing gap between medical aid tariffs and actual costs has made health care increasingly prohibitive.

The recent loosening up of some restrictive conditions in the Medical Schemes Act has also made it easier for insurance companies to enter this market as they can now apply rates more flexibly and ensure — by charging high-risk members more and low-risk members less — that one group of members does not end up subsidising another.

The range in insurance cover will include hospital and major surgery cover, hospital confinement cover, an income plan to ensure regular income in case an accident or illness interrupts earning ability, convalescence financing, an evacuation scheme to cover emergency professional medical response, funeral expense cover and financing of nursing and home care. Employers and individuals will be able to tailor their own schemes from this range

(58)

FINANCE

Securitisation may get a closer look

B Day 24/4/90 (58)

ROBERT GENTLE

THE attractiveness of securitisation — the converting of assets into negotiable securities — is likely to be enhanced following the Reserve Bank's intended clampdown on off-balance sheet financing.

This was the view expressed yesterday by Standard Bank, Andersen Consulting, Aiken & Peat and Pim Goldby in the light of Reserve Bank Governor Chris Stals's recent statements.

Stals had told the Pensions Institute annual congress that the "malpractice" which consisted of banks hiding some of their activities (assets) off balance sheet was to be terminated.

Pim Goldby consultant Robin Marsden said: "Securitisation will soon be the only legal way of getting assets off balance sheet."

A Standard Bank spokesman said: "The Reserve Bank's remarks could prompt some people to look more closely at securitisation."

The Reserve Bank's policy on securitisation was spelled out by Deputy Governor Chris de Swardt at a conference on the issue earlier this year.

So long as the assets involved are sold outright without any recourse to the original holder, they can be removed from the balance sheet, also freeing whatever capital was originally behind them.

Any securitisation issue aimed at circumventing prudential requirements — ie shifting assets off balance sheet without giving up ultimate responsibility for them — would not be allowed.

There is a feeling in the market that this is what is being done through such schemes as repurchase agreements ("repos"), hence the Reserve Bank's reservations on the subject.

When a financial institution does a repo, it sells a chunk of its assets to another company with the intention of buying it back at a later date.

In the intervening period, the institution benefits not only from the money raised on the sale, but also from a lighter balance sheet and the temporary freeing of the capital originally tied up in backing the assets.

Aiken & Peat consultant Mike Ettling pointed out that one reason this sort of off-balance-sheet financing was attractive in SA was because of favourable accounting treatment. "In the US, repos show up in the balance sheet as secured loans. In SA, they tend to be treated as outright sales."

The Standard Bank spokesman denied market talk that repos are often used as a form of window dressing at periods like month ends to inflate or deflate the balance sheet. "There is nothing secret about repos."

Uneasy truce as Sun Life edges ahead

Genbel's acquisition of a 6,3 percent stake in Liberty Life's UK investment arm TransAtlantic has focused attention on the performance of life insurance group Sun Life, one of TransAtlantic's key subsidiaries. In this analysis The Independent newspaper reviews the prospects of the company, which is effectively controlled by French and South African interests.

LONDON — In the next few days shareholders of the Sun Life insurance company will receive the company's report and accounts. The figures will detail past trading in the financial year ending last December and outline prospects for the next 12 months. But the question uppermost in shareholders' minds will not be answered. How long can Sun Life retain its independence?

Already Sun Life is effectively controlled by South African and French interests. Its largest shareholder is Transol Investments, part of TransAtlatic holdings, the British interests of the South African insurance and finance group, Liberty Life.

Transol holds, 29,8 percent of Sun Life's shares. Its other main shareholder is Societe Centrale Union es Assurance de Paris (UAP), the large French state owned insurer, with 25 percent.

This multi-cultural ownership is the product of Sun Life's long running battle with Liberty Life's interests, which have long wanted control of the company.

The relationship with Liberty Life and Sun Life dates back to 1980, when the South Africans acquired a 9,6 percent stake in the British insurer from the Kuwait Investment Office, which lifted its total shareholding to 10,2 percent.

In 1982, after a series of purchases in the stock market, Liberty Life's stake reached almost 24 percent.

Sun Life was under siege. Enter Peter Grant, an urbane merchant banker and a former director of Lazards. He became chairman of Sun life in 1983 and since then has been largely involved in devising takeover defences.

Matters came to a head three years ago, when TransAtlantic attempted to place three of their representatives on the board after repeated requests had been turned down by Sun Life.

"Liberty is trying to get control of your company through the backdoor and it must not be allowed to succeed, warned Mr Grant at the time.

Sun Life objected to Liberty because it argued that its British operations, which control an investment trust, a property company and the Sun Life shareholding did not add up to the right sort of experience for running a British insurance company. He fought off the attack.

	Insurer	Income (£)
1	Prudential	3.80bn
2	Standard Life	1.80bn
3	Norwich Union	1.50bn
4	Legal & General	1.46bn
5	Sun Alliance	860m
6	Commercial Union	804m
7	Friends Provident	781m
8	Provident Mutual	779m
9	Allied Dunbar	761m
10	Eagle Star	734m
11	Scottish Widows	702m
12	Sun Life	696m

Source: Smith New Court

Life insurance premium income (1988).

Pressure on the Sun Life board continued. In 1988 Mr Grant came up with a banker's solution to break down the influence of Liberty and TransAtlantic.

A link was forged with the French insurance group UAP in an effort to dilute the shareholding of Liberty Life. The battle flared up again as TransAtlantic opposed the move.

Last year TransAtlantic reached an agreement with UAP whereby TransAtlantic agreed not to make an offer for Sun Life without the prior agreement of the French interest holder.

TransAtlantic has the right to give notice requiring UAP to acquire its shares in Sun Life for a cash price which is set out by the South Africans. An uneasy truce now exists between Sun Life and Liberty.

All of this has sapped the energy of the management of Sun Life, but there are signs that it is at last finding sufficient time to develop the business.

In March, the group announced it was setting up a non-insurance holding company to by-pass the regulatory hoops which control life insurance businesses. It will allow Sun Life to add on to its operations related financial service activities, not necessarily in the field of life insurance.

This was a move opposed by TransAtlantic three years ago but which, in the calmer climate, has been supported now. Both TransAtlantic and UAP have two representatives each on the board of directors of Sun Life.

Analysts expect that once the holding company is in place around June, Sun Life may mount a rights issue to fund future expansion.

Roughly three quarters of Sun Life's new life insurance business comes from independent financial advisers, but the group has been building up its sales force.

Sun Life's direct sales force now numbers 750. It will be built up further, but the company stresses it has a desire for controlled growth.

On the international front, Sun Life is working with UAP in an effort to develop its products and marketing skills in other countries. At least one European project is expected to begin this year.

Ultimately, it will be the ambitions of the two major shareholders which will determine the direction of Sun Life. The French insurance sector is determined to expand to compete in the European market for services.

TransAtlantic remains enigmatic. Its chairman, Donald Gordan said that the purpose of its concordat with UAP was to reduce the uncertainty and instability within Sun Life which has resulted from them owning more than 50 percent of the company's share capital. Yet Mr Gordan's business plans involving Sun Life remain unstated.

As for Mr Grant, he remains wary.

Peter Grant, former banker, who defends Sun Life from takeover.

Uncertainty over tighter credit control hits market

Star 24/4/90

(58)

By Sven Lünsche

Conflicting reports about the outcome of yesterday's meeting between the Reserve Bank and the commercial banks have thrown the markets into confusion.

The meeting, which dealt with aspects of the banks' off-balance-sheet financing, was expected to see the early introduction of measures to cut down on excessive credit expansion by the banks.

This would have led to an increase in a wide range of interest rates, excluding the banks' prime and bond rates since the Reserve Bank had previously indicated it would not raise its key Bank rate.

Newspaper reports this morning suggested the Reserve Bank had held back on the introduction of the measures until they had been drafted into the Deposit Taking Intermediaries Bill, which is expected to be passed by Parliament during the current session.

Tighter

But other banking sources said this morning the measures could well be introduced before that and a draft proposal was currently being circulated at the Reserve Bank.

Leading commercial bankers and Reserve Bank officials were held up in meetings this morning and could not be reached for comment.

Nevertheless, market talk is that an early implementation of tighter banking legislation could be made public later this week or next week.

The measures are expected to force the banks to introduce certain funding arrangements on to their balance sheets, which analysts estimate could cost them up to R160 million in profits this year.

The banks are therefore expected to pass on these higher costs to their clients in the form of higher interest rates on a wide range of lending rates, including personal loan, credit card and hire-purchase rates.

They could also reclassify some of their clients, who until now have paid prime interest rates on their loans.

resentatives (namely that members did not perform their normal duties).

(2) Yes.

(a) Grievances in connection with alleged discrimination in respect of work; living quarters; social and outdoor activities; facilities on prison grounds as well as allegations that the existing communication channel does not function effectively and that Commanding Officers are not accessible enough to hear members' grievances.

(b) In order to put these allegations into perspective, I wish to direct the Honourable member's attention to the fact that the dealing with the complaints and grievances of personnel is a continuous process. Specific grievances have come to attention recently. Although certain grievances do have substance, there are others with little or no substance and are attributable to wrong/distorted perceptions which have already been rectified/are in the process of being rectified.

The Prisons Service is currently compiling a handling strategy which will provide Commanding Officers with guidelines to solve the grievances which have not yet been resolved, as far as possible to the satisfaction of all parties.

One of the stumbling blocks, namely the provision of medical benefits to dependents of Black members, have recently been resolved. The decision to provide this service to members was taken in April 1989, but funds only became available on 1 April 1990.

Other stumbling blocks such as the establishing of better quality housing; establishment and upgrading of sports and recreational facilities; the provision of state transport between home and place of work where no public transport is available, are given ongoing attention, but are coupled to financial realities and will not occur overnight.

For purposes of complaints and grievances by members of the South African Prisons Service, a communication channel exists which provides that complaints and grievances may be forwarded to the highest level. All members are aware of this communication channel and it has always been the policy of the South African Prisons Service to deal actively with complaints and grievances brought to its attention.

Inland Revenue employees: remuneration

*7. Mr D J DALLING asked the Minister of Finance:

Whether any employees in the Finance Division: Inland Revenue are remunerated on a commission or revenue-collected basis; if so, what total amount was paid out on this basis in 1989; if not, (a) what is the basis of remuneration for these employees and (b) what total amount was paid out on this basis in the said year? B766E

The MINISTER OF FINANCE:

No — No personnel of Inland Revenue is remunerated on a commission basis or on the basis of tax collected. It follows that no remuneration was paid on this basis during the 1989/90 or any other financial year.

(a) The basis of remuneration is according to fixed salary scales as prescribed by the Commission for Administration.

(b) The total amount paid on this basis during the 1989/90 financial year amounts to R188 099 690. In addition to this, an amount of R1 457 015 was paid during the 1989/90 financial year in terms of a production bonus system to officials in the office of the Receiver of Revenue, Johannesburg.

The reason for the introduction of a bonus system is that a serious staff shortage is continually experienced at that office and the existing staff have to work that much harder to keep the work up to date. The remuneration is paid monthly on the basis of the production of all the officials of the office for the relevant month. It is in no

way related to the collection efforts of individual officials.

Transferability of pensions

*8. Mr P J PAULUS asked the Minister of National Health and Population Development:†

Whether the transferability of pensions is being investigated at present; if not, why not; if so, when is it expected that a report on this investigation will be available? B774E

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

Yes, transferability of pensions already exists between State controlled pension funds mutually, as well as between such funds and certain other pension funds. Investigation into the transferability of pensions generally, forms part of the terms of reference of the Mouton Committee of Investigation into a Retirement Provision System for South Africa, appointed by the Minister of Finance.

Police investigation into death of Mr Thikitha

*9. Mr L FUCHS asked the Minister of Law and Order:

Whether, with reference to the reply by the Minister of Justice to Question No 20 on 20 March 1990, the Police investigation into the death of Mr Thomas Mavimbela Thikitha near Heidelberg, Transvaal, on 13 February 1990 has been completed; if not, (a) why not and (b) when is it anticipated that the investigation will be completed; if so, what were the findings? B796E

The MINISTER OF LAW AND ORDER:

Yes, however the results of the tissue tests are still being awaited before the docket can be submitted to the Attorney-General for his decision.

(a) and (b) Fall away.

International School in Bophuthatswana: money from SA government

*10. Mr M J ELLIS asked the Minister of Foreign Affairs:

(1) Whether he gave an undertaking that the South African Government would give a sum of money to the International School in Bophuthatswana; if so, what are the relevant details;

(2) whether he has made any arrangements for this sum of money to be given to the said school; if not, why not; if so, (a) what arrangements, (b)(i) what is the amount involved and (ii) why was it promised and/or given and (c) for whom does this school cater? B798E

The MINISTER OF FOREIGN AFFAIRS:

(1) Yes. South Africa will provide, in the form of a loan, 50% of the costs of the construction of the school building.

(2) Yes.

(a) In terms of a loan agreement signed on 28 November 1989, Bophuthatswana may make drawings on the loan amount.

(b) (i) R3 850 000,00.

(ii) The RSA decision to assist financially in the construction of the school was based on various considerations including a study undertaken by the Department of Education and Culture and the Cape Director of Education.

(c) There are at present 176 enrolled students, of whom 43 are citizens of Bophuthatswana and the rest are representative of 22 nationalities.

*11. Mr J VAN ECK—Law and Order. [Question standing over.]

Third party insurance: compulsory

*12. Mr M J ELLIS asked the Minister of Transport:

Whether the Government intends making the balance of third party insurance on motor vehicles compulsory; if not, why not; if so, when? B801E

The MINISTER OF TRANSPORT:

No. This matter has been considered on many occasions by among others the Grosskopf Commission (appointed in 1981) and the Ad-

visory committee (established under section 7 of Act 84 of 1986) and never recommended. Matters such as these are, however, continually under consideration and compulsory balance of third party insurance is at present once again receiving the attention of the Department of Transport.

INTERPELLATIONS

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

Own Affairs:

Education models: standpoint of parent bodies

Mr A GERBER asked the Minister of Education and Culture:†

Whether the Government will regard the standpoint of representative parent bodies in regard to the proposed new education models proposed by him on 23 March 1990, as binding?

B839E.INT

*The MINISTER OF EDUCATION AND CULTURE: Mr Chairman, parental involvement and the inputs of its statutorily recognised advisory bodies are very important to the Government, as is determined in Act 39 of 1967.

A total of seven non-statutory parent associations from the four provinces receive official recognition at present, and have sitting in the four statutory provincial educational councils, to which I referred the additional models for the provision of education for advice. The individual associations represent tens of thousands of families of both language groups with different political convictions. It is even possible for parents from one school to belong to different parent associations.

The seven associations are affiliated to the statutorily recognised Federation of Parents' Associations of South Africa. This federation serves as an umbrella body and link between the parent community and the Minister, and I have referred the two additional models to this federation for advice as well. The standpoints of the individual parent associations will be taken into account by the federation in its commentary.

The Federal Teachers' Council was also asked for advice, and it is also logical to accept that more than one standpoint may emerge from this source. For this reason, and also because of the divergent needs of the communities that are represented by the seven parent associations and the councils, it would not be possible, therefore, to regard any specific advice as binding.

The Government will evaluate all the advice it receives and then decide on an additional model or models. I appreciate the fact that this topical matter is being discussed intensively in communities. It would be wise, however, to keep in mind that no finality has been reached as yet and that any conclusions are merely speculative at the moment.

Once the Government has taken a decision, it will not be the parent association or the councils that will take a decision in respect of the acceptance of an additional model for a specific school, but the vast majority of individual parents of the registered pupils of each school will have to address an unambiguous request to me. This contains a guarantee for the school community. No one will force a decision onto the parents.

*An HON MEMBER: Except the Broederbond. [Interjections.]

*The MINISTER: When they have all the facts at their disposal, they themselves will have to decide whether they want to retain the status quo, or want to select an alternative model. Nothing will therefore be done against the will of the vast majority of the parents in each school. [Time expired.]

*Mr A GERBER: Mr Chairman, let me make it clear once again. The CP has never agreed with the Government that political decisions should be devolved to parents and management councils. Decisions with regard to mixed school sport, the throwing open of schools, etc, must be taken by the Government. They do not belong on the agendas of management councils at all. But while the Government is trying to make so much of parental choice, and while the hon the Minister now even wants to leave the throwing open of schools to parent communities, we insist unambiguously on an answer to the question as to whether he is going to accept the standpoint of the organised parent bodies which are to advise him before 15 June, as binding?

In addition, and perhaps of even greater importance, the question is whether the hon the Minister and his colleagues are going to leave the choice in the hands of parent bodies, and whether they are going to be intimidated surreptitiously in all kinds of ways to support the Government. [Interjections.]

The hon the Minister is in big trouble. He thought all the parents would tell him his assurances were enough for them, that they trusted the NP, and that the NP had never broken a single promise to the voters. [Interjections.] However, the Cape Afrikaans-speaking Parents' Organisation, of whom one could perhaps have expected a different approach, have said they want to tell the Government in the strongest and clearest possible terms that they cannot and do not want to accept the two additional education models.

I put it to the hon the Minister that he will not really receive an objective standpoint from parent bodies as advice. The hon the Minister is merely seeking confirmation for mixed education in a new South Africa with regard to which the NP has already adopted a standpoint. [Interjections.]

The hon the Minister is playing a game with parents. This has emerged from the reaction of the hon members for Port Elizabeth North and Kempton Park, who do not grant the CAPO the democratic right of saying that they find those new education models unacceptable. [Interjections.]

I also put it to the hon the Minister that the NP has already decided to implement the new education models. They have already decided to do so. They have merely requested the advice of parent bodies and also the organised teaching profession because the hon the Minister finds it convenient to use this to defend his undemocratic conduct in this connection.

The Government asks us time and again whether we do not trust the parents. We ask the hon the Minister this afternoon whether he does not trust those parent bodies which speak on behalf of the White parents in South Africa. If the hon the Minister is not prepared to accept their judgement with regard to the new education monstrosities which are on his table, the hon the Minister is playing a game. [Time expired.]

Mr R M BURROWS: Mr Chairman, it is very interesting to hear the viewpoint of a CP speaker that they believe political decision-making should not be devolved to parents, regional organisations or organisations in schools. I have no doubt then that the CP will accept the decision of a new government in South Africa when it decides that all schools shall be open. That is no doubt what they mean. [Interjections.]

It is ironic to hear from CP mouths that they are appealing to the Government not to intimidate parents. If there is anybody doing intimidation on this kind of level, it is the members of the CP. [Interjections.]

Let us talk about the Cape Afrikaans-speaking Parents' Organisation that gave a view on this. I want to ask the hon members of the CP: How many people from the Western Cape were represented at that meeting? Five! There were only five from the whole of the Western Cape. That is certainly not a representative body of parents! [Interjections.]

Let us also be quite clear about it that the representative organisations that the hon the Minister has consulted at national or federal level are representative of the broad mass of parents across South Africa—English-speaking and Afrikaans-speaking. Certainly if views are going to be binding, they may be views that the CP may not like. So we believe that the organisations being consulted in an advisory capacity—the parents, the teachers and the education councils—should be allowed to give their view.

I want to appeal to the hon the Minister. Let us at least get a national debate going. Let us not have it behind closed doors. The hon the Minister is aware that he has provided certain information publicly. He is also aware—as are political parties at this stage—that he has provided the various advisory bodies with detailed models. There are differences. There are questions. Let us get the national debate going. Let us discuss it publicly, rather than do what the hon the Minister did when he spoke during his debate and refused to answer questions on it. Let us get the debate going throughout the whole country. [Time expired.]

*The MINISTER OF EDUCATION AND CULTURE: Mr Chairman, I want to convey my

Overdraft fears as Stals steps in

Cape Times 25/4/90

(58)

Financial Editor

THE man in the street may face higher overdraft rates, up to 33%, as a result of a crackdown on banks by Reserve Bank governor Dr Chris Stals.

Dr Stals has acted with unexpected speed to put a stop to off-balance sheet lending.

Some banks have got around requirements to deposit funds with the Reserve Bank to cover their liabilities by lending through "repurchase agreements", which do not appear on the balance sheet.

Although Dr Stals made it clear earlier this month that this would be stopped, it was thought the banks would get a breathing space until later this year.

Interim measures announced last night will mean that banks have to make larger deposits with the Reserve Bank if their off-balance sheet lending exceeds the total they had lent out in this way at the end of February.

To cover the cost, the man in the street will probably have to pay more for his overdraft.

Although the banks' prime lending rate to favoured customers is 21%, other borrowers pay anything up to 33% — the maximum allowed.

Any higher overdraft rates paid by business firms are likely to be passed on to consumers, in the form of higher prices.

● Full story — Page 12

Dr Chris Stals

Reserve Bank tightens credit squeeze

ARGUS 25/4/90 (58)

Business Staff

BUYING goods with credit cards or on hire purchase could become more expensive as a result of stronger curbs by the Reserve Bank on lending by commercial banks.

But the curbs — widely expected in banking circles for some time — are unlikely to lead to a further increase in the prime overdraft and home loan rates, say bank analysts.

The measures will push up the cost of funding for banks and building societies, forcing them to charge higher rates on a number of lending facilities.

The Reserve Bank, which is waging a war on inflation, was concerned about the massive amount of credit given easily by banks and other lenders.

MORE CONTROL

And it announced last night several measures aimed at giving it more control over the credit expansion of the country's monetary system.

Banks and discount houses will in future have to bring more than R11 billion worth of "off-balance sheet financing" back on to their balance sheets. This means that institutions affected by this move will have to make expensive cash and liquid asset provision for credit extended.

Banks and other financial institutions, notably discount houses, have been circumventing prudential banking guidelines, which attracts expensive cash and liquid asset requirements, by means of repurchase agreements. These agreements until now have not been recorded on their balance sheets.

Dr Chris Stals, Governor of the Reserve Bank, said the move is aimed at improving the soundness of the South African banking system, which was being undermined by bank's off-balance sheet financing methods.

"All depositors and shareholders may not always be aware of these additional risk exposures because off-balance sheet risks are not always fully disclosed," he said yesterday.

However, the measures will not be introduced overnight and will provide banks and building societies who are affected until the end of the year to comply with the new arrangements.

Dr Stals has said previously that he will not raise the bank rate — a decision which effectively bars the banks from raising either their prime or mortgage rates.

Nevertheless, say bankers, other rates that could be lifted include rates on credit card overdrafts, hire-purchase financing and loans other than those linked to prime.

"If the squeeze on our costs continues we will inevitably be forced to push up some rates," a banker said.

COOLING DOWN

But a banking analyst on the JSE, Mr David Southey, dismissed reports of large increases in interest rates.

"The economy is cooling down rapidly and any sharp increase in interest rates will no doubt lead to a further reduction in growth," he said.

The increases in liquid asset and cash requirements will differ from bank to bank, depending on their exposure to off-balance sheet financing. Standard Bank and Nedbank are likely to be heavily affected, whereas the cost to First National Bank is limited.

Bankers added that implementing the increases would be difficult given the competitive environment in which the banks are trading and since certain interest rates are already close to the limit prescribed by the Usury Act.

No delay on bank policy — Stals

Cape Times 25/4/90

58

By AUDREY D'ANGELO
Financial Editor

BANKS will be hit immediately by measures to tighten up on off-balance sheet lending, Reserve Bank governor Chris Stals made clear in a statement issued late yesterday.

These will also apply to discount houses — and could be extended to building societies if this is considered necessary.

Dispelling hopes that there would be a delay in taking any action until the end of the year, Stals said interim measures were needed to protect the savings of the public and to ensure that monetary statistics were reliable.

Stals spelled out that this meant "commitments by banks in respect of repurchase agreements will henceforth have to be reported on their balance sheets.

Deposits with RB

"The value of repurchase agreements concluded by banks in excess of the amount reported in returns of BA Form 7 for February will, as from the date of certification of the BA Form 7 return for May, 1990, be subject to the normal statutory reserve balance and liquid asset requirements imposed by the Banks Act, 1965."

This means that banks whose off-balance sheet lending becomes greater than the outstanding amount at the end of February will have to make deposits with the Reserve Bank to cover the excess.

However, Stals continued, rules would be issued by the Reserve Bank to avoid the maintenance of reserve balance and liquid asset requirements by banks in respect of repurchase agreements concluded by these institutions with the Reserve Bank or the Corporation for Public Deposits.

These rules would also make it unnecessary for double reserve balance and liquid asset requirements to be maintained in respect of repurchase agreements concluded between banks.

He said repurchase agreements by discount houses would also have to be reported on their balance sheets.

"Mutual building societies and building societies are at present not involved in repurchase agreementrs as part of their funding operations to any great extent.

"Although it will in future also be expected of them to record repurchase agreements on balance sheet, it is not at this stage thought appropriate to issue any formal directive to these societies in this regard."

But Stals warned: "The Reserve Bank will not hesitate, if this is deemed desirable, to prepare and propose amending legislation to Parliament or to take other measures to rectify unacceptable situations in respect of repurchase agreements concluded by mutual building societies and building societies."

He said these interim measures in anticipation of the enactment of the proposed Deposit-taking Institutions Bill were designed "to avoid any further erosion of prudential provisioning by banks under the existing regulatory regime without, however, distorting the existing competitive positions of individual institutions.

"It is fully recognised that there remains a need for further consultation and investigation with regard to the impact of the enactment of the proposed Bill on the proper development of a securities market in SA."

His statement said that discount houses and building societies would be subject to "similar requirements as banking institutions once the propsed Deposit Taking Institutions Bill is enacted."

Explaining why interim measures were being taken, Stals said repurchase agreements were in substance funding operations. They carried risks similar to those associated with normal on balance sheet funding operations and should therefore be subject to the same minimal prudential requirements.

Risk exposure

"Most repurchase agrements are in fact used specifically as an alternative funding mechanism in order to avoid such prudential requirements.

"The inevitable result is that the institution itself and its depositors carry a greater risk exposure."

All depositors and shareholders might not always be aware of these additional risk exposures.

"Another undesirable consequence of banking institutions' enhanced risk exposures (emanating from the avoidance of prudential requirements) is that undue responsibility is placed on the Reserve Bank in its role of lender of the last resort to the banking system.

"Moreover the Reserve Bank, as supervisory authority, does its utmost to protect the cash and savings of the public placed with regular deposit-taking institutions and must therefore satisfy itself that all these institutions comply with the established statutory minimum requirements."

In addition to this, Stals pointed out, off-balance sheet activities "detract from the reliability of monetary analyses for monetary policy requirements."

● Stals will be speaking at the Seeff-Cape Times Breakfast Club at the Rotunda in Camps Bay, tomorrow.

UBS hammers tax restraints on savings

B/Day 25/4/90

LINDA ENSOR

RAISING capital to sustain an economic growth rate necessary to create prosperity and job opportunities posed one of the single biggest problems for SA.

This was said by UBS Holdings CE Piet Badenhorst at the Strategic Management Society conference yesterday.

Such capital would have to come from personal savings, depreciation provisions, corporate savings and foreign funds, he said.

Today only about 6% of SA's available capital stock came from personal savings.

Badenhorst said the dramatic reduction in personal savings over the past 10 years was due to the excessive tax burden imposed by government which had reduced householders' capacity to save. Since 1961, personal savings had declined from 24% to 8%.

Personal income tax needed to be drastically reduced to increase household savings by 20%.

Furthermore, 47% of total capital requirements could be obtained from depreciation provisions, 22% from corporate savings and 12% from foreign sources.

Capital formation would be encouraged by the lifting of tax on dividends and the witholding tax on interest which Badenhorst said was "very much on the cards".

Government regulations, which differentiated between life offices and banks and building societies, had distorted the flow of funds into life offices, Badenhorst said.

Life offices had invested from 40-50% of their investment funds in banks and building societies and this had distorted mortgage rates, which were 1,25% higher than if the flow had not taken place.

Badenhorst estimated that the UBS had issued R1bn worth of loans to blacks to date and that the financial services industry had lent between R3bn and R5bn to blacks for housing.

New fund to invest in Eastern Europe

LINDA ENSOR

PROVIDENCE Capital (PC), Old Mutual's solely-owned life assurance and investment management group in the UK, is to establish two new specialist unit trusts — a gold fund and a fund devoted entirely to investments in Eastern Europe.

Group investment director of the unlisted PC Kevin Carter said yesterday the gold unit trust would invest in a global range of gold opportunities including SA. PC has assets of between £600m and £700m.

Eastern Europe had the potential to show very rapid economic growth in the next decade, Carter said, especially as it had educated, low-paid workers with a capacity for hard work.

"We will be concentrating on companies which earn a major part of their profits from that part of the world and will have a fairly major weighting in companies in proximate countries, such as Austrian and German companies."

Carter also believes the long term economic trend is favourable to gold.

"More than 10 years ago gold was $840 and today it is less than half that figure. Gold has lost 93% of its value against the Japanese stock market over the last 10 years.

"Therefore gold has had a totally wretched decade while other investments have done extremely well.

"Every asset has its cycle — gold had a

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New fund

☐ From Page 1

wonderful cycle in the '70s and a terrible cycle in the '80s.

Carter said historical analysis of the factors influencing the gold price showed that high inflation and low economic growth — as occurred in the '70s — contributed to a bouyant gold price. In the '80s the reverse happened.

"Over the next few years, the chances are fair that inflation is certainly going to be higher than it has been over the last five years around the world and that economic growth will be lower."

SA reserves hit 30-month high

By Peter Fabricius

CAPE TOWN — South Africa's gold and foreign exchange reserves climbed by R2,9 billion in January and February to reach R8,3 billion — their highest level since October 1987.

Finance Minister Mr Barend du Plessis disclosed this in Parliament yesterday during the debate on his Budget vote.

He indicated that it was partially due to the improvement in the international political attitude to South Africa.

But Mr Du Plessis said that despite the increase in foreign reserves there could be no question of relaxing exchange control.

The reserves represented only about 1,5 month's import cover and the Government was hoping to double this ratio.

He said the tight fiscal and monetary measures to cool down the economy were working but a further period of consolidation was still indicated.

The government would continue with "an appropriate mix of fiscal and monetary policies".

Mr Du Plessis said the positive results of the measures were now being seen in the form of a "soft-landing" for the economy.

The present downturn had been weathered much better than the one in the mid-1980s and the private sector was better geared to the measures.

In fact confidence had continued so high through 1989 that the cooling measures had taken some time to bite. The foundation was being laid for a new period of economic growth.

The government was now looking for a new and sustainable round of growth at the earliest opportunity and would continue to seek a good balance of payments surplus and curb inflation.

Growth in M3 falls

Finance Staff

Growth of credit extended in March, as measured by the money supply figures, declined substantially although it is still well above targeted levels.

Figures released by the Reserve Bank yesterday show that the preliminary estimate of the increase in broadly defined M3 for March was at 19,02 percent compared with 21,36 percent in February.

In money terms the M3 rose to R147,643 billion in February from R121,661 billion a year ago.

However, economists stressed that the provisional figures for one month were oftenerratic and had been revised upwards considerably over recent months. February's growth rate in M3 was lower than January's year-on-year increase of 23,63 percent.

The Bank also announced that M2 money supply in February rose 26,83 percent to R121,74 billionr, while the narrowly defined M1 rose 20,22 percent to R48,556 billion.

Stals sets end-of-year deadline for bankers

By Magnus Heystek
Finance Editor

The Reserve Bank last night announced several measures aimed at giving it more control over the credit expansion of the country's monetary system.

Banks and discount houses will in future have to bring more than R11 billion's worth of "off-balance sheet financing" back on to their balance sheets.

This means that institutions affected by this move, will have to make expensive cash and liquid asset provision for credit extended.

However, the measures will not be introduced over night, and will provide banks and building societies who are affected until the end of the year to comply with the new arrangements.

Banks and other financial institutions, notably discount houses, have been circumventing the prudential banking guidelines, which attracts expensive cash and liquid asset requirements, by means of repurchase agreements (repos), which have not been recorded on their balance sheets.

Banks that keep the level of their repos funding to those that prevailed in February this year would not have to keepprudential reserves against the repos, although they will have to be reflected on the balance sheet.

The February cut-off point would lapse when the new Deposit Taking Institutions Bill comes into operation, probably at the end of this year.

According to Dr Chris Stals, Governor of the Reserve Bank, the move is aimed at improving the soundness of the South African banking system, which was being undermined by bank's off-balance sheet financing methods.

"All depositors and shareholders may not always be aware of these additional risk exposures because off-balance sheet risks are not fully disclosed," he said.

Banking analysts consider it unlikely that these moves, widely expected in banking circles for some time, will lead to substantial interest rate increases, although banks will probably be forced to tighten their lending criteria.

A banking analyst on the JSE, David Southey from Edy, Rogers dismissed reports of large increases in interest rates.

"The economy is cooling down rapidly and any sharp increase in interest rates will no doubt lead to a further reduction in growth," he said.

Rates that could be lifted, if a bank has to make drastic cut-backs to meet the expensive asset and cash requirments, include those on credit card overdrafts and hire-purchase financing.

Bankers said, however, that implementing new increases would be difficult given the competitive environment the banks are trading in, and since certain interest rates are already close to the limit prescribed by the Usury Act.

According to the Act, rates on hire-purchase transactions valued at less than R6 000 may not exceed 33 percent and many banks are already charging within 1 percent of this level.

For transactions exceeding R6 000 the top interest rate is currently 30 percent. The same limits apply to interest on credit card overdrafts.

Other options for the banks include re-classifying the status of the customer, which entails charging higher interest on new or existing loans, but as one banker pointed out, "the client will just switch to the bank down the road" if this happens.

Nevertheless some kind of interest rate increases could not be ruled out altogether, some industry sources said.

"If the squeeze on our costs continues we will inevitably be forced to push up some rates," one banker said.

The increases in liquid asset and cash requirements will differ from bank to bank, depending on their exposure to off-balance sheet financing. Standard Bank and Nedbank are likely to be heavily affected, whereas the cost to First National Bank is limited.

Dr Stals has stated previously that he will not raise the Bank Rate, a decision which effectively bars the banks from raising either their prime or bond rates.

Interest rates hike unlikely as Stals gives banks room for manoeuvre

GRETA STEYN

RESERVE Bank Governor Chris Stals has given banks time to tidy up their balance sheets while at the same time cracking down on any further expansion in undesirable funding activities.

The room for maneouvre given to the banks means an across-the-board hike in interest rates will not take place, but banks will probably tighten their lending criteria. Discount houses are affected by the interim measures announced yesterday but not building societies.

According to the interim measures, banks that expand their funding through repurchase agreements (repos, or buy-backs) will fall foul of expensive cash and liquid asset requirements.

But those that keep the levels down to those prevailing in February 1990 — the cut-off point chosen by the Bank — will not have to keep prudential reserves against the repos. But all repos now have to be reflected on balance sheet.

Referring to the February cut-off figure, Stals's statement said: "Repurchase agreements by banks in excess of this amount will, as from the date of certification of their monthly returns of BA Form 7 for May 1990, be subject to prudential requirements imposed by the Banks Act, 1965."

The exemption would lapse on the date when the proposed new legislation as contained in the Deposit-Taking Institutions Bill comes into operation.

He noted the Bill was likely to come into effect by the end of 1990, when deposit-taking institutions would have to meet the prudential requirements provided for in respect of their "on-" as well as "off-" balance sheet commitments and claims.

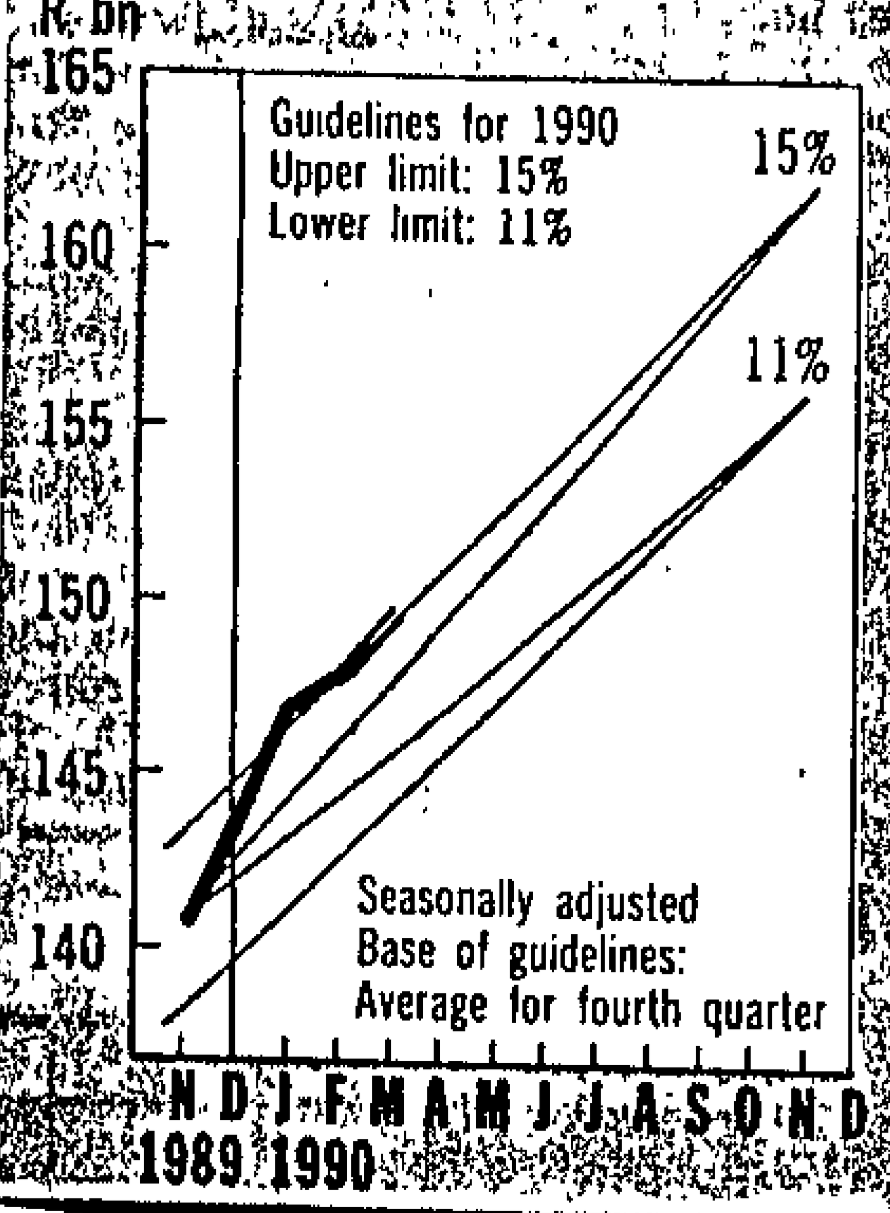
"It is advisable, therefore, that during the next few months banking institutions prepare themselves for compliance with the more broadly based prudential requirements."

On the discount houses, the statement said: "All provisions of the Banks Act, 1965, will, as from 21 June 1990, be applicable to repurchase agreements concluded by discount houses in excess of the amount of such agreements recorded in the monthly return for February 1990 to the Reserve Bank." BDay 25/4/90

All provisions of the Bill would be applicable to discount houses and building societies when it came into operation.

The interim measures would be formalised in rules to be issued shortly by the Bank. To avoid possible disruption of normal securities dealing the rules might provide for certain exemptions and would be compiled after consultation. (58)

"It is fully recognised there remains a need for further consultation and investigation with regard to the impact of the enactment of the proposed Bill on the proper development of a securities market."



M-3 growth hits two-year low

GRETA STEYN

MONEY supply growth in March edged closer to the levels the Reserve Bank wants to see, with the year-on-year rate of increase falling below 20% for the first time in about two years.

Preliminary figures for March, released by the Bank yesterday, showed growth in M-3 down to 19,02% (February: 21,36%). This is a sharp slowdown, as in the three months to January the year-on-year increases averaged 23,22%.

The monetary growth guidelines for the current year are 11%-15% — and the growth in M-3 from the base period of the guidelines was close to this range at 16,39% (annualised) in March. M-3 comprises all deposits with banks, building societies and the Post Office as well as cash in circulation.

First National economist Cees Bruggemans said: "This bears out if you push long enough, you'll eventually get there."

The markets responded positively to the figures with capital market rates falling a further six points.

Total M-3 (seasonally adjusted) stood at R149,75bn at the end of March — only 1,07% higher than February. This small monthly increase yields an annualised 13,7%, which is right on target.

However, Nedcor economist Edward Osborn warned against making too much of one month's figure.

"The monthly figures are notoriously erratic and subject to revisions and it will be some time before we can safely say growth in the money supply has slowed enough."

This note of caution is confirmed by the non-seasonally adjusted figures which saw a 1,6% month-on-month increase (annualised 21%).

BDay 25/4/90

O/Day 25/4/90

Southern's unit trusts perform well

ROBERT GENTLE

SOUTHERN Life yesterday signalled a good performance by its unit trusts during the volatile and politically eventful quarter just elapsed, but sounded a note of caution over what it called "the uncertain months that lie ahead".

Portfolio manager Carel de Ridder said recent events not only affected market trends but also investor sentiment, and the quarter ended showed signs of greater uncertainty and volatility.

Southern's equity fund closed at 161,72c a unit for the quarter and the mining fund was 168,06c a unit. An income distribution of 3,42c a unit was declared on the equity fund, and unit holders in the mining fund received 3,94c a unit.

The asset composition of the equity fund remained relatively constant during the quarter, with mining-related holdings reducing slightly from 51,9% to 50,7% of the portfolio.

Financial and industrial holdings decreased from 36,0% to 35,4% and liquidity increased marginally to 13,9%

Holdings in Rembrandt were increased and the remaining shares in Samancor and Plate Glass were sold off to reduce the number of counters and ensure the portfolio remained focused.

The mining fund saw a substantial increase in new investments, with the fund's market value rising 48% to R17,8m (R12m).

While additional purchases were made in most counters, Hartebeestfontein and South Vaal were added to the portfolio.

Liquidity levels increased to 15,1% (13,3%) and direct golds to 27,8% (24,5%), and mining financials slipped to 33,6%.

Surprise bond rate drop

Cpt Times 26/4/90

(58)

Financial Staff

FIRST National Bank is expected to announce a cut in its home loan rate soon — breaking rank from the other banks that will keep their interest rates high for some months.

First National senior general manager Mr Jimmy McKenzie said: "Our margins are in good shape because we curtailed asset growth. Having just reported good profits, the time is right to become more aggressive. We are considering taking some action on the home loans front."

FR 101/CT/D

Standard Bank 'a major player'

Cape Times 26/4/90

58

Own Correspondent

JOHANNESBURG. — The Standard Bank group is the major player in the off-balance sheet buy-back market with an exposure of about R3bn at end-February, according to the bank's monthly returns to the Reserve Bank.

Standard will be hardest hit by the Bank's moves to bring this financing back on balance sheet.

The Volkskas Group's exposure is the smallest of the big five groups with only R173,5m in off-balance sheet repurchase agreements (repos).

First National's is also low at R348m, but Nedcor (R1,4bn) and Bankorp (R991m) have a signficant chunk.

The figures do not include repos with the Reserve Bank.

If the banks keep their financing through repos at the February 1990 level, they will avoid the expense of cash and liquid asset requirements against these liabilities.

Governor Chris Stals issued a statement on Tuesday compelling banks to reflect these funding activities on balance sheet, but granted exemptions to the prudential requirements, based on the February figures, to avoid disrupting the markets. However, once the new Deposit-Taking Institutions Bill becomes law, the exemptions will expire.

In the banking industry as a whole, the merchant banks will be much harder hit in terms of their overall business than others such as commercial and general banks. Of the independent merchant banks, Rand Merchant Bank (RMB) is heavily involved in repos.

According to the December (BA9) returns to the Bank, RMB's total commitments in respect of repos was R577m — more than half their total on-balance sheet liabilities to the public of R930m.

Merchant bankers agreed they were the most heavily affected in terms of overall gearing but said they would expand into other areas.

They are already looking at the creation of a commercial paper market in SA and securitisation of assets is increasingly being mentioned as a new avenue.

However, one of the problems with these two innovations is the lack of a rating agency in SA. For a commercial paper market to be viable, there would have to be some measure of the quality of the paper.

NBS Holdings sees 40% rise in earnings

Cape Times 26/4/96

AUDREY D'ANGELO
Financial Editor

NATAL BUILDING SOCIETY (NBS) HOLDINGS lifted attributable earnings by an impressive 40% in the year to March 31, to R44,5m in spite of a huge rise in the tax bill to R30,9m (R17,3m).

It advanced 24,9% more in mortgage bonds than in the previous year — in spite of the fact that, at today's high interest rates, MD John Gafney says he expects more repossessions.

Pre-tax income soared to R73,2m (R48,6m). Net income, before earnings of R2,2m from associated companies, was R42,2m.

The final dividend is 18c (14,5c) a share, making a total of 29c (23c) a share — a rise of 26%, with increased cover of more than 2,6 times earnings.

Advances grew by 31,5% to R4,6bn (3,5bn). Of these, R4bn were mortgage bond loans compared with R3,2bn borrowed the previous year.

Instalment sale finance rose by 208,6% to R423m (R137m). Pointing out that this showed greater market penetration, assistant GM (finance) Paul Leafwright said most of this was corporate borrowing for new machinery.

"Consumer borrowing is only a very small proportion of the total and is mostly for white goods, like refrigerators and washing machines.

Leafwright said advances for garages and home extensions were included in mortgages.

"In spite of the present high rates there has been no falling-off in demand for these. People realise that building costs will rise and are going ahead with this work now."

However, John Gafney says in his report to shareholders: "We will do everything we can to assist the beleaguered homeowner, but regrettably the current high rates are likely to lead to an increase in repossessions.

"As a result we have stepped up our provision for losses on advances to R37m from R15m. This represents 0,8% of total advances compared with 0,42% previously."

Gafney sees little prospect of any significant fall in interest rates in the current year. "This means that while many investors are able to enjoy real returns on their money, borrowers will remain hard-pressed."

He continues: "We see a tough year ahead for the financial services sector with difficult trading conditions."

But he thought that, by maintaining high lending standards, prudent funding policies and tight control over costs, NBS Holdings' would "still achieve real growth in earnings in the coming year".

FNB to lower bond rate

Star 26/4/90 (58)

Finance Staff

First National Bank is expected to lower its bond rate at the weekend to bring it in line with that of its major competitors.

FNB's current bond rate is 21 percent for both existing and new bonds, while Standard Bank's is 0,25 percentage points below that at 20,75 percent.

Senior general manager Mr Jimmy McKenzie said yesterday that good financial results meant FNB had ample capacity for an expansion in business in the coming months.

FNB's results, which were released yesterday, show that the bank's margins have improved considerably since it curtailed asset growth over the year.

This is in line with this week's Reserve Bank move on off-balance sheet financing and gives the bank greater flexibility in its funding arrangements.

Other banks are likely to maintain general interest rates at their current level, even for longer than originally anticipated, to meet the changed liquid asset and cash requirements announced by Reserve Bank Governor Dr Chris Stals on Tuesday.

Standard Bank and Nedcor indicated yesterday that the requirements could affect the way in which they finance their lending facilities.

● See Page 25.

Policeman is

NBS earnings lifted by strong demand

Star 26/4/90 Finance Staff 58

The continued strong rate of demand for mortgage finance boosted the Natal Buildings Society's earnings per share by a strong 39 percent to 76,6c (55,2c) in the year to end-March. A final dividend of 18c (14,5c) was declared, bringing the total for the year to 29c (23c).

Attributable income was up by 40 percent to R44,6 million (R31,9 million) as a surge in taxation to R30,9 million (R17,4 million) cut a large slice of the 51 percent increase in net income to R73,2 million (R48,6 million).

Commenting on the results the directors said notwithstanding current high interest rates the demand for mortgage finance remained at high levels and mortgage balances grew by 25 percent over the year.

Earnings from associate Norwich Life grew from 933 000 to R2,2 million while the NBS' greater market penetration pushed up instalment sale finances from R137 million to R423 million.

Trading conditions are, however, expected to become more difficult during the current financial year, the directors state.

Flow of savings to be probed

By Sven Lünsche

The Government is to investigate the flow of savings from banks and building societies to the life offices in order to create a "level playing field", Deputy Minister of Finance Org Marais announced in a press statement yesterday.

The investigation will be undertaken by the special adviser to the Reserve Bank, Dr Japie Jacobs, supported by experts from all the institutions concerned.

The investigation, which will also focus on the impact of the tax system on savings, follows on the strength of representations by the life offices.

It will aim at the creation "of a level playing field for competing financial institutions", Mr Marais said.

It will pay special attention to:

- The division of life offices' funds according to their purpose, via pension funds, long-term insurance funds, and corporate (shareholders) funds.
- The efficiency of the tax formulae governing the income of the funds (but not involving the departure from the trusteeship principle in the case of life assurers).
- The impact of the financial requirements on the relative competitive position of the various types of financial institution.

FNB calls it right and is well rewarded

Star 26/4/90

By Derek Tommey

First National Bank is again showing that it is the bank to be measured against.

Figures issued today show that its excellent 32,6 percent rise in earnings last year has been followed by a further outstanding 32,1 percent rise in earnings from 135,9c to 179,5c a share in the six months ended March this year — and this in difficult trading conditions.

Further good news for shareholders is that the bank, for the first time for five years, has increased its interim dividend. Shareholders will get 40c against 35c last year. And the cherry on the top is that the bank expects to report a 30 percent growth in profits for the year ending September, says Mr Jimmy Mackenzie, senior general manager.

Several factors are responsible for the bank's good showing. But one of the most important is that the bank's management decided that this was a time to be battening down the hatches (or consolidating as it is sometimes called) and was not a time for expansion.

The result of this policy is that the bank's advances business — its main source of revenue — showed little growth. Advances at the end of March amounted to R23,6 billion, which was not much higher than the R23,4 billion a year ago.

Surplus funds

This policy produced several benefits. It provided the bank with surplus funds and consequently it did not have to buy high-cost deposits or pay penal rates at the discount window to get the funds it needed.

The pay-off was that net income from interest rose by 20,4 percent to R660,4 million — showing there are times when caution can produce better profits.

Mr Mackenzie said that the Governor of the Reserve Bank, Dr Chris Stals, saw the bank's figures as evidence that his current tough monetary policy could work.

Another important factor in increasing earnings was the bank ability to limit the rise in operating costs to 8,9 percent. Main reasons for this was the considerable rationalisation undertaken, the reduction of some 1 300 in its staff levels, and the shedding of some bad investments.

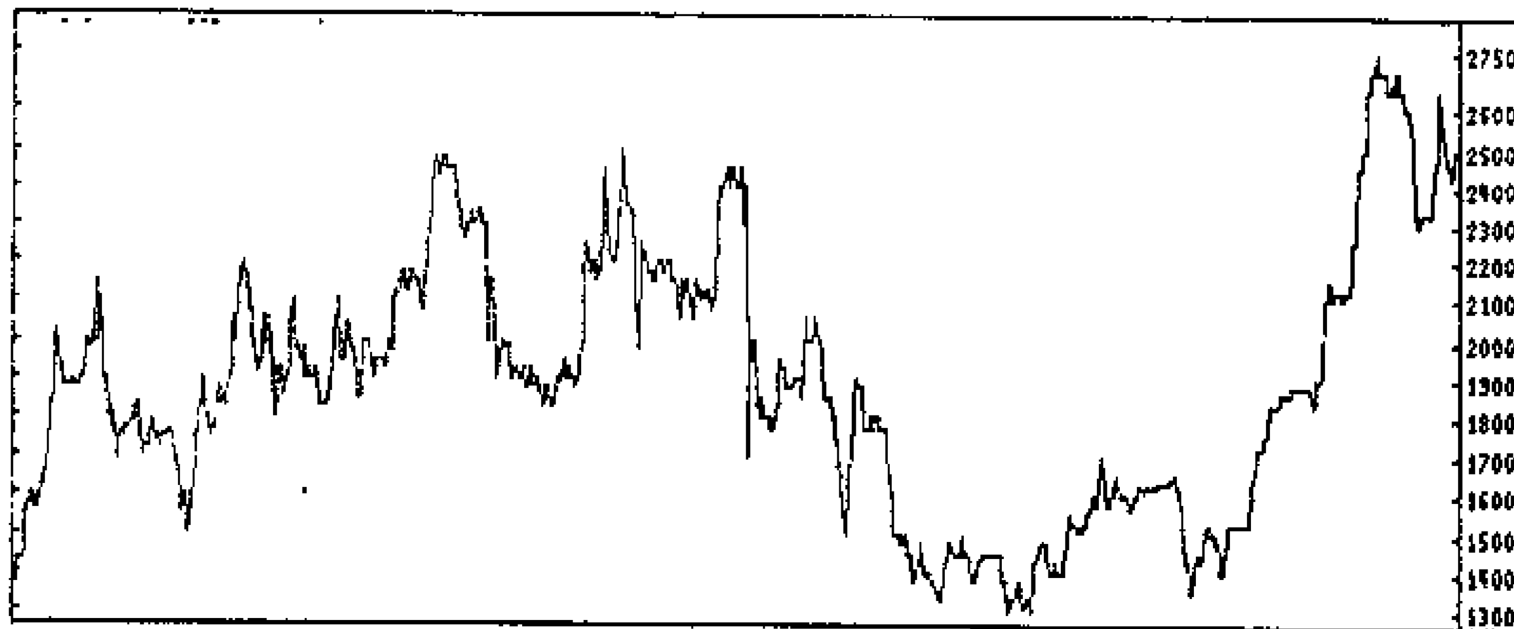
This emphasis on limiting cost increases was on-going and should produce further benefits in the years ahead, said Mr Mackenzie.

Other sections of the bank also produced good results and "other" operating income rose by 21,0 percent to R450,3 million.

But not all the increase in net interest income was available for shareholders. In the past nine months the bank has thoroughly examined and evaluated its lending portfolio.

This scrutiny led to it almost doubling its doubtful debt provision from R76,3 million to R147,0 million. But Mr Mackenzie says this provision should be lower in the future.

Profits before tax rose a healthy 38,1 percent to R209,2 million, but tax payments rose 41,2 percent to R95,6 million, resulting in taxed earnings showing a 35,5 percent rise to R113,6 million, while net income, which included R17,0 million from associated companies, rose 31,2 percent to R130,6 million.



First National's share price.

After paying out R34,7 million in dividends, the bank was able to plough back R95,6 million.

This has contributed to the bank being fully capitalised. It it already in full compliance with the 1992 Reserve Bank requirements — which means that it has ample capacity for an expansion in business in the coming months.

'Just the best'

But the bank's intention was not to become the biggest — just the best, said Mr Mackanzie, and it would seek only good quality profitable business.

Partly to this end the bank has introduced a training programme to upgrade the lending skills of its managers.

It has also introduced additional disciplines supported by a rigorous credit evaluation and risk management concept to create a stronger credit ethic throughout the group.

With First National now poised for an increase in business, with the bad debts provision likely to fall, with more cost cutting in the pipeline, and with the bank traditionally doing better in the second half of its financial year, Mr Mackenzie is hopeful that profits in the second half of the year could also grow by 30 percent.

First National's shareholders would seem to be destined to have more good news in six months' time.

Nedcor group 'performs strongly'

CAPE TIMES 27/4/90

Financial Editor

COMMERCIAL bank Nedbank and the Perm continued to be the star performers in the Nedcor group, in the six months to March 31.

In spite of tighter banking conditions, a higher tax bill and increased provision for bad debts, the group lifted net income by 33% to R227,2m (R171m) before the transfer of R86m (R57m) to tax equalisation reserves.

Earnings per share rose to R122,2c (92c) before the transfer and 76c (64c) after it.

The interim dividend was 17c (15c), covered 4,5 times by earnings.

Tax was R26,1m (R7,8m). Nedcor is now on a notional effective tax rate of 44,2% compared with 33,5% last year.

Chairman John Maree said the group performed strongly and was well positioned for the second half of the year.

The operating companies were generally confident that the growth in profits would be maintained. But the extent of the improvement would, to a large extent, be determined by the steps taken by the authorities, interest rate margins and bad debts.

"Proposals on increasing the minimum capital requirements of banks are presently under consideration by the regulatory authorities.

"Although full details are not yet available, preliminary estimates show that the Nedcor group has sufficient capital to meet its requirements for the immediate future."

New CE Chris Liebenberg explained that, although experience had so far been better than expected, provision for bad debts had been increased to R73,4m from R25,3m in March 1989.

He thought this adequate for "the more difficult economic conditions ahead of us."

Liebenberg said the improvement in Nedcor's results was due mainly to Nedbank and the Perm. Nedbank lifted net income before tax equalisation by 21% to R119m. The Perm's net income rose by 86% to R67,9m.

"In spite of tighter banking conditions the other operating companies all performed well and succeeded in improving their profit contributions.

"The exception was UAL Merchant Bank. Its half year contribution declined to R11,5m from R13,2m as a result of a counter party failure on a forward transaction."

Although the economy was headed for more difficult times the group had a strong capital base and "excellent companies well positioned in their respective markets."

Total assets had increased by 14,7% in the past 12 months if off-balance sheet repurchase agreements, which declined to less than R1bn, were included.

Liebenberg said the balance sheet was very strong, and very liquid with 17% of total assets including repurchase agreements in cash or near cash.

"Our return on shareholders' funds at 19,7% and our return on assets at 0,92% are among the best in the industry."

Bumper profits for banks

ARGUS 27/4/90 (58)

By TOM HOOD, Business Editor

PROFITS are soaring at banks and building societies while many customers — especially small businesses and home buyers — are almost crippled by paying high interest rates on their borrowings.

Reports from leading lending institutions show big profits in spite of squirrelling away tens of millions of rands in expectation of losses from "bad debts" from business customers and individuals and repossessions of homes.

Profits were earned from an upsurge in lending to consumers at a time when the Reserve Bank was trying to reduce the growth of bank credit.

The Perm today reported an 86 percent hike in profit to R68 million for the six months ending March 31.

Despite high bond rates demand for home loans was strong. Growth in home loans was R771 million — sharply higher than the R406 million of new loans granted in the same period last year.

Another building society, NBS, had a 51 percent jump in pretax profit to R73 million. It expects losses to soar later this year and doubled its provisions to R37 million.

Nedbank reported net profit of R119 million, up 22 percent, plus R80 million that went to the rest of Nedcor group for capital. This was after trebling to R73 million the cash put aside for losses on bad debts.

Syfrets, also reporting improved profits from lending, lifted net profit by 19 percent to R10 million.

Cape of Good Hope Bank and Finansbank managed a combined R8 million profit, up 19 percent.

The biggest bank, First National, achieved pretax profits of R209 million for six months, up 38 percent. Millions more went into reserve to cover expected losses from bad debts.

DBSA to mobilise R175m from the capital market

Cape Times 27/4/90 (58)

Own Correspondent

JOHANNESBURG. — The Development Bank of SA (DBSA) is attempting for the first time to mobilise R175m from the capital market in the first tranche of a planned borrowing of R300m this financial year.

This represents a small part of the total funding requirements of the bank and was necessary, bank chairman Simon Brand said last night, to supplement the resources available to the bank this year. Annual disbursements were running at R800m per annum, he said.

Over three to five years the bank plans to raise R1,5bn.

The coupon rate for the first issue to the capital market is 14,5% with a term of 20 years and a redemption date of September 30 2010.

Brand said the issue was not earmarked for any specific projects. The bank is hoping the stock will trade at about the same levels as other government stock.

Brand said it was planned that in future about 50% of funds would come from the private sector, the rest being self-generating and government financed. To date government grants to the bank were about R2bn.

Funds raised, Brand pointed out, were safe as they were finally guaranteed by government. Thorough appraisals of development projects were undertaken and projects were monitored. Projects had to have economic merits. Also, the financial soundness of borrowers were assessed.

Because there was doubt about the political future of many bank borrowers, such as local and homeland governments which were under pressure both due to political developments and to their own administrative capacities and financial health, Brand said the bank had become involved in the strengthening of these institutions.

"The projects we finance will be continued despite political changes," Brand said, admitting that this was the most difficult part of the risk to be managed.

He emphasised, however, that whatever political changes came about, the need for development projects would not disappear.

As regards decentralisation projects, Brand said the bank tended to steer clear of support such developments where their economic viability was in question.

He said the bank was involved in infrastructural development such as road construction, water supply, electricity and small business development, etc.

Brand said the investment of the bank would pave the way for direct private sector investment in development projects.

BANKING

Putting their house in order

FM 27/4/90 (58)

When he announced on Tuesday that off-balance sheet funding commitments were to be brought above the line, Reserve Bank Governor Chris Stals gave some interesting statistics relating to these transactions. It seems that, at the end of February, the ratio of repos to comparable liabilities to the public on banks' balance sheets, ranged from 0% to 550%. They totalled R11,1bn.

Corresponding ratios for discount houses as at end-March ranged from 88% to 430% — a total of R4bn.

In future banks, discount houses and building societies will all be required to report these on balance sheet and to record similar amounts as liabilities to the public. These will be subject to reserve balance and liquid asset requirements.

He concedes that piecemeal implementation of requirements of the new legislation relating to banking will have a "disruptive impact on trading activities in money and capital markets and will also have a material influence on bank margins."

So he will cushion the impact for individual banks, with an interim measure, exempting them from an amount equal to the value of the repos outstanding at the end of February. In May, anything in excess of this amount will be subject to prudential requirements.

This exemption will lapse on the date when proposed legislation is introduced.

Because of the escalation of this method of funding, Stals said the introduction of the measures at this stage was unavoidable for prudential reasons. He pointed out the risks placed an undue responsibility on the Bank, as lender of last resort.

It seems, however, that the Bank will be prepared to distinguish between a genuine market transaction and one which is "in substance a funding operation because it carries risks similar to those associated with normal on-balance sheet operations and so should be subject to the same prudential requirements." ■

RESERVE BANK FM 27/4/90

Figuring it out

(58)

The Reserve Bank is investigating differences in accounting methods that have led to large discrepancies in its published asset and liability figures. The latest *Quarterly Bulletin* shows "other assets" (which include for-

FINANCIAL MAIL APRIL 27 1990

FM 27/4/90 (58)

ward cover losses) of R18,3bn in November — a massive R1,6bn (10%) more than the R16,7bn in the Bank's monthly statement. "Total assets" were also R486m (1,7%) higher in the bulletin, at R29,6bn.

Discrepancies are not uniform.

December's other assets are put at R15,8bn in the *Bulletin,* R800m (5,4%) more than in the monthly statement — but total assets are R340m (1,2%) *less* in the quarterly report than the statement issued at the time.

A Bank spokesman says monthly statements are calculated "in accordance with the Reserve Bank Act" while the *Bulletin* is calculated on "economic principles." But figures "should be the same for both classifications." Most likely *Bulletin* calculations will be matched to the monthly statements to stay within the guidelines of the Act.

Bulletin figures for the rest of 1989 also do not match those published monthly. ■

GUARDIAN NATIONAL FM 27/4/90

In the wars (58)

A sharp increase in motor accidents, crime and unrest since late-1989 has probably shoved most short-term insurers into losses on personal lines. Rates are rising in response but that should fill in for some of the margins lost rather than lift them above last year's mediocre levels.

Luckily, corporate business predominates in Guardian's portfolio. But even in that

FM 27/4/90 (58)

Activities: *Shortterm insurance.*

Control: *Guardian Royal Exchange Assurance Plc 51%.*

Chairman: *D Gordon; MD: K Nilsson.*

Capital structure: *10m ords. Market capitalisation: R175m.*

Share market: *Price: 1 750c. Yields: 6,3% on dividend; 17,2% on earnings: PE ratio, 5,8; cover, 2,7. 12-month high, 1 800c; low, 1 050c. Trading volume last quarter, 7 400 shares.*

Year to Dec 31	'86	'87	'88	'89
Total assets (Rm)	402,4	381,5	411,8	518,4
Solvency margin (%)	63,6	59,7	75,4	72,7
Premiums earned (Rm)	210,2	292,1	316,1	423,2
Underwriting profit (Rm)	(1,8)	9,5	16,9	9,2
Inv income (Rm)	15,9	18,6	24,7	36,2
Pre-tax profit (Rm)	14,2	28,1	41,6	45,5
Earnings (c)	100,6	165,9	251,6	301,2
Dividends (c)	58	70	90	110
Net worth (c)	916	1 014	1 419	1 962

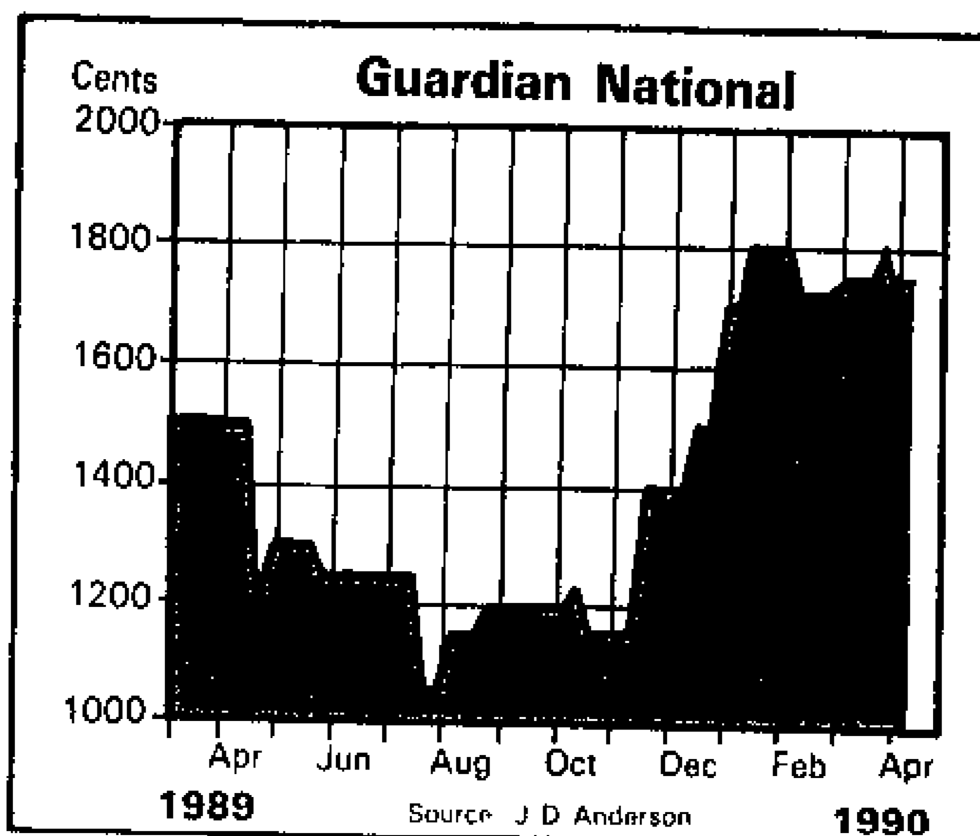
market, rates have been softening for the past three years. Some hardening of Lloyd's rates following a string of weather disasters overseas should filter through to SA reinsurance and retail rates, perhaps signalling the end of rate cutting.

Timing of movements in the cycle is influenced, among other factors, by shifts in interest rates, inflation, excess capacity in global markets and catastrophes. Reducing the effect of the cycle is a major challenge for short-term company managers.

But even if the cycle turns, it will only take place well into Guardian's present financial year. And that means that an improvement in the underwriting profit is unlikely. Couple that with the less propitious outlook for investment income and Guardian's overall prospects seem gloomy. Last year, higher investment income outweighed the underwriting profit drop.

Guardian's Gordon . . . dealing with softer roles

Still, Guardian did well to increase gross premiums by 34% and to generate an underwriting profit where some companies made losses. This was despite Guardian's position as lead insurer for Sasol, which suffered losses totalling about R400m. Gordon says Sasol was manageable because of prudent reinsurance. Even so, Guardian decided to retain a greater share of risk last year, shown by the fact that net premiums grew more rapidly than gross. Gordon believes Guardian will follow other insurers into direct marketing as a competitive tool.



SA's short-term industry has withstood the rates war reasonably well, probably because new data processing techniques allow insurers to react more quickly to market developments. In addition, discounting was probably reined in by the fact that insurers have had to build reserves in the wake of Melamet. But the immediate outlook is poor and Guardian, along with other short-term companies is ex-growth. *Teigue Payne*

Stals: new Bank measures not meant to be restrictive

LESLEY LAMBERT

CAPE TOWN — Recent measures to address banking institutions' off-balance sheet funding activities were not intended as a further restrictive measure and were unlikely to place upward pressure on interest rates, Reserve Bank Governor Chris Stals said yesterday.

Speaking at a breakfast meeting for Cape Town business people, Stals said the measures — intended to improve the soundness of the banking system in the medium term — had been mild.

He announced earlier this week that the measures would be implemented to bring off-balance sheet repurchase transactions back onto the balance sheets of financial institutions which entered into this form of financing.

But to avoid disrupting the markets and placing severe restrictions on the ability of some banks to maintain existing levels of activity, Stals said the Reserve Bank would grant certain exemptions to cash reserve and liquid asset requirements.

Stals added that institutions affected by the new requirements could continue to roll over the existing repurchase transactions at maturity and to replace maturing transactions with new ones if they stayed within the overall limits that existed at the end of February 1990.

● Comment: Page 8

BUSINESS DAY, Friday, April 27 1990 3

Safex takes the reins of SA futures market

ROBERT GENTLE

THE informal futures market will today see the last day of trade under the auspices of Rand Merchant Bank (RMB) which, on Monday, will hand over the reins to SA Futures Exchange (Safex).

Safex's clearing company Safcom, will, in effect, become the custodian of the market.

Its clearing members, mainly banks and the JSE, will assure the financial integrity of the market. RMB will simply end up as one of the 14 or so clearing members, albeit the most active.

There was much praise in the market yesterday for RMB, which single-handedly introduced financial futures to the market three years ago.

An RMB spokesman said they were pleased the market had come of age but were too busy with preparations to be sentimental about it.

RMB will forego the lucrative clearing income — about R50 000 a day depending on market volumes — it enjoyed as official clearer. Safcom will now pick up this revenue.

The RMB spokesman said the three years had been a profitable from both a monetary point of view and the experience gained. He pointed out that not a single cent had been lost on any defaulting trade despite two stock market crashes.

Futures brokers welcomed the switch-over to a more formal market, which now needs only a licence from the Registrar of Financial Institutions to become a fully fledged exchange operating within the Financial Markets Control Act.

A trader from First Financial Futures said volumes could jump 30% by the end of the year. A trader from Holcom Futures took the opposite tack, saying most of the key players were already in the market.

There are contingency plans for RMB to "take back" the market from Safex should things go wrong but few observers think this is likely.

Property funds gain from firmer rentals

b/day 27/4/90 58

CHARLOTTE MATHEWS

PROPERTY funds Umdoni and Tamboti have benefited from the fact that a large proportion of leases in their portfolios have been renewed recently or are falling due for renewal shortly.

This enabled the funds to benefit from firmer rental levels, property managers Russell Marriott & Boyd Trust MD Michael Hyatt said yesterday.

Umdoni raised its dividend for the January to March quarter to 3,80c a unit, bringing the total dividend for the six-month period to March to 7,55c a unit. This represented a 10,2% improvement over the 6,85c declared in the six months to March 1989.

Hyatt said Umdoni's growth had resulted from annual escalations and much improved rental levels negotiated on leases that fell due for renewal during the past year. At the end of the period under review the vacancy level was only 0,7%.

Although the fund has invested most of its cash resources in property at yields below current call rates, the forward yield of the portfolio is over 11%.

At the end of March, Umdoni had cash resources of R6m for investment and commitments for development in progress of R1,3m.

Tamboti declared a dividend of 13,6c a unit for the six months to March. No comparable figure was available because the year-end had changed.

The fund is currently undertaking the development of the Protea Assurance Cape Town head office. The first phase is almost complete and the second is due for completion in April 1991.

At the end of March Tamboti had cash resources of R4,9m which were committed to the Cape Town development.

Management consultancy

Finance is needed for developing businesses

B Day 27/4/90 (58)

DEVELOPING businesses have a vital role to play in the future of SA and it's madness that there is no capital available for them, says Ernst and Young (E&Y) corporate advisory services MD Claire Herbst.

Immobility

Indicative of the problem is the immobility of funds on the JSE where, despite massive funds available for investment, liquidity is low and growing businesses find it difficult to raise new cash.

"The companies we're talking about are not after risk capital, but seeking funds to finance rapid growth."

Herbst says there has been substantial growth in E&Y's business network services, which aims to match buyers and sellers of interests in companies.

"We are usually involved in medium to large companies and deal in amounts of anything from R1m to R30m."

Companies looking for expansion finance have usually experienced tremendous growth and are in a position in which they require capital injections to facilitate further growth. The new money is usually used to increase working capital.

"It's ironic that, given this situation, institutions keep investing in the traditional blue chip companies, even though they offer lower rates of return in most cases," she says.

Monitor

"Institutions don't have the infrastructure to monitor a lot of small investments."

Despite the incredible demand for finance, it is still very difficult to raise, she says.

"Merchant banks are not active in raising small amounts of equity and unlike London we have no investment banking community.

"We always have a few companies on the books that are looking for capital.

"They often have between one and three major shareholders, are well established and need finance for new projects or expansion."

Herbst's organisation tries to raise funds for the companies via a network of investors, most of whom are looking to take some form of equity in the operations.

"Majority stakes are fairly easily placed, but it's harder to find buyers for minority holdings."

Pre-screen

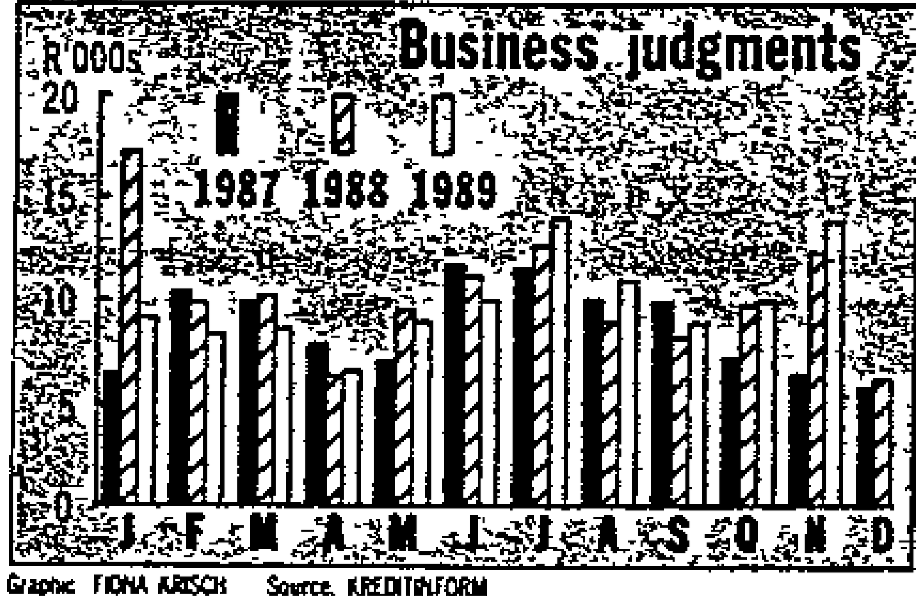
Her operation usually earns fees on an hourly basis, but incentive-based fee structures are also used, Herbst says.

"We pre-screen most prospects, many of which are E&Y clients. This adds credibility to any requests for finance."

Kreditinform

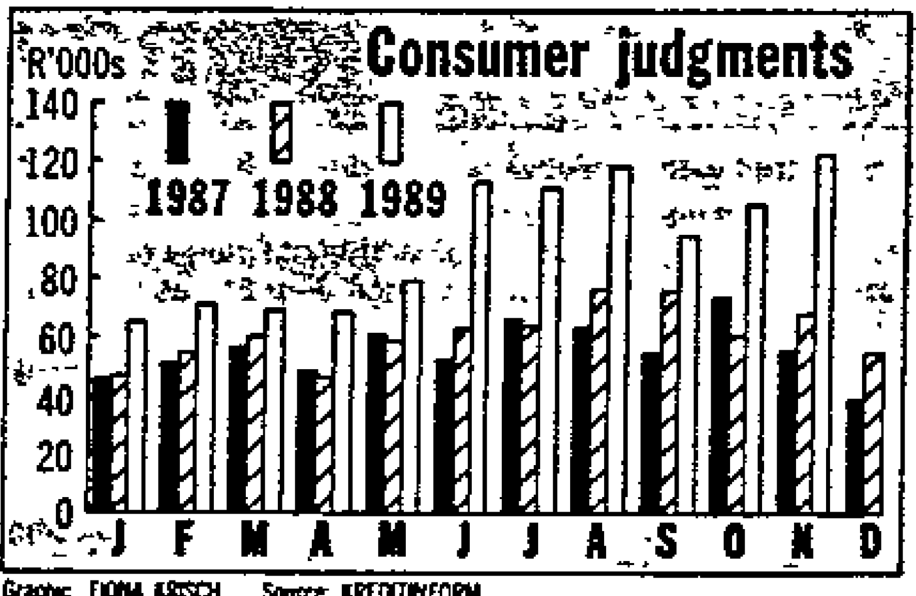
Business Day SURVEY

Outside the banks, the largest on-line network for customers is KreditInform, whose Corporate Credit Information Services experienced a 40% increase in demand last year. This year, growth in demand for written reports compiled by the company is running at 29% above last year. Judgments are expected to increase substantially over the next few months, and if interest rates stay high the business sector is in for a tough era of credit management. ***MELANIE SERGEANT*** *reports.*



Graphic: FIONA KRISCH Source: KREDITINFORM

A reflection of tough business conditions



Graphic: FIONA KRISCH Source: KREDITINFORM

Networking growth boosted as demand for information soars

NETWORKING is growing in SA and is being embraced as the answer to immediate information gathering.

Outside the banks, the largest on-line network for customers is KreditInform, and the company's Corporate Credit Information Services have grown faster than anticipated, experiencing increases in demand of 40% last year.

This year, growth in demand for written reports compiled by the company is running at 29% above last year.

The growth reflects tough business conditions in SA, but MD Ivor Jones says apart from being good for business in general, an important benefit of this surge in demand is that the company's already substantial database is updated more often and increased in size and information.

"The more research is done, the more the database is updated," he says.

KreditInform's is the country's largest, most up-to-date and most current corporate credit information database.

"It's estimated we have up to 70% of the corporate information market in SA and this is growing."

Jones says as judgments are expected to increase substantially over the next few months, liquidations will follow, and if interest rates stay high the business sector is in for a tough era of credit management.

One sure sign that business is under the whip is the large number of companies converting to Closed Corporations, a trend which goes against the spirit of the Act when CCs were launched — the idea was to encourage the informal sector to join traditional business.

Tough

As tough trading conditions become real to companies, so they are calling for more credit checks on existing and potential customers, suppliers and others with whom they do business.

"The KreditInform Information Sharing System (KISS) processes some R500m a month of trade reference information, with some 86 000 trade references being produced by the system in March alone.

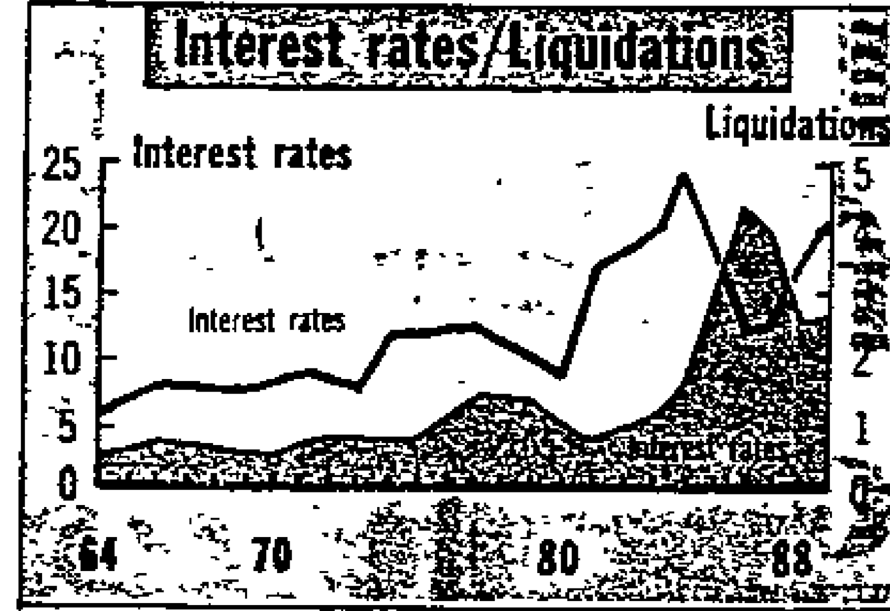
"Growth has been nothing short of spectacular, and as it grows, so more companies are contributing information to KISS — a phenomenon spurred by the slowdown in sales with higher interest rates and generally more difficult trading conditions."

The KISS system comprises different industry groupings and reflects information such as the increase in average debt and the percentage of unpaid accounts.

Because conditions in the credit management industry have become so difficult, Jones says more credit managers are becoming wise to weeding out their high-risk debtors, and raising credit limits on existing customers to whom they wish to sell more.

Ensuring

"Essentially, they are ensuring at an earlier stage of the economic downturn that they will increase sales to the lower risk end of their debtors book. Debtors books are being segmented into good, mediocre and bad — and appropriate steps taken to ensure the lower end is properly monitored.



Graphic: LEE EMERTON Source: KREDITINFORM

"The more proactive stance in credit management doesn't stop here, however. More companies have found that by using information readily available through KreditInform's network, they can cut sales staff's work greatly.

"Instead of sending sales people into the field and then credit checking once they have orders, they are first using our systems to check credit ratings of potential customers.

"The online system makes this both simple and cost effective; once the user has paid his subscription, there is no restriction on usage."

Development Bank plans to raise R175m

LINDA ENSOR

THE Development Bank of SA (DBSA) is attempting for the first time to mobilise R175m from the capital market in the first tranche of a planned borrowing of R300m this financial year.

This represents a small part of the total funding requirements of the bank and was necessary, bank chairman Simon Brand said last night, to supplement the resources available to the bank this year. Annual disbursements were running at R800m per annum, he said.

Over three to five years the bank plans to raise R1,5bn.

The coupon rate for the first issue to the capital market is 14,5% with a term of 20 years and a redemption date of September 30 2010.

Brand said the issue was not earmarked for any specific projects. The bank is hoping the stock will trade at about the same levels as other government stock.

Brand said it was planned that in future about 50% of funds would come from the private sector, the rest being self-generating and government financed. To date government grants to the bank were about R2bn.

Funds raised, Brand pointed out, were safe as they were finally guaranteed by government. Thorough appraisals of development projects were undertaken and projects were monitored. Projects had to have economic merits. Also, the financial soundness of borrowers were assessed.

Difficult

Because there was doubt about the political future of many bank borrowers, such as local and homeland governments which were under pressure both due to political developments and to their own administrative capacities and financial health, Brand said the bank had become involved in the strengthening of these institutions.

"The projects we finance will be continued despite political changes," Brand said, admitting that this was the most difficult part of the risk to be managed.

He emphasised, however, that whatever political changes came about, the need for development projects would not disappear.

As regards decentralisation projects, Brand said the bank tended to steer clear of support such developments where their economic viability was in question.

He said the bank was involved in infrastructural development such as road construction, water supply, electricity and small business development, etc.

Brand said the investment of the bank would pave the way for direct private sector investment in development projects.

TrustBank sees drop in inflation rate by 1991

ANDREW GILL

SOUTH Africans can expect a real GDP growth of below 1% and a 12,5% inflation rate — currently at a static 14,9% — by the end of the year, TrustBank's latest issue of Econovision forecasts.

In its March/April issue, the bank said the GDP estimate would be a result of tight monetary policy; the lowest rise in consumer spending and the first fall in fixed investment in four years; a marked reduction in commercial and industrial inventories; lower agriculture production volumes; and slower export growth.

Inflation was expected to fall to 13,5% by July and 12,5% by year-end. This would be a major factor affecting interest rates, which Econovision expected to fall gradually over 1991. Bday 27/4/90

The lag was expected because the authorities would not act immediately on the lower inflation rate but would wait until a clear declining trend had emerged. Other factors, such as monetary growth and foreign reserves, would also have to reach satisfactory levels.

High interest rates and limited credit creation this year would result in restricted spending into 1991, especially on fixed investment, which only reacted after a long time lag, the publication said.

TrustBank's econometric models have suggested corporate profits would be hard-pressed over 1990/91, thus having a further downward effect on fixed investment and job creation.

Growth next year was expected to be retarded by further declines in fixed investment and a world slowdown in exports, resulting in a real GDP growth below 2%, the report said.

However, tax relief announced for this year and next — supported by lower inflation and interest rates — should result in consumer spending rising during the course of next year.

INSURANCE

Aids link

FM 27/4/90

Buyers of universal life and other policies linking life and investment benefits may not get the payouts originally projected. Now, by far, life assurers' most widely sold product, they are vulnerable to an Aids epidemic. Old Mutual chief actuary Theo Hartwig says an

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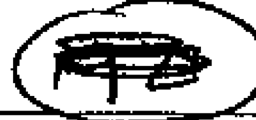
FM 27/4/90 

estimate that 60% of the work force will test HIV-positive by 1996 is not far-fetched. He believes a "significantly higher death rate is five to eight years away."

Linked policies consist of nothing more than term assurance (pure life cover) plus investment. According to AA Life MD Brian Benfield, the cost of the life cover is reduced by the cushion afforded by the investment portion. The trade-off is that the investment portion of the premium is eroded if the portion allocated for the life cover must rise. When universal life policies were introduced, companies which had previously guaranteed the rate for the life cover abolished this, reserving the right to appropriate more of the total premium for life cover.

Theoretically, says Benfield, it is possible for no maturity value to be paid out (besides the death value) on policies in which the life company has not guaranteed a return. This could happen in the event of an epidemic like Aids and/or a massive collapse of the stock market. While such disasters are highly unlikely, an increase in the number of Aids deaths could produce pay-outs lower than originally estimated.

Premiums on existing and new policies could be raised. Or free reserves could be used — but since assurers would have to top up reserves, policyholders would eventually pay for this too. Good news is that returns in the kitty from premiums already paid would not be affected, according to Hartwig.

Hartwig says one way for life companies to counter the threat is to market differently to high-risk groups. The ratio between life cover and savings selected by the client largely determines the size of final payouts. So almost pure investment products could be marketed to high-risk groups. (These would have to include a small amount of life cover, a statutory requirement.)

Alternatively, shorter-term products much less sensitive to increases in mortality rates could be marketed to high-risk clients. These are increasingly popular anyway.

So, ultimately, the impact of an increase in incidence of Aids could depend on life offices successfully identifying high-risk groups.

Executives of companies which sell to supposedly low-risk communities are not pessimistic. They say the UK mortality rate from Aids is lower than life companies there expected and hope the expected mortalities will not materialise in SA either. ■

HEALTH INSURANCE (S8) (899)

Topping up FM 27/4/90

Old Mutual's move into employee health insurance taps an under-exploited market. At present, employees are locked into medical aid schemes whose functions are limited by the Medical Schemes Act. The system is based on cross subsidisation, with healthy members carrying the costs of the less healthy. To stay viable, funds pay out according to a defined scale of benefits and cannot go beyond a prescribed maximum.

Health insurance, on the other hand, looks at group insurance for a company as a separate risk. Premiums are based on employee profile (including age) and type of work and are paid by the company or shared by employer and employees.

Though medical aids may offer bereavement plans and travel insurance and, in future, may be allowed to provide the more comprehensive cover of health insurance, current legislation precludes this. Old Mutual's Health Insurance is designed to supplement existing schemes. This "top-up" approach will provide additional income to employees whose expenses cannot be met by an existing medical aid system.

FINANCIAL MAIL APRIL 27 1990

Old Mutual Health Insurance functions as a short-term insurance company and, therefore, falls under the Insurance Act. ■

It's been a rollercoaster ride

■ But a new, leaner look may in time restore the group's image

When Unidev was listed via a reverse takeover in 1986, market expectations for organisations calling themselves "investment bankers" were hyper-optimistic. Enormous price rises by shares like New Bernica and Columbia set the pace. With a similar label, Unidev roared to 1 050c in October 1987 from an issue price (after consolidation) of 225c. This February, it hit a low of 85c, from which it has made a good but partial recovery.

There are many reasons for this rollercoaster behaviour. But studying it leads inexorably to the obvious questions: what brought it about and what are the prospects for this diverse operation that so captured the imagination of the investing public in those halcyon days only to be discarded and dumped to a p:e ratio of just over two now?

Geoff Grylls and Steve Phelps started the ball rolling when they structured a consortium deal with Benny Rabinowitz in 1986 to take effective control of Unidev by pooling assets. Rabinowitz contributed venture capital and certain properties through his Property Group of SA (Propgroup) and its Retco subsidiary, while Grylls and Phelps brought to the party properties, the property company Equikor (listed in 1989) and the managerial services company, Quaestor IV, then best known for its new listing business.

In a surprise move after only a few months, Rabinowitz, in effect, negotiated a swap with assurer Southern Life of his 26% of Unidev for a parcel of Frasers shares and quit. This left Grylls and Phelps with a minority shareholding, no effective control and vulnerable to predators.

The Crash of 1987 trimmed the share to a trading range of 200c-400c for most of 1988. It was also at this time that the debacle of Milly's unexpectedly proved the Achilles heel that ruined Unidev's reputation.

Milly's delicatessen chain was bought for R2m in early 1988. In mid-year, Unidev's financial manager discovered Milly's had a second, undisclosed bank account — with a huge overdraft. Auditors were called in and the share was suspended. Milly's unaudited attributable loss of R4,3m took the accumulated loss to R5,5m. Unidev wrote off its R2m investment and pumped resources in to try to save something from the wreck (*Fox* October 21 1988).

Meanwhile, most of the properties were realised: Prestige, which makes household kitchen equipment, was acquired from a divesting parent and a division of Krost was bought and merged into it; and Quantum Finance, Corbank Registrars and stakes in computer operations CIG and CRB were added to the portfolio.

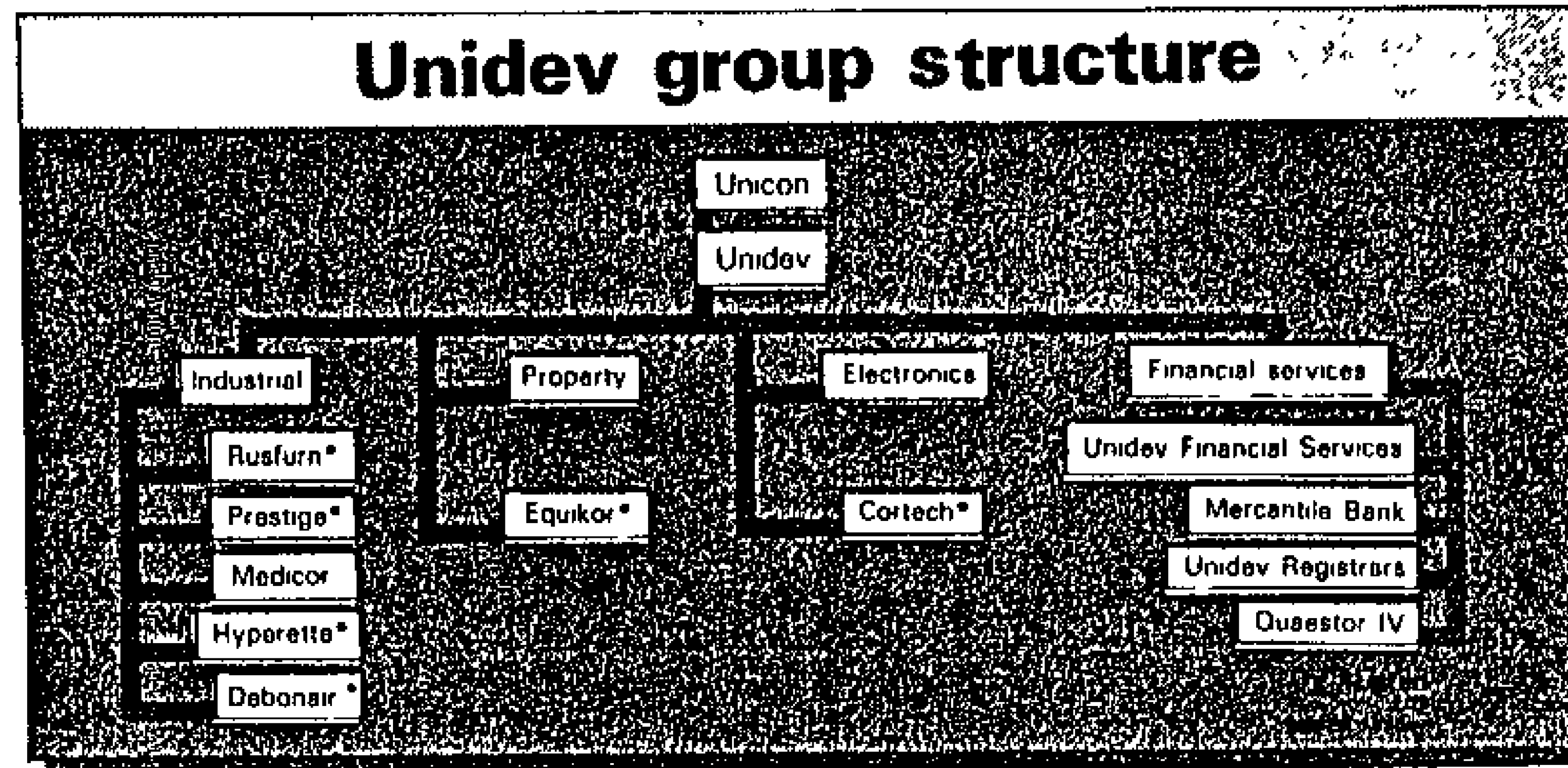
Whereas 1987 EPS of 61c exceeded the transmuted listing statement forecast, 1988 EPS fell to 52,1c. Milly's remained a drag both in the marketplace and internally and a change in top management was decided on.

In 1988, Ronnie Stein, previously managing partner of auditor Kessel Feinstein in Cape Town, overseeing the management consulting arm, was appointed to the board. From four partners when he joined, he built Kessel's Cape operation into a 23-partner organisation when he left.

Stein admits that when he joined, Unidev had a "cowboy" image. He ascribes this to the fact that "top management was composed of genuine entrepreneurs who were all expert financial engineers but none was trained or suited to manage companies." All, he says, were and still are motivated by the heady attractions of "deal making."

The result was a lack of meaningful management infrastructure. Situations like Milly's were bound to occur. In essence, there were no

Unidev group structure



weapons to counter taxpayers' manoeuvring to take advantage of the legal structure of the Act at any given time. If Revenue assesses a particular amount, the onus is on the taxpayer to prove that it should not be liable to tax. There are also the dragnet provisions of section 103 of the Act, which — to simplify somewhat — hit at "abnormal" transactions whose only motive is to avoid tax.

Not only that, the Act grants the commissioner innumerable discretions which gravely encroach on the principle of certainty and award too much administrative power to officialdom. And — in the last resort — Revenue can ask government to amend the Act non-retroactively to close a loophole. (It is true, of course, that evasion, which is a form of fraud, is reprehensible and carries severe penalties.)

Invariably, the clever brains of the tax advisory industry will discover loopholes which will not be closed for the period it takes to amend the Act non-retroactively. But this, and the revenue lost thereby, is the price paid in a free enterprise economy for the sake of certainty. A crude analogy would be the principle in criminal law that guilt must be proved beyond reasonable doubt, as it is better to let some guilty men go free than to condemn one innocent man.

There have been many recent examples where the bulk of taxpayers in a particular industry played the game cautiously, not testing the legal limits, but one or two mavericks provoked government into wide-ranging and on occasion retroactive legislative responses. But however great the provocation, it is the extreme cases which test adherence to principle, not marginal instances.

Another point that badly needs to be made is that government itself has made it far easier to devise tax avoidance schemes. The Act is riddled with special concessions to placate powerful lobbies. The best armour against strenuous efforts at avoidance is a consistent legislative framework, imposing taxes at moderate rates on the broadest possible base without special concessions.

The public can also be pardoned for suspecting that government minimises its ability to hire tax brains equal to those in the private sector by shackling Revenue's salary structure to general public service levels. There must be simple ways to pay highly qualified tax accountants and lawyers in government service better, to avoid bungled draftsmanship and enable the commissioner's office to anticipate avoidance manoeuvres.

SA cannot afford to indulge ministerial spleen at the cost of sound policy-making on such important issues. Principle must always take precedence over clever tax manoeuvring, as the harm that can be done far outweighs any possible gain in revenues.

It must be doubted that Du Plessis has the right tax advisers. By taking Hefer's advice, in part or whole, he damaged his credibility and created a bad precedent. Whether Du Plessis' other advisers feel they bear any responsibility through association for retroactivity, we leave to their consciences.■

UNIDEV

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■ But a new, leaner look may in time restore the group's image

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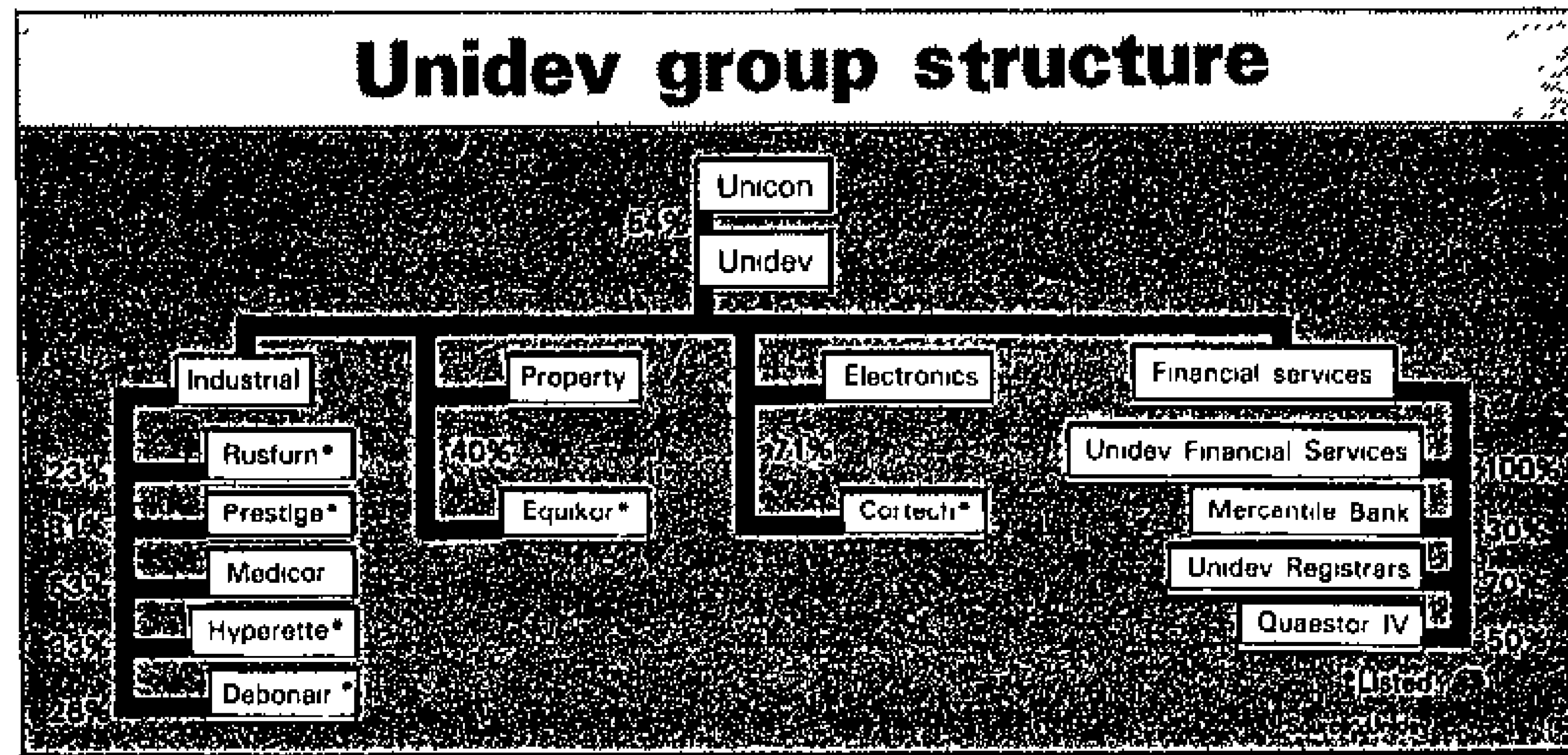

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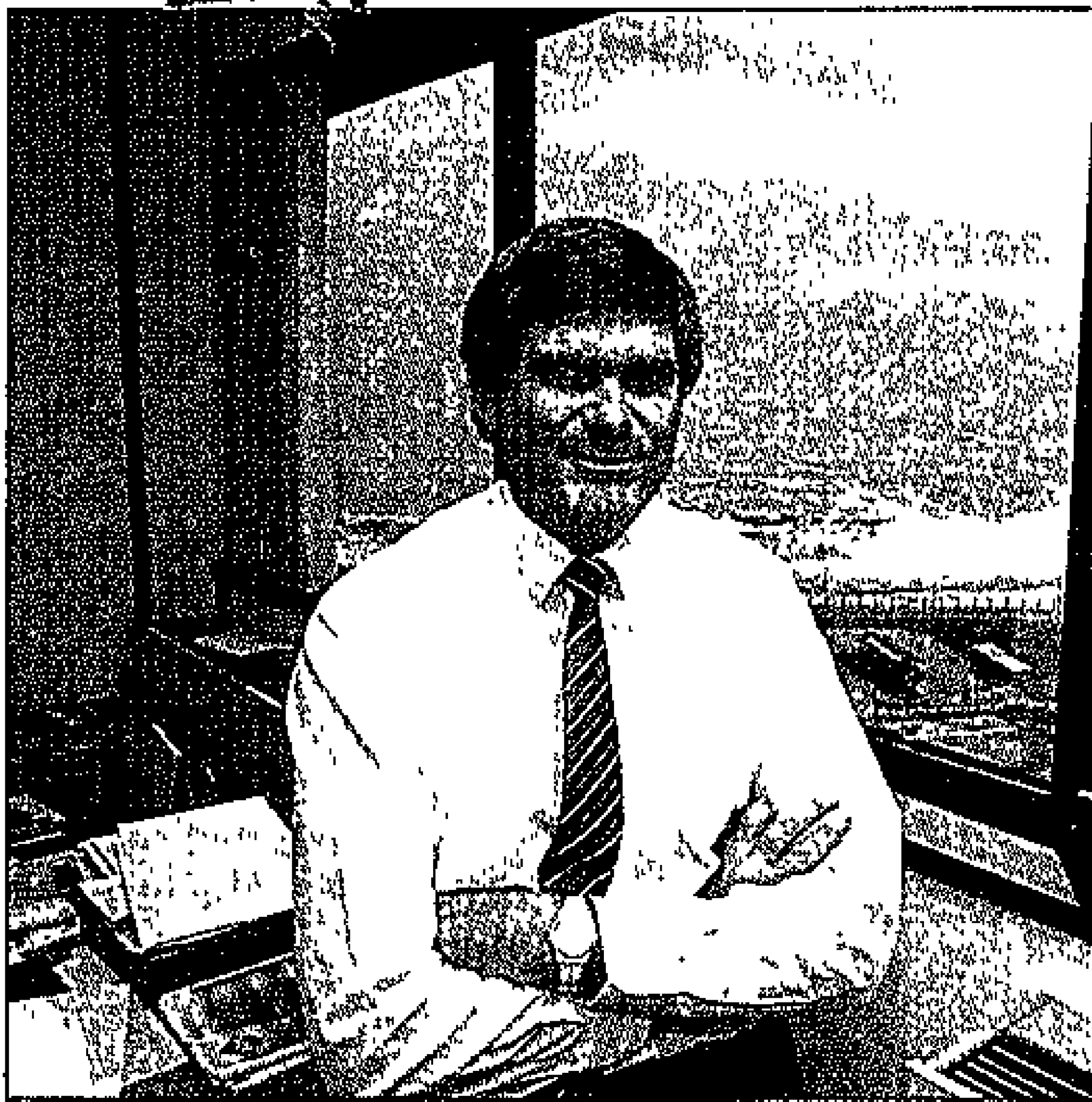


Geoff Grylls ... analysts' scepticism is misplaced

tight controls on management in subsidiaries or associates. Stein says these have now been implemented across the board and are continuously policed by hand-picked, professionally qualified staff in Unidev Corporate Services. This division oversees the implementation of management controls, investigates budget exceptions and examines prospective acquisitions.

It is backed up by the Financial Services division, which contributed no less than 54% of attributable earnings in 1989, when EPS recovered modestly but in line with forecast to 55,5c. It earns fees from handling "one-off" deals — the area which caused all the excitement when Unidev was listed. Even today, this division is the "wild card." As Stein says, while it is budgeted to produce at least 17% of overall earnings this year, this could be substantially higher depending on the nature and number of deals done.

Stein, named group MD in March 1989, has been responsible for the reconstruction of the past two years. "When I joined, the subsidiaries just dangled," he says. "So we sold off the small companies and formed the four divisions that now exist. Meanwhile, we became aware that the low share price was attracting predators' attention.

"That was when we bought the Garcon cash shell for R26m. We had two reasons. First, the five of us (Stein, Phelps, Grylls, Lionel Willmore and Ian Hirschson) believed that our combined strengths would enable us and our shareholders to benefit from our expertise; second, we knew it to be important that the investing public saw that we were seriously committed by putting our own money up front."

Stein structured a rights issue in such a way as to reduce debt in Unidev while ending up with control in Unicon, as Garcon was renamed. This pre-empted any bidder.

Since then, the philosophy has changed. Stein says the group will now involve itself only with more mature companies to which value can be added or which offer outstanding value at acquisition price. When it becomes evident that no further value can be added, the investment will be realised and turned into cash.

In essence, this process is Unidev's *raison d'être.* It creates a growing capital supply continually reinvested in new opportunities. It is in this context that Stein says the financial expertise of his colleagues really manifests itself.

In future more than 50% will be sought in new investments, giving control. He hastens to add, though, that even in present minority holdings Unidev influences operational direction through board representation and even more directly if loan funds are involved.

Stein

Stein points to the recent buy of 23% of Rusfurn as typical. Rusfurn, he says, is a mature company that needs no day-to-day involvement. But in policy matters, Unidev has a definite influence. Irrespective of unrest, Stein is sure that Rusfurn will make the earnings reflected in Unidev budgets.

He is also confident that Unidev will make its own forecast EPS of 20% to at least 66c this year. The biggest growth is expected to come from the unlisted "industrial" subsidiary Medicor, which operates seven clinics, hospitals and has assets valued in excess of R80m. It will produce operating profits of over R3m this year, which is expected to rise exponentially thereafter. Strategy is to sell off Medicor properties within two years and turn these into a source of cash for Unidev.

The second largest growth area will be Equikor. Unidev bought Natprop in late 1988, did a Section 311 compromise with creditors to get rid of old liabilities, sold Equikor's property business into Natprop and changed its name to Equikor Holdings. The property division is expected to contribute 6% of group earnings this year.

Stein and Grylls say analysts' scepticism of recent preliminary figures for the Cortech electronic operations is misplaced. Stein counters that while Cortech contributed just 0,4% to 1989 attributable earnings, in 1990 this will increase to 10%.

Finally, Stein predicts that industrial holdings will contribute 67% (38,7%) to overall earnings this year. All are expected to produce real growth. Milly's, now effectively reversed into Hyperette, is a small percentage of either assets or profits.

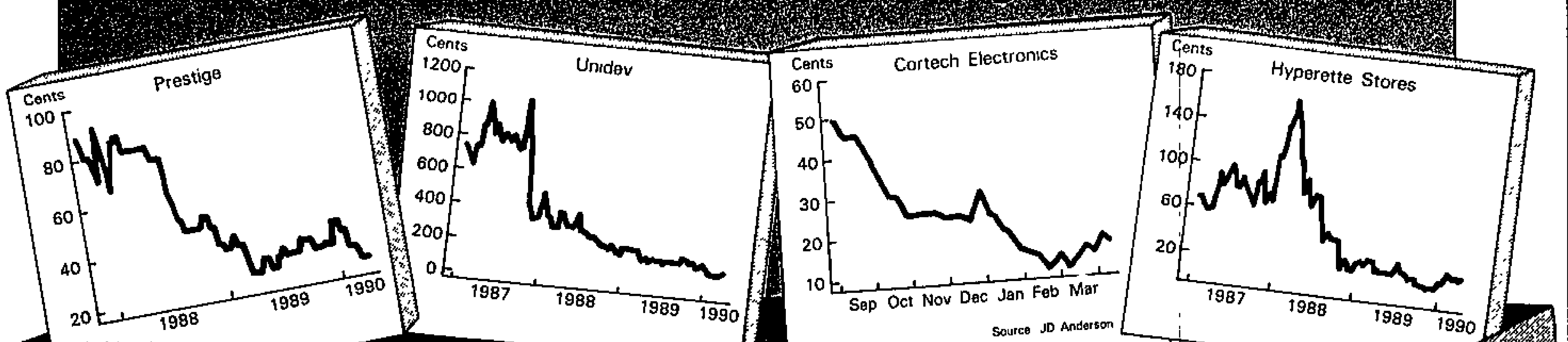
With 30,7m shares outstanding post-rights, attributable profit will almost have to double, to top R20,2m (R11,6m), to produce EPS of 66c. Stein and his team are firm that, unless economic conditions deteriorate in unforeseen and uncontrollable circumstances, the target is realistic.

In Unidev's early days, the quality of earnings raised some eyebrows. Stein is adamant that Unidev never included one-off property profits in its reported earnings. Equikor did, but that's part of any property developer's normal business.

The 1989 preliminary figures put net worth at 294c a share. Stein says this includes goodwill equivalent to 73c, so tangible NAV is 221c. The current 130c market price is a 41% discount.

With four times cover, distribution this year should be about 16,5c. If the required yield stays at the present 9,2%, that gives the share a forward value of about 180c. As the average p:e and dividend yield of the Industrial Holding sector are 8,4 and 4,4%, the rating suggests the market does not view the share with much enthusiasm.

It's a moont point whether Stein has given the operation all the bathing it needs. For example, debt is still too high. But it can be argued that Unidev is now clean and lean enough to post a real recovery. Certainly, prospects seem better than the rating the market attaches to the shares. *Gerald Hirshon*



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OFF-BALANCE SHEET FINANCING (58) FM 27/4/90

Church Square's red herring

What Reserve Bank Governor Chris Stals is doing to the banks is not far off what the ANC's Nelson Mandela did to mining and financial companies soon after he came out of prison. Both appear to have contrived, out of economic frustration, to put the skids under the share prices.

Mandela threatened nationalisation of the mines and banks and "monopolies" as a means of appeasing the rowdy comrades, whose desire for the spoils of liberation the ANC appears to be unable to assuage. Stals, for his part, seems to be blaming banks for the inability of the Central Bank to curb money supply growth and thus reduce inflation.

That control is firmly in the hands of the authorities. All that prevents it being used are the political and economic consequences of so doing — as well, perhaps, as a reluctance to allow market forces to prevail, especially in the forward exchange market. It is plain that if money supply growth is to be held within the target range — without revised figures belatedly letting the cat out of the bag — domestic interest rates will probably have to rise.

If the Bank and Treasury would only accept that, there would be no need for all this fuss over off-balance sheet finance which, if re-intermediated under prevailing liquidity and other requirements, would swipe bank profits and, in turn, create the eventual need for even more capital.

The problem with off-balance sheet financing is not so much that it frustrates money supply control; it is that bank supervision has been so slipshod for so long that conditions were created — and tacitly acknowledged by Church Square — which encourage this type of financing. Of course, it would be better had it not occurred. But it is there and has been around in one form or another — and from one bank to another — for a long time. The way to reduce it is not by redefining banking or outlawing operators in the grey market. That would amount to re-regulation. It is to allow the market more accurately to determine the cost of money and to reduce the capital, liquidity and other constraints on banks that force them to run their businesses with such wide margins between the cost of deposits and earnings from loans.

The market itself will take care of banks which are under-capitalised. It will be reflected in their ability to secure foreign credit lines and in their share prices. They will, in consequence, become progressively less competitive.

By allowing more banks and semi-banks into the market, competition will increasingly keep banking margins in reasonable check. Once that happens, scope for disintermediation will be correspondingly reduced.

If the Reserve Bank's knowledge of what is occurring in the market, its adherence to market forces and general supervision were sharpened up, off-balance sheet financing could be dealt with individually and quickly.

The plain fact is that no reasonable economist can say with justification that interest rates are at acceptable levels when the authorities cannot even keep money supply growth within their own limited parameters and the modest decline in inflation appears to have run out of steam. In these circumstances, it is not sufficient for interest rates to be positive; they have to be substantially so.

The best any Bank economist can do, because of his access to confidential and advance data on lending, is make an educated guess at the extent of excess demand. Assuming the Bank is applying adequate open market restraints.

That really is the key to the whole matter. Now that greater fiscal discipline has been applied to heavy spenders in the Union Building, the Bank should be able to sell adequate and appropriate stock into the market to absorb sufficient liquidity to check money supply growth. If this is partially frustrated by off-balance sheet financing, it will take more sales to achieve a given target.

It is well known that if a money supply target is the object of Central Bank control, it cannot hope also to control the level of interest rates and, for that matter, the exchange rate. That is just not economically possible. So if the Reserve Bank is serious about getting the rate of monetary growth down, it must stop saying that the level of interest rates is adequate. That level must be determined by the market.

Moreover, if it is to remain credible, it must not only allow prime rate to rise; it must keep Bank rate within realistic market levels. For it remains a guide to what government pays for its funds. And if government is not paying a market rate, the whole delicate relationship of market orientated monetary control gets thrown out of kilter.

Until the Reserve Bank targets monetary aggregates and allows prime rate and the exchange rate to find their own market level, it will be seen as an instrument of political endeavour rather than as an independent economic agent.

The questions of off-balance sheet financing and subsidised (or artificially cheap) forward cover are no more than a ruse to cover up the fact that, politically, it still cannot do to the money supply what, economically, it should be doing. For that would mean higher interest rates. ■

HYLTON APPELBAUM

(58) FM 27/4/90

Making money work

The next five years could be especially challenging for Hylton Appelbaum. He's charged with running the newly formed Liberty Life Foundation and so will take much of the responsibility for deciding how to spend some R100m on the disadvantaged.

The fund, created by Liberty Life chairman Donald Gordon, is primarily designed to alleviate poverty by improving housing and educational facilities and promoting entrepreneurial skills. Simply put, Appelbaum is Liberty's answer to Anglo's Michael O'Dowd.

Of course, there's always the argument that certain kinds of charity are at best short-term remedies, doing little to alleviate poverty. There's also the perception that using shareholders' money without their explicit consent for social upliftment is a tacit admission by business that there might be some validity in the ANC's spurious arguments for nationalisation.

However, Appelbaum (36) is quite adamant the foundation is geared towards self-help schemes rather than charitable handouts. "We want to empower people who have been impoverished to uplift themselves," he says.

He also believes a comprehensive policy of social responsibility protects shareholders' interests in the long term. Maybe he believes that R100m might have bought off nationalisation of life companies in Mozambique, as he adds that he wouldn't like to "be a shareholder in a life company in Mozambique or Ethiopia."

In some ways, Appelbaum might seem to be a corporate misfit. He's not overtly concerned with the outward trappings of success. But he's not short on confidence. Having spent the past five years administering the Donald Gordon Foundation and the Liberty Life Group Community Fund — Liberty's social involvement portfolio — Appelbaum believes he is well aware of the pitfalls. "The major challenge is to use the money effectively and productively."

Appelbaum was born in Johannesburg in 1953 and matriculated at Greenside High School. After military service in 1971, he graduated with a BA from Wits University in 1975, before starting his own clothing business with only R3 000. "I know all about small business development — it was a nightmare."

He soon became bored with fashion and started an LLB part-time at Wits in 1984, graduating only three years later with a few distinctions. Meanwhile, he had the good fortune to marry Donald Gordon's daughter, Wendy, and joined Liberty's corporate financial area in 1985. The following year, Appelbaum was put in charge of the group's social responsibility projects.

He rejects arguments that change in SA will be a case of too little, too late. "I believe if every company contributes proportionately the sort of funding which we have, it's certainly not too little and it's never too late."

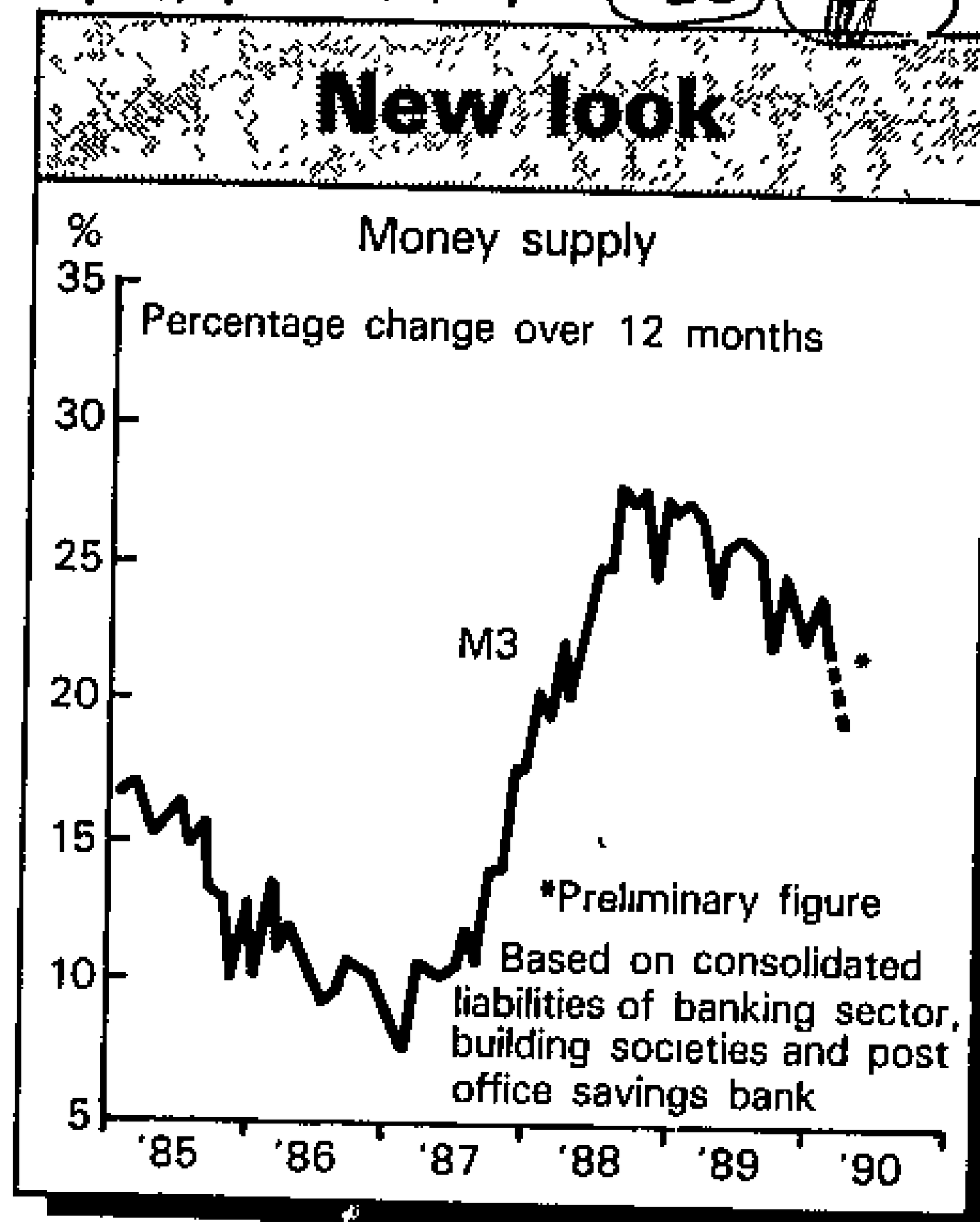
Appelbaum has two children, enjoys reading and gardening — but hates sport. "The only time you would catch me running would be if someone were chasing me with intent to do grievous bodily harm." ■

MONEY SUPPLY FM 27/4/90 (58)

New profile

The Reserve Bank's decision to reduce its emphasis on monetary targeting is reflected in the graph published this week with money

FM 27/4/90 (58)



supply figures for March. It does not illustrate how actual growth in M3 from the base of the current target year compares with the guideline growth of 11%-15%. The Bank has reverted to a graph showing only percentage change over 12 months.

Not only does the change de-emphasise the target, it also de-emphasises the Bank's inability to hit the target — actual growth has consistently missed the various ranges since targeting was introduced in 1986 (*Economy* April 20).

May will see a further change, if not in format, in the level of the monetary aggregates, when figures for April are published, excluding Namibia.

Range of aggregates

The range of aggregates the Bank monitors may also be expanded. If previously off-balance sheet bank transactions are brought above the line, a broader aggregate, which includes other private sector assets, could be analysed. Both moves will require revision of figures for earlier months. Revisions for earlier years will be published later, eventually as far back as 1970.

The provisional figures show an encouraging decline in growth in M3 in the 12 months to March — 19,02% (compared with February's revised 21,36%) to R148,4bn. From the base of the current guideline year (at a seasonally adjusted annual rate) growth was only 16,39% (17,9%).

In the 12 months to February, M1A recorded an absolute decline of 0,29% to nearly R23bn, M1 rose 20,22% to R48,6bn and M2 26,8% to R121,7bn.

The discrepancy between the performance of M1A, which comprises only notes and

FM 27/4/90 (58)

coins in circulation and cheque and transmission deposits, and M1, including call money, is largely explained by "technical and transitory reasons," says a Bank spokesman. Fundamentally, however, when nominal interest rates are high and call deposits yield substantially more than cheque deposits, this differential tends to arise. ■

Nedcor turns in a bumper showing

B/Day 27/4/90 (58)

BARRY SERGEANT

NEDCOR interims are a corker with operating profits up 60% to R327m and capital up 29% to R1,5bn for the six months to end-March.

With a striking 86% increase in the Perm's net profits, Nedcor has virtually recovered the R180m it paid for the building society in 18 months.

Nedcor's tax equalisation reserve boosted its notional tax rate by 32% to 44%, diluting earnings per share growth to 19% at 76c (64c). Dividends grew even slower by 13% at 17c (13c), diluted by cover rising to 4,5 (4,3) times.

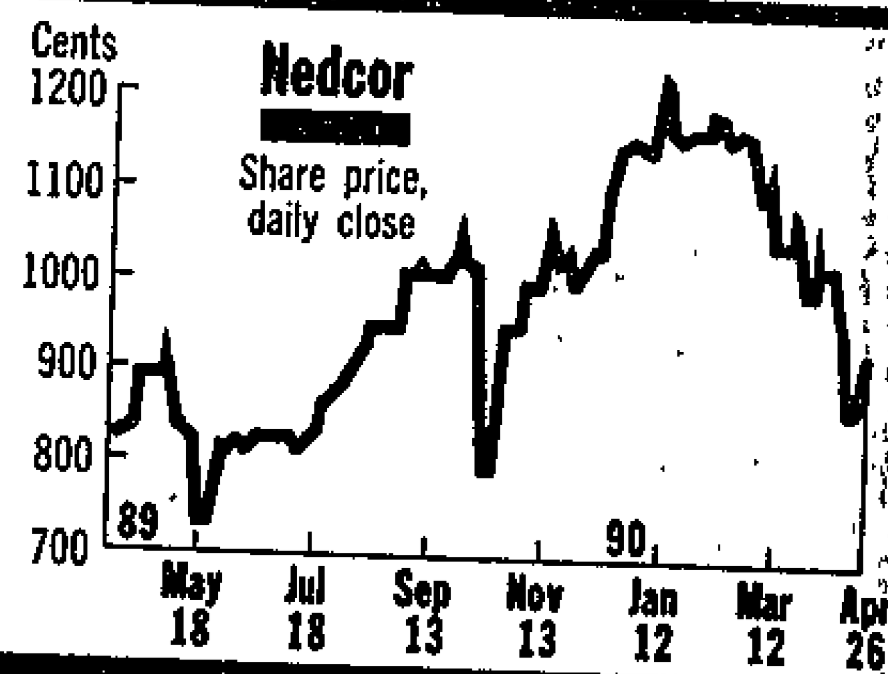
Alan McConnochie, senior analyst at Ed Hern, Rudolph Inc, commented: "Dividend growth of just 13% is a little disappointing as management had promised dividend cover would be maintained at the three times level it reached last year. Possibly this will be made up for at year-end."

Nedcor chairman John Maree said the second half of the year was expected to be tougher. He and Nedcor chief executive Chris Liebenberg said they welcomed the restrictive monetary stance Reserve Bank Governor Chris Stals had taken.

The new accounting measures announced would have a minimal effect on Nedcor's affairs.

Nedcor houses Nedbank, building society the Perm, NedPerm Bank, merchant bank Finansbank (including Good Hope Bank), Nedfin, Syfrets, UAL Merchant Bank, and others. Nedbank provided 53% of net profits, the Perm 30%.

Liebenberg said Nedcor reckoned interest rates had topped out, subject to a collapse in the gold price or radical changes in offshore interest rate structures. Nedcor had accordingly adopted a policy of higher balance sheet liquidity.



Graphic FIONA KRISCH Source: JSE

Liebenberg said Nedcor had for the past two and a half years been in a position to provide cash to other banks. The Nedcor executives said its capital position had been strengthened by a combination of higher dividend cover, transfer of most of the tax equalisation to reserves, and healthy profits growth.

The crucial Nedcor equity:asset, measured on the most conservative basis, grew to 4,8% (4,4%). Provisions for bad and doubtful debts grew 190%; symptomatic, said Maree, of the economic cycle. Liebenberg added that the business mood had changed dramatically over the past two months and Nedcor had adopted a super conservative policy on the general and

☐ To Page 2

Nedcor

B/Day 27/4/90 (58)

☐ From Page 1

specific provisions for bad debts front.

The other striking increase was the Perm's contribution to net income which rocketed 86% to R68m on a fully comparable basis. All Nedcor operating companies performed well, said Maree, except UAL Merchant Bank. Its half-year income contribution declined to R11,5m (R13,2m) as a result of a counter party failure on a forward transaction. Liebenberg said the net after-tax loss of R9m occasioned by the transaction had been fully provided for, and taken through the income statement.

McConnochie said: "Nedcor has been very conservative in its bad debt and notional tax provisions. This should ensure earnings growth over the next two years will exceed 20%. Highlight is the continued strong performance from the Perm.

"Nedcor's overall results are even better, taking into account the R9m write-off suffered by UAL Merchant Bank."

Liebenberg said Nedcor was only expected to be in a full tax-paying position in about a year's time. Of the R112m tax charge, R86m had been transferred to reserves under a tax equalisation reserve. The executives said this strategy would ensure minimal disruptive effect when Nedcor paid full normal cash taxes.

Nedcor trebles its bad debt provisions

STAR 27/4/90 (58)

By Derek Tommey

Nedcor, aided by the Perm which is its building society associate, put up a strong performance in the six months ended March.

Operating earnings soared 60 percent to R326,1 million from R204,1 million a year ago, and were more than double the R140,6 million in the same period of 1988.

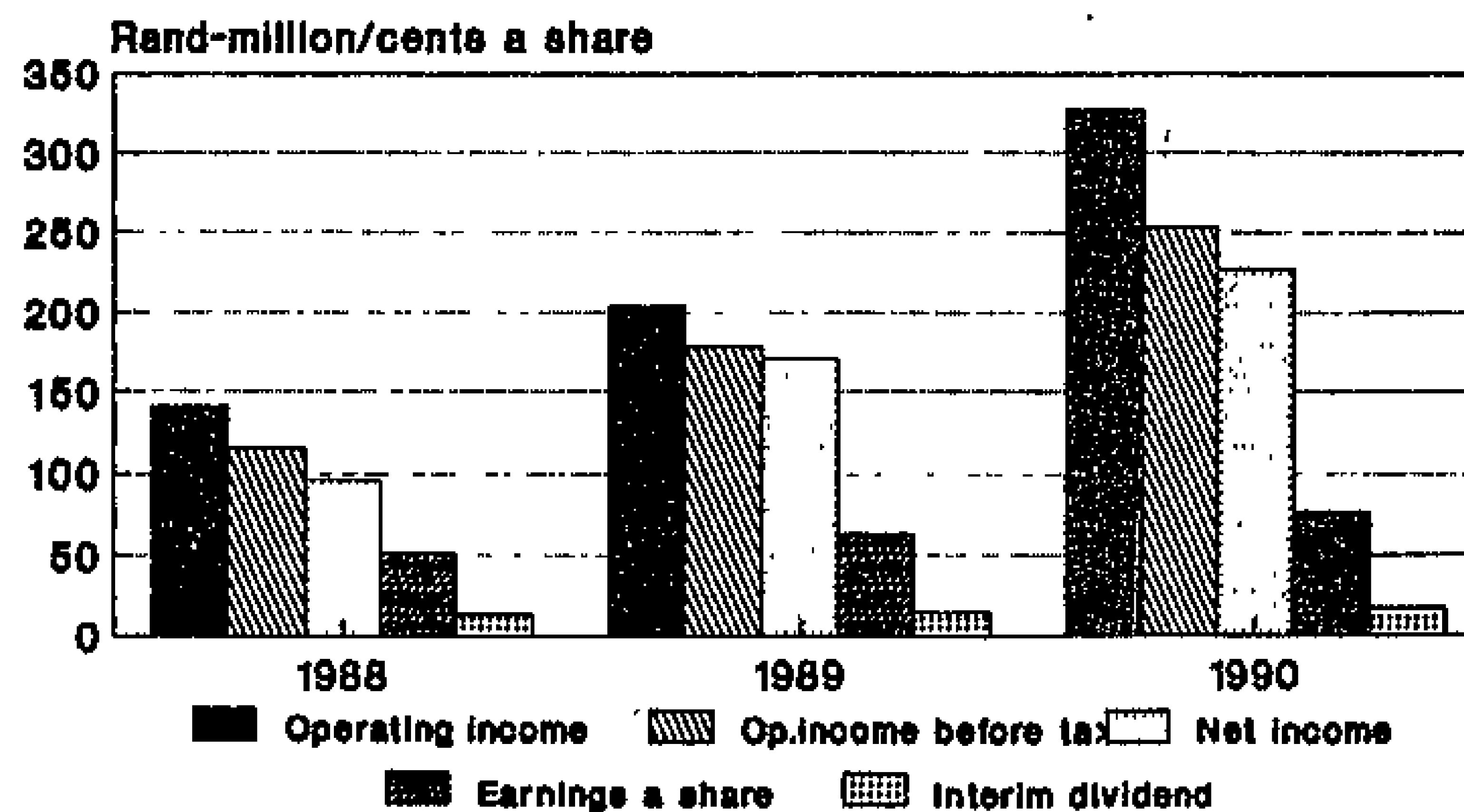
But little of this excellent increase in earnings will be coming the way of its shareholders for a while.

In anticipation of tough times ahead the bank has adopted a strong defensive position. It has squirreled away tens of millions of rands, some of which in more prosperous times might have been paid out in dividends.

The result is that the interim dividend has been raised by only 2c (the same increase as a year ago) to 17c a share.

One way in which the bank is moving to protect itself has been to almost treble the provision for bad and doubtful debts from R25,3 million to R73,4 million.

Chief executive, Mr Chris Liebenberg says that the bank's bad debt experience is better than expected. But with the economy moving downwards he believed it prudent to increase both general and specific provisions.



Nedcor's shareholders can only hope that the bank's bad debt experience does not match up to its expectations so that no further bad debt provisions will be needed in the next six months.

The large bad debt provision cut the operating income before tax to R253,3 million which, however, was still a healthy 41,6 percent higher than the R178,8 million of a year ago.

Although the tax payment more than trebled, rising from R7,8 million to R26,1 million, it is still on the low side. Therefore, to ensure that higher and more normal tax payments in the years ahead do not result in disappointing profits, Nedcor has increased its tax reserve by R86,0 million, which is some 65 percent more than the R52,1 million transferred to the reserve last year.

This put Nedcor on a notional effective tax rate of 44,2 percent compared with last year's rate of 33,5 percent.

The result of all this is that the bank finished up with attributable income of R141,2 million, which was 18,8 percent more than the year ago figure of R118,9 million — thus justifying the limited increase in the interim dividend.

However, the huge transfers to reserves does mean that Nedcor has sufficient capital to meet the new minimum capital requirements being considered by the authorities, says the chairman, Dr John Maree.

It has also increased Nedcor's liquidity to 17 percent of total assets, including repurchase agreements (repos).

Mr Liebenberg added that the Reserve Bank's new provision for repos would not add to the bank's costs.

Dr Maree said the operating companies were confident that they would maintain profit growth in the next six months. But the extent of the improvement would be dictatated, to a large extent, by the present steps being taken by the authorities, by interest rate margins and by bad debts.

All the operating companies with the exception of UAL increased their profit contributions. UAL Merchant Bank's contribution dropped from R13,2 million to R11,5 million, owing to a counter party failure on a forward transaction.

But for that loss UAL would have reported a taxed profit of R20 million, said Dr Maree.

DBSA to tap capital market

Star 27/4/90 (58) (60)

By Jabulani Sikhakhane

The Development Bank of Southern Africa is entering the capital market to mobilize private sector funds for development finance and has scheduled the first issue of R175 million worth of loan stock for early May.

In a presentation to business leaders yesterday, the chief executive of the Development Bank, Dr Simon Brand said it was intented that the borrowing operation in the financial markets will consitute an important and ongoing source of future funding.

He said the Bank hoped to build up its borrowing in the capital markets to around 50 percent of its capital funds with the rest being made up from its own funds and government funding.

Dr Brand said the level of disbursements of loans by the Bank has reached R800 million a year and its financial planning had shown that there existed a need for an additional R300 million.

The R175 million loan stock will be redeemed after 20 years and will have a coupon rate of 14,50 percent a year.

The Bank is hoping to build up its borrowing in the capital market to between R300 million and R500 million a year in five years time

Dr Brand said the Bank was not confined to financing infrastructural development in the homelands, but was increasingly being involved in development in the urban areas.

Tableware market is worth R60-m

The total value of the ceramic tableware consumer market in South Africa is estimated at about R60 million.

And holding the largest slide of the ceramic tableware cake is Continental China Holdings (CCH).

The company was established in South Africa in 1959 and at the time it relied on on expertise and know-how from its German part owner Rosenthal Porzellan.

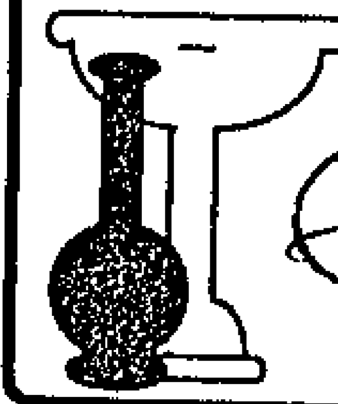
Today the company is wholly South African owned, though the links between the two companies are still strong and enable CCH to keep up with the latest overseas developments.

The group has three plants at Rosslyn, Blackheath and Atlantis. It employs 1 600 people and produces about two million items each month.

CCH manufactures three brands of tableware for the consumer market as well as three purpose-designed ranges for the catering industry. The group produces a large range of coffee mugs, and a giftware range.

Group managing director Mr Bill Paverd says that as the group is the largest local tableware supplier in a market and must meet the needs of a number of different population groups, its product range is extremely wide.

"Our design and modelling studios maintain constant product development programmes and the chief designers travel abroad at regular intervals to keep abreast of international design and colour trends,'" says Mr Paverd.



Ceramics

A Star survey

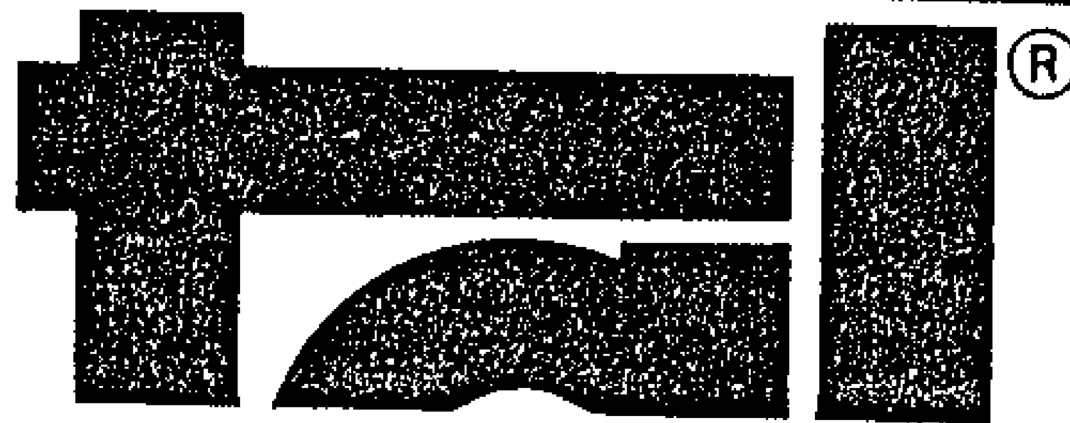
Brick-making is now a high-tech process

Brick-making has become a hi-tech art requiring enormous capital investment but, producing finished items in a fraction of the time needed in the past.

Clay is delivered to the factory from the quarry and reduced to granules about 1,5 to 2 mm in diameter. Water is added and the clay is pushed through an extruder. The semi-solid clay comes out in a long column which is sliced into brick-sized blocks called green brick.

In the past the green bricks would be dried in the sun for about three weeks and then fired in a clamp kiln. The clamp kiln is created by piling up a mountain of dried bricks and sealing the mountain using old bricks. The "mountain" is then set alight.

The firing takes between a week and two months depending on the size of the brick mountain. Using new technology the whole process can be reduced to less than four days.



27/4/90 The Star
Finance

Romatex floored by downturn

A stable performance by the majority of the Romatex group's divisions has failed to offset a severe decline in the floorcovering sector in the first half of the current financial year.

Group earnings a share are down by 27 percent at 69 cents for the six months ended March 31, following a general slowing in the economy which was particularly felt in the carpet market.

An interim dividend of 25 cents has been declared.

Turnover was down one percent at R350 million but is not comparable as the group sold off major parts of its mills division during the year. Margins were inevitably affected and operating profits declined by 19 percent at R30,4 million.

Although interest-bearing short term debt doubled, the ratio of debt to equity remains low at 21 percent and interest paid rose to a 7,6 times covered R4,1 million.

The drop in the tax rate more than balanced this and after adjusting for associated companies, after-tax profits at R17,4 million showed a 23 percent reduction.

A modest increase in the average number of shares in issue translated this into a 27 percent decrease at the earnings per share level. The balance sheet remains strong and management's confidence in the long term is endorsed by commitment of R69 million to future capital investment.

Looking to the rest of the year, the directors caution that economic activity may deteriorate further but that normal seasonal factors should ensure that second half profits exceed those of the first half.

Earnings for the year as a whole are expected to be below those of the previous year.

Romatex earned 214,3 cents a share in the 1988/89 year and paid 78 cents in dividends. On those historical figures, the current share price of 850 cents yields 25,2 percent on earnings and 9,2 per cent on dividend.— Sapa.

Star 27/4/90 (58)

Stals offers no relief on interest rates for some time

By Tom Hood

Businesses and home-buyers who are crippled by high interest rates should not expect any relief yet.

Dr Chris Stals, governor of the Reserve Bank, warned in Cape Town yesterday that the country's restrictive monetary policy measures could not be relaxed and the present level of interest rates should not be reduced — "at least not until some further progress has been made in reaching our objectives for the foreign reserves, the amount of bank credit extended and the rate of increase in the money supply.

"We also still have great concern for the high rate of inflation. At about 15 percent, our rate of inflation is still well above the average rates that now exist in the economies of South Africa's major trading partners."

Dr Stals said, however, the first four months in 1990 gave reason to be satisfied with the progress made so far on the course to greater financial stability in South Africa.

In the first quarter, the net gold and foreign exchange reserves increased by almost R3 billion and prospects were good for the country's balance of payments for 1990.

"Our foreign creditors should now be satisfied that South Africa will be able to meet the heavy capital redemption programme for this year without any serious problems.

"We can claim with justification that the economy is on course and that the phase of consolidation is in the process of restoring financial discipline, needed as a base for future growth," he added.

"The patient is reacting in a very satisfactying way to the prescribed therapy. However, there are still signs of fever and the body needs some further recuperation."

Some good news for battered borrowers

(58) Star 27/4/90

Not only is it virtually certain that mortgage-bond and overdraft rates will stay where they are, but bond rates may even fall fractionally in the near future. Considering the recent rumours of an interest rate increase, these predictions will please the man in the street, writes JOHN SPIRA.

South Africa's borrowers can rest easy — for the time being, at any rate.

It has been a harrowing few days, with intense interest rate speculation doing the rounds in the wake of the Reserve Bank's determination to exercise tighter control over the banks' lending activities.

While no official comment has been forthcoming, it now seems clear that the Bank Rate will remain where it is for the foreseeable future — which means it is virtually certain that mortgage-bond and overdraft rates will stay where they are.

Indeed, it looks as though bond rates may even fall fractionally in the near future, giving beleaguered home-owners welcome relief.

The spectre of interest rate increases on hire purchase contracts and credit card debit balances has not, however, been removed, although the scope of the banks to lift these rates other than marginally is extremely limited.

The banks would dearly like to earn higher interest rates on the money they lend because the cost of the money they have been borrowing — along with the other costs they incur — has been rising faster than the interest rates they have been able to charge on funds they advance to their customers.

In the process, their profit margins are being eroded.

So why haven't they simply increased the interest rates they charge on funds (principally overdrafts and mortgage bonds) lent to their customers?

One answer is that by doing so they would lose customers to banks which declined to follow suit.

Another is that they would incur the wrath of the Reserve Bank, which, via the Bank Rate, in effect lays down the maximum interest rates that banks may levy on their prime customers.

And the Reserve Bank is resolved to keep a lid on the Bank rate because, it contends, the economy is slowing down quickly enough. Inflation is tapering off, as is the growth in money supply.

A higher Bank Rate could push the economy from the current mild slowdown (the so-called "soft landing" scenario) into a full-blown recession, with all the accompanying hardships — large-scale unemployment, punitive interest rates and widespread business failures.

Precipitating the fear that the Reserve Bank might buckle under the pressure being exerted on it by the banking sector for an increase in Bank Rate has been Governor Chris Stals's revelation of the involvement of many banks in the practice of off-balance-sheet repurchase agreements.

The aggregate sum involved in these agreements is believed to exceed R10 billion.

In order to protect depositors, the Reserve Bank requires that the banks hold 20 percent of their assets in the form of cash and short-dated (readily realisable) securities.

Understandably, the banks don't like this arrangement, because they earn no return on the cash and a low interest rate on the short-dated securities.

What several have been doing to offset the income loss thereby suffered is to sell some of their longer-dated securities to institutions outside the banking sector on the understanding that these will be repurchased at a predetermined future date.

The repurchase obligation is not reflected in the banks' balance sheets.

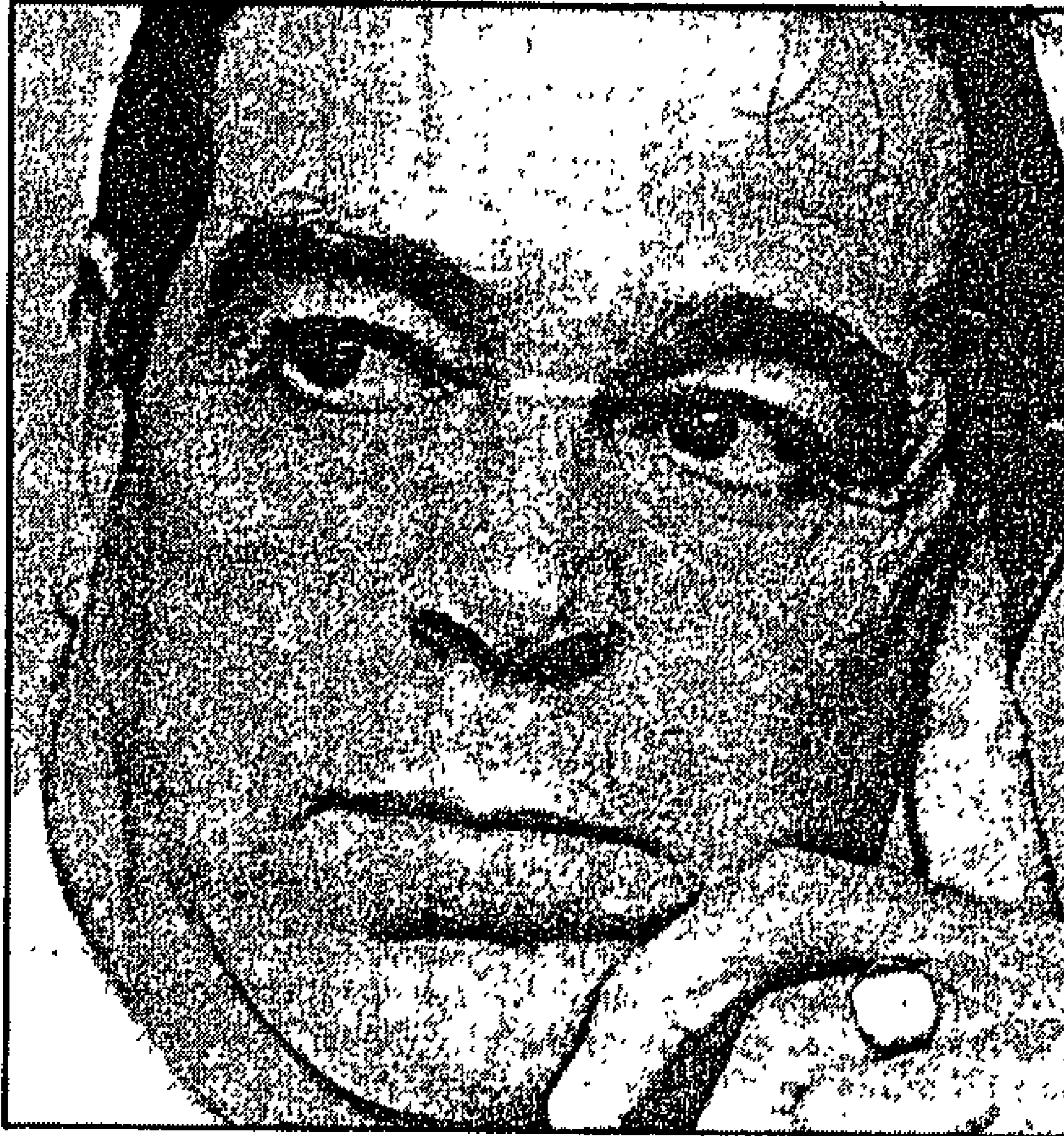
By removing the longer-dated securities from their books, the banks are then obliged to hold a correspondingly smaller amount of their assets in cash and short-dated securities, thereby enhancing their overall profitability.

Dr Stals has called a halt to these activities. All such agreements must now be reflected on the banks' balance sheets, though the banks have been given some breathing space to the extent that those which keep the levels down to those prevailing in February this year will not, for the time being, be required to keep reserves against the repurchase agreements.

The writing is nevertheless on the wall, since new legislation, expected to be promulgated before the end of the year, will require all deposit-receiving institutions to meet the reserve requirements in respect of their off-balance-sheet, as well as their on-balance-sheet, commitments.

The squeeze on banks' profit margins is therefore bound to intensify, with the result that they will be seeking new avenues for cutting costs and boosting revenues.

In the meanhile, borrowers, though paying a great deal more for their overdrafts and bonds than they did 18 months ago, can enjoy the solace — such as it is — of being fairly certain that the interest charges they're currently incurring won't rise in the months ahead.



Dr Chris Stals ... revelation of many banks' involvement in the practice of off-balance-sheet repurchase agreements is bound to intensify pressure on banks' profit margins.

Mr David Broad of Sandton . . . invested R250 000.

First National cuts its bond rate to 20,75 pc

Star 27/4/90 (58)

By Sven Lünsche

First National Bank has announced that it will reduce its bond rate next month by a quarter percentage point from 21 to 20,75 percent.

This will bring its bond rate in line with those of other banks.

The bank's senior general manager, Mr Jimmy McKenzie, said today while clients' monthly bond payments would not be reduced immediately, the lower interest would be offset by the automatic increase in capital repayments.

This could shorten the term of their home loan by several years, Mr McKenzie said, adding that clients could choose to reduce their interest payments by arrangement with their branch managers.

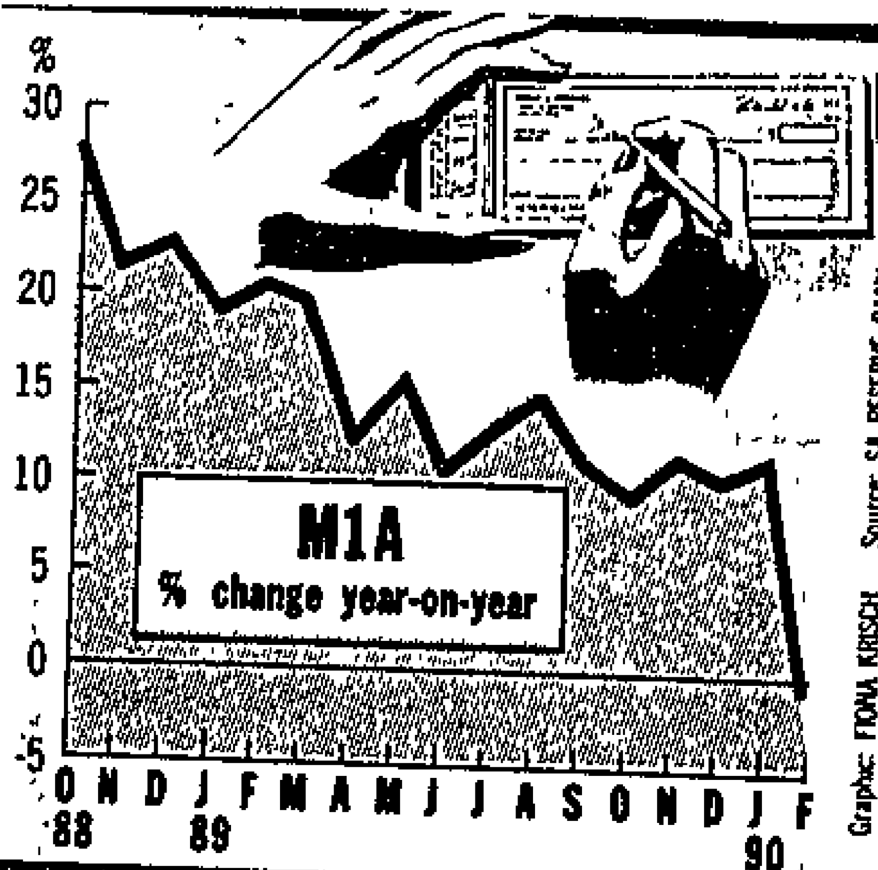
First National Bank is also offering a further rebate of 0,25 percentage point to clients who operate a cheque account and use at least two other bank services.

The lower rates apply to new and existing bondholders.

"We intend keeping our rates stable and our funding structures now indicate that reduced rates can be maintained," Mr McKenzie said.

Commenting on the state of the home loans sector, he said the upper end of the market was beginning to feel the effects of recent adjustments in perks tax.

But the market below R150 000 continued to experience strong demand.



B.Day 27/4/90

Growth of spending money is slowing

GRETA STEYN

SLOWING growth of money held purely for spending purposes confirms the general slowdown in the economy, as does the drop-off in credit expansion by banks and building societies.

Reserve Bank figures show a marked fall in the growth rate of the narrow measure of money, M1A — notes and coins in circulation plus cheque and transmission account balances. In other words, money that is generally spent rather than saved, or money for transactions purposes.

While the Reserve Bank targets the broadly defined money supply, M3, the Bank is increasingly looking at other monetary aggregates when formulating policy. M3 comprises all deposits, including long-term, with the monetary banking sector.

From an average year-on-year growth rate of 24,28% a month in the last quarter of 1988, growth in M1A slowed to an average 10,85% annual increase a month in the last quarter of 1989. Latest figures show negative growth of 0,3% in February from the year before.

By contrast, growth in M3 dropped below 20% for the first time in March.

UCT's Brian Kantor notes that a smoothed M1A was growing at 25% in mid-1988 and was down to 15% in January this year. Kantor, who is known as a monetarist, reiterated his call for targeting of a narrower measure of money than M3.

"M1A would be better than M3 but the best would be to target the supply of notes. M3 is distorted by changes in banks' off-balance sheet activities," he said.

Credit growth has slowed markedly from a 12-month rate of 30% in October 1988 to 18,6% in February this year.

Private investors hold 1,3pc of JSE

W/C Argus 28/4/90 (58)

Business Staff

THE private investor's stake in the Johannesburg Stock Exchange has slumped dramatically.

From 9,9 percent of total market capitalisation in March 1983, his direct interest had dribbled away to a miniscule 1,3 percent in October 1989, according to the latest figures published by McGregor's Takeover Digest.

The inescapable conclusion is that the character of the South African share market has changed irretrievably, with the degree of concentration of ownership being among the highest in the world.

According to the latest McGregor findings, the "Big Four" — Anglo American, Rembrandt, Old Mutual and Sanlam — increased their control over shares listed on the JSE from 64,6 percent in 1983 to 80,7 percent last year.

Anglo accounted for a mammoth 45,3 percent, Rembrandt 16,1 percent, Mutual 9,8 percent and Sanlam 9,5 percent.

The publication reveals further that 4,9 percent of the JSE is controlled by directors, 3,6 percent by foreigners, 3,4 percent by the Liberty group, 2,2 percent by Anglovaal and 2,2, percent by the State.

The most striking revelation, however, is the drastically diminished role of the private investor to the lowest level in stock exchange history.

All the signs point to even greater concentration in JSE ownership in the next few years, with the close links between assurers, banks, mining houses and industrial companies being strengthened by the ongoing expansion in the cash flows — which could amount to R30 billion this year alone — of assurers and pension funds.

A similar influence could be exerted by the pending programme of further privatisation, since the bulk of such equity issues will no doubt be absorbed by the institutions.

And any additional foreign disinvestment will only exacerbate the position, since many of these overseas-controlled firms would surely be absorbed by the domestic giants.

Already the low 3 percent turnover of shares in relation to the JSE's market capitalisation is rock-bottom by international standards.

Yet against the background of the growing dominance of the market by a small group of corporate and institutional investors, there are grounds for arguing that the share market's liquidity could deteriorate further.

Important implications for the private investor include:

- If the ANC's nationalisation proposals are ever implemented, the prime targets would be the large mining houses, the mines, big industrial groups, the banks and the assurance companies. The shares of such companies could in due course be priced with this nationalisation risk in mind.
- The JSE faces growing instability, since the institutions tend to follow similar investment philosophies. They buy at the same time and sell at the same time. Private investors behave in a more diffused manner.
- With the share market becoming increasingly institutionalised, the two-tier nature of the JSE is growing more and more entrenched.

The institutions concentrate their buying on a coterie of marketable blue chips, where dividend yields are low relative to the rest of the market. Many second-line share are ignored.

Some have argued that the market's two-tier characteristic will in time disappear.

But with the private investor becoming an increasingly endangered species, this argument is becoming less and less credible.

Relief for homeowners looms

28/4/90

From JOHN SPIRA

JOHANNESBURG. — Relief for homeowners may be in store following First National Bank's decision to reduce its bond rate.

FNB has lowered its rate from 21 to 20,75 percent and to 20,5 percent for homeowners who place their banking business with FNB.

The average rate being charged by building societies is 20,75 percent. Hence, the FNB initiative could spark off a bond rate skirmish, with the man in the street walking off with the spoils.

FNB senior general manager Viv Bartlett is confident that his bank will attract substantial additional business as a result of the move.

"Our current home loan book stands at R3,7 billion and we would expect that figure to rise to around the R4 billion mark within the next few months."

Mr Bartlett says it is "quite possible" that FNB's reduction will force other institutions to lower their rates.

"However," he warns, "the scope to reduce rates much further is extremely limited. For example, I can't see bond rates coming down to 19 percent before the end of the year. There's no profit at all at that level and FNB for one will not write unprofitable business."

● South Africa's borrowers can rest easy for the time being.

While no official comment has been forthcoming, it now seems clear that the bank rate will remain where it is for the foreseeable future — making it virtually certain that mortgage bond and overdraft rates will not rise.

The spectre of interest rate increases on hire purchase contracts and credit card debit balances has not, however, been removed, although the scope of the banks to lift these rates other than marginally is extremely limited.

The banks would dearly like higher rates on the money they lend because the cost of the money they borrow — along with other costs they incur — has been rising faster than the interest rates they have been able to charge on lendings and profit margins are being eroded.

They haven't simply increased interest rates on funds (principally overdrafts and mortgage bonds) lent to their customers because they could lose customers to banks which declined to do the same.

Slowing down

Another reason is that they would incur the wrath of the Reserve Bank, which, via the bank rate, effectively lays down the maximum interest rates they may levy on prime customers.

And the Reserve Bank is resolved to keep a lid on the rate because it contends that the economy is slowing down quickly enough while a higher bank rate could push the economy from the current mild slowdown (the so-called "soft landing" scenario) into a full-blown recession.

Precipitating the fear that the Reserve Bank might buckle under the pressure from the

(See page 5).

Relief for homeowners looms

(From page 1)

banking sector for an increase has been Governor Dr Chris Stal's revelation about banks' off-balance sheet repurchase agreements.

The aggregate sum involved in these agreements to exceeds R10 billion.

In order to protect depositors, the Reserve Bank requires that the banks hold 20 percent of their assets in the form of cash and short-dated (readily realisable) securities.

Understandably, the banks don't like this arrangement, because they earn no return on the cash and a low interest rate on the short-dated securities.

To offset income losses some banks have been selling longer-dated securities to institutions outside the banking sector on the understanding that these will be repurchased at a predetermined date.

The repurchase obligation is not reflected in the banks' balance sheets.

By removing the longer-dated securities from their books the banks are then obliged to hold a correspondingly smaller amount of their assets in cash and short-dated securities, thereby enhancing their overall profitability.

Dr Stals has called a halt to these activities. All such agreements must now be reflected on the banks' balance sheets, though the banks have been given some breathing space to the extent that those which keep the levels down to those prevailing in February this year will not, for the time being, be required to keep reserves against the repurchase agreements.

But new legislation, expected to be promulgated before the end of the year, will require all deposit-receiving institutions to meet the reserve requirements in respect of off-balance-sheet, as well as on-balance-sheet, commitments.

The squeeze on profit margins is certain to intensify, with the result that they will be seeking new avenues for cutting costs and boosting revenues.

In the meantime, borrowers, although paying a great deal more for their overdrafts and bonds than they did 18 months ago, can enjoy the solace of being fairly certain that the interest charges they are currently incurring won't rise in the months ahead.

JOHN GAFNEY ... the slice is getting bigger Picture: TOM EDLEY

NBS pulls out the stops for new era

S Times 29/4/90 (58)

By Ian Smith

CHANGE has been good for NBS Holdings.

The Natal-based building society was the second to move into banking after UBS and it has gone through radical change since its listing in April 1987.

But it has maintained strong growth, and a record 32,5% increase in advances to R4,6-billion in the year to March 31 helped NBS to produce creditable results.

Tougher

In spite of tough competition in financial services, NBS hoisted attributable earnings by 40% to R44,5-million. Earnings increased by 39% to 76,6c a share and the dividend by 26% to 29c.

Managing director John Gafney says trading will be tougher and margins tighter in the financial services sector this year — "but we are still hoping for a better than 20% improvement in earnings".

The traditional mortgage business increased by nearly 25% last year to almost R4-billion. Greater market penetration is shown by a 208,6% jump in instalment-sale finance to R423-million, although that was off a low base.

Mr Gafney says the inherent financial strength of NBS enabled it to sustain the momentum of asset growth without placing capital resources under pressure.

He says interest rates are unlikely to fall significantly in the current year.

"This means that while many investors are able to enjoy real returns on their money, borrowers will remain pressed.

"We will continue to do everything we can to help the beleagured homeowner, but high interest rates are likely to lead to an increase in repossessions."

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"We think we have erred on the conservative side. But high interest rates and the cooling economy have caused us to be prudent."

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Properties in possession have more than doubled from R16,4-million to R34,3-million. But it is NBS policy to keep properties on the books until new owners take transfer.

The group suffered a R2-million loss by its township development company after large provisions for land in the Pretoria area. "High interest rates and soaring building costs makes it difficult for people to buy," says Mr Gafney.

"But we have written off the losses and I am confident we will be back in the black this year. We are on a sound base again."

He believes NBS has followed the right approach by aiming most of its banking activities at the corporate market.

"We consider ourselves to be a niche player — but we are national in that we are in every major centre.

Overtaken

"From the start of the new era in financial services we have said we will grow into new areas. We avoided the quick-change song-and-dance act. We have kept close to our core business and moved cautiously into new areas.

"We made sure all our systems were in place, and that we had the right people, before we moved."

The justification for this approach lies in the fact that the bank has shown a profit from its corporate operations from the start.

NBS is in instalment-sale financing at two levels. The bank does corporate business and the building society looks after the retail needs of the ordinary man.

The group had a good start in consumer finance because it formed NBS Credit Corporation before legislation giving institutions more freedom was enacted. But corporate business has overtaken consumer finance by a big margin.

S8

It's rosy for building societies and banks

Business Times Reporter

IN spite of all the squealing about tight margins, four bank and building society groups reporting for the six months to March this week produced good results.

They did so after doubling and trebling bad and doubtful debt provisions.

First National Bank was able to report earnings up 32% at R130,6-million. NBS advanced earnings by 39% (see Page 1), the fast-recovering Perm by 86% and, thanks to this turbo-boost, its parent Nedcor reported a 19% advance after huge transfers to bad debt and tax reserves.

Nedcor's pre-tax advance was 42% to R253,3-million. It surpasses FNB in shareholders' funds as well — R1 537-million compared with R1 308,5-million. With lower advances, Nedcor is unusually capital rich.

Nedcor managing director Chris Liebenberg says margins between borrowing and lending rates in October, November and December last year were far better than in January, February and March 1990. Like his competitors, he warns of a tougher second half.

Analysts warn against making simplistic inter-bank comparisons because of vastly differing disclosure policies and accounting methods.

True to the promises of chief executive Barry Swart, FNB switched emphasis from being the biggest to being more profitable. It limited balance-sheet growth and pared costs.

Computer

FNB senior general manager Viv Bartlett says his group deliberately avoided expansion of its balance sheet to concentrate on more profitable business, to consolidate and hold costs.

Mr Bartlett says the vexed Hogan computer system is working well and will be a competitive advantage.

FNB jacked up its non-interest income by 21% and held operational spending to a 9% rise. Advances stagnated at R23-billion and total assets actually shrank 2,4% to R29,5-billion.

Interest income rose by 25% and interest expenditure by 27%, leaving net interest income 20% ahead at R660,4-million. The doubtful debt provision was hoisted by 93% to R147-million (0,6% of advances).

Running

Other operating income (fees, etc) partially compensated, rising by 21%, or R78-million, to R450-million. The rise of only 9% in operating expenditure to R754,5-million left pre-tax profit 38% ahead.

FNB's annualised return on equity was 20%, compared with Nedcor's 19,7% and the Perm's tax-adjusted 18,4%. FNB has hardly any repurchase agreements.

Mr Bartlett says he will be disappointed if doubtful debts in the second half are as high.

New systems gave early identification of problem accounts. The commercial bank and Wesbank made most of the running. FNB has not chased mortgage business lately.

Its book has been relatively stagnant at R3,7-billion, while the Perm's, for instance, has grown by R500-million a month.

Mr Bartlett says FNB will get into the race seriously again. The 0,25 percentage point mortgage rate cut signals its new challenge.

He is reluctant to take a view on the second half, even though that period is traditionally the better one.

"A lower gold price, political unrest and the present squeeze on margins make forecasting extremely difficult."

Reneged

Nedcor's results would have been even better had it not been for a R9-million loss to a reneging client in UAL. Without that setback, UAL would have reported earnings 55% higher at R20,5-million, instead of a 13% reverse to R11,5-million.

The loss at UAL was one factor in a group bad debt provision that soared from R25,3-million to R73,4-million.

Chris Liebenberg agrees that Nedbank's traumas of four and five years ago have done it a power of good, bringing as they did control by Old Mutual, a big capital infusion and acquisition of a turbo-charger in the Perm.

SA set to bankroll the sub-continent

S/Times 29/4/90 (58)

THE Development Bank of Southern Africa intends to become the "World Bank to all of Southern Africa" in post-apartheid SA.

By Don Robertson

Initially regarded as a prop of apartheid because it channelled money into border and decentralised areas in an attempt to stop the migration of rural blacks to cities and towns, the bank now seeks to play a major role in the economic development of the sub-continent.

It hopes to become the main source of funds for urban development, water schemes and technical assistance in Mozambique, Swaziland, Namibia, Lesotho and Zimbabwe.

The Development Bank has committed R4,9-billion to projects in these countries in the past seven years. It announced this week that it would go to the SA capital market for another R1,5-billion.

Tranche

Executive chairman Simon Brand says in the report for the year to March 1989 that the bank's involvement in Lesotho — and on a smaller scale in several other neighbouring states — is assuming significant proportions.

The bank is also involved in providing neighbouring states with economic, institutional and planning assistance.

A first tranche of R175-million of the requirements will be raised next month. The coupon is a low 14,5%, but the issue is likely to be at a "deep" discount to yield closer to 16,5%.

In the next few years, the bank will come to the market for R300-million to R500-million a year to top up its coffers.

The issue is expected to attract considerable interest from SA pension funds, financial institutions and international groups.

Because most of the projects the bank plans to take part in include black development, large pension funds with a high black employment ratio will be only too happy to invest.

Pension funds and life assurance companies are coming under increasing pressure to put at least a portion of their funds into black development. The Development Bank believes its loan stock provides a channel.

Risk

With a maturity of 20 years and the expectation that interest rates in world markets will fall shortly, international financial institutions could find the issue attractive.

Through the financial rand, foreign investors can receive tax-free interest in commercial rands providing a yield of about 25%. They have to face a currency risk.

Dr Brand goes to great lengths to stress that the bank is aware of the political and economic pressures in Transkei, Bophuthatswana, Venda and Ciskei (the TBVC states).

He says the bank has taken cognizance of the influence a "new South Africa" could have on developments in the sub-continent.

Dr Brand is quoted in the latest newsletter from the Development Bank as saying "Discussions have also been held to identify the need for contingency planning in the event of the erosion or crumbling of political or administrative structures in order to ensure, as far as possible, the continuity of the development process."

SIMON BRAND ... shedding a political image

For these reasons, the loan issue will have to be pitched at least one percentage point above the Eskom 168 which currently offers 15,7%.

It will also be required that the bank offers a "double" on the issue. This means that the bank would be prepared to repurchase its own stock.

No particular projects have been earmarked for the funds to be raised, but Dr Brand insists they will be used for urban development, water schemes, roads education and technical assistance.

Contact

In the past, the bank has been involved in decentralisation projects, many of which were discredited by a still-secret Government-commissioned report. As a result of this report, concessions offered to industrialists in the schemes have been reduced.

Dr Brand says, however, that the bank keeps in close contact with the SA Government regarding these developments. It will not become involved in projects which are not economic. It will not finance projects for political considerations only.

Recluse Lukie's R20m venture

By Robyn Chalmers

MULTI-millionaire recluse Lukie Coetzee is putting his mark on the map by building a glittering development on his private island.

The former property tycoon was responsible for Randburg's first high-rise and the Randburg Mall. He has lived alone in a mansion on his island in the Vaal River for more than 15 years.

The longest privately owned bridge in SA links him to the Free State side of the Vaal.

He allows only a few selected visitors on his island haven near Parys.

But Mr Coetzee has decided to get back into property by developing his 130-hectare retreat into a club and resort for the rich.

The R20-million development will offer 150 luxury units, a golf course, bridle path and bowling greens. The clubhouse, with 450 beds, will have a heated indoor pool and snooker rooms.

Building of the resort, less than an hour's drive from Johannesburg, is planned to start towards the end of 1990. It should be completed within five years.

The development is expected to be a boon to Parys, a quiet town whose economy is suffering because a new toll road is diverting traffic from the area.

Thanks to mother

ONE definition of an over-achiever, says Anglovaal joint controller Clive Menell, "is a normally endowed person with a Jewish mother".

The children of Mr Menell and his partner, Basil Hersov, could easily be described as overachievers — and they could soon move into the control picture at Anglovaal.

● See Page 4.

Advice for over-40s

IF you have reached the age of 40 and fear that you have not planned adequately for your remaining working life and retirement, turn to Investment for the Over-40s on Pages 6 and 7

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S/Times 27/4/90 (58)

New-look Perm brings home bacon for Nedcor

BOB TUCKER ... going for new markets

By David Carte

STAR of the Nedcor group in the half-year to March was once again the Perm, which hoisted profits before and after tax by 85% to R67,9-million.

If the Perm can maintain this pace, Nedbank will recoup its investment of R237-million in the Perm in a scant two years.

Piet Liebenberg, architect with Perm managing director Bob Tucker, of the Ned-Perm deal, needs to clinch one as brilliant as this in his new top spot at Bankorp and TrustBank. His competitors expect him to go courting at United and/or Volkskas.

Nedcor shareholders will be delighted with their group's purchase. But holders of paid-up and subscription shares before the takeover — the Perm's then owners — who took cash instead of Nedcor stock may not be overjoyed at events.

Mr Tucker says the Perm could never have done so well on its own. Not only did the merger help to contain management costs, it gave the Perm a capital base that allowed it to expand. Before the deal, it was stagnating.

Mr Tucker says the secret of the Perm's success was in holding management costs while increasing the mortgage book by 11% in six months.

With a book of R8,3-billion, the Perm has been writing new business at the rate of more than R500-million a month.

Conservative

The strong profit growth came in spite of conservative doubtful debt and other provisions — up from R6,3-million to R41,6-million. Doubtful debts were reckoned at a cautious 1,4% of the book.

Costs before provisions rose by 20,8% to R186,3-million. Staff costs rose by 18% to R83,5-million, but computer, rental, fees, office requisites and communication costs were held nearly steady. Marketing costs rose by 50% to R9,3-million.

The result is further vindication of the expensive investment the Perm has been making in "the new SA" for the past five years.

Mr Tucker says the organisation is less interested these days in chasing higher market share in a shrinking traditional building society or even banking market.

"We want to get into entirely new markets. Several institutions have said that it doesn't pay to write a mortgage bond of less than R30 000. Others have accepted that the high cost of housing prevents expansion of black home ownership.

"We have gone to civil engineers and builders and attacked the problem. By changing the servicing of stands and other cost-saving techniques, we believe we can profitably fund houses costing from R12 000 to R17 000."

The Perm is also seeking profitable ways to lend to venture capital operators.

An equivalent effort is being made on the liability side of the balance sheet. Ways and means are being sought to bring savings and transaction accounts within reach of a huge market at present operating with cash.

"Top management had a think tank recently. The top priority to emerge was that we should become more adaptable. We also want to continue pushing what we call 'third-wave management'.

"That is a management style that is non-hierarchical, vigorously decentralised and participative. Things happen through people, not structures.

"We believe that it was partly because of third-wave management that we were able to contain costs and push volumes. The drive to find new markets rather than to attack shrinking old ones is part of the third wave.

Notional

"It's changed thinking. In the past, systems people tended to be driven by technology. Now they aim to get the technology to serve the new SA. A third priority is to integrate better with the new SA and to build those new markets."

So as not to knock earnings when they come into tax next year, the Perm and Nedbank have charged themselves notional tax. As a result, Nedcor took only R38,9-million of Perm earnings to its bottom line even though no tax was payable.

The latest profit figure gives Nedcor an annualised return on capital of 36,8% — or 18,4% assuming a full 50% tax rate.

Although the Perm has presented its half-year figures conservatively, Mr Tucker is reluctant to predict earnings as good or better in the second half.

He says the changes made by the Reserve Bank to repurchase agreements will not hurt the Perm directly. But they will cause a scramble for liquidity that could well tighten margins.

Mr Tucker thinks the Reserve Bank is unlikely to lift the discount rate. He thinks it will make the banks sweat on low margins until one, or some, break ranks and increase prime unilaterally. After that, competition will determine lending rates, not the discount rate.

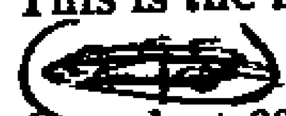
Imperial voted tops

S/Times 27/4/90

TRAVEL agents have given Imperial Car Rental the thumbs up sign — twice.

Members of the Association of SA Travel Agents (Asata) voted the company the best car-rental company and the one with the best staff in a national survey.

Imperial managing director Carol Scott, who was 1988 Businesswoman of the Year, says: "This is the highlight of our 11-year history."



The group's 5 400 vehicle fleet is based at 82 offices in SA, Namibia and Swaziland. Budgeted turnover in the year to June 30 is R152-million.

Business Times Feature April 29, 1990

A longer haul for the woman who works

By Julie Walker

ALMOST half of SA's workforce is made up of women.

Because so many earn a living of their own, or contribute to that of the family, it is to their advantage that they be versed in matters requiring financial judgment.

Several companies have made women a target market, not necessarily with success. Independent women dislike being patronised or singled out as different.

Wealth

An Old Mutual publication, Financial Planning — Your Key To Wealth, contains a useful guide for women. The book, written by J H Jordaan, says that not only should women remain financially independent while they work, they should continue to be so after they retire.

On average, women retire earlier and live longer than men. So they have fewer years in which to save towards retirement and more years to provide for.

Many women depend entirely on their spouse's survival, continued commitment and retirement income. What if he dies, divorces his wife or fails to provide for her?

Some pension funds allow the choice of a higher pension, expiring with the death of the member. The wife may live on for years. If she has been a housewife, there is every chance she will be obliged to live on a State pension.

The Pensions Act has been amended to give women certain rights to their husband's pension benefits on divorce, but not to his retirement annuitites and endowment policies.

Women should insist on the cession of an assurance policy by the husband on divorce to compensate for the loss of other sources of retirement income.

Minor children can claim a part of their father's pension benefits when he dies even if he has remarried and had more children. Many divorcees do not know this.

If they do not lodge a claim within 12 months, the pension fund trustee pays the benefits into the estate.

Women should keep separate control of their finances in a second marriage — especially if the second husband has also been married previously.

Cohabiting can cause difficulties unless they are anticipated.

It may be that a man's pension is paid out to his former wife, even if they parted years ago and he never married the women with whom he lived for those years.

Intestate

A will should be drawn specifying the new arrangements, and the pension fund trustee should be informed who the beneficiary of the pension will be.

To die intestate will cause a great deal of delay and dissatisfaction. So it is important that both husband and wife make wills and renew them whenever circumstances change. Wills might also be challenged.

A nest egg in your house

IN times of high interest rates it is sensible to repay the outstanding capital on your home loan as fast as possible.

Payment of a mere R50 a month extra will bring down the number of years over which the loan is repaid.

At the end of say 10 years instead of the standard 20 it would have taken to repay the bond, you will have a property fully paid for.

You may want to sell the house, and the market value may not be all you had hoped for. It takes an exceptional property to appreciate in value at more than 30% a year — 30% being the yardstick set by investing in unit trusts over 10 years. So although the bond might be fully paid, the value of the house might not have kept pace with the rising cost of living.

S Times 29/4/90

Several lending institutions have developed means by which you can repay the loan in a more efficient way. Some schemes have been linked to unit trusts, others to endowments.

Partbonds fill the coffers

S T Times 29/4/90

By Anthea Duigan

PARTICIPATION mortgage bonds (PMBs) are suitable for retired people because the yield is high and capital is protected for five years.

PMBs are invested for a minimum of five years and only in rare circumstances can the capital be redeemed before. Permission for such redemption can be requested from the Registrar of Financial Institutions.

Variable

The capital generates fully taxable interest, resulting in negative effective growth. For those still earning, this is not a recommended investment.

Richard Wharton-Hood of the IPC group says: "The market for mortgage participation bonds tends to be people in retirement who pay a relatively low tax rate on the interest and who wish to supplement their pensions without the risk of losing their capital.

"PMBs constitute a safe investment giving a high gross yield. They are controlled by the Participation Bond Act of 1981.

"Several companies offer such bonds, but the method of interest payments varies. It is important to remember when reading the interest tables that the rates are not always comparable.

"The reason is that interest is paid in different ways and can depend on other factors, such as whether the investor has a savings account with the financial institution. It varies between monthly or quarterly in arrears, or quarterly or monthly in advance."

Most companies offer a choice of the way interest is payable. It is possible to obtain a fluctuating rate with a built-in "floor rate" as a safeguard.

For instance, Masterbond Trust offers citizens over 60 years of age 20% monthly in advance with a floor rate of 14%. This means the 20% will fluctuate in the general interest pattern, but will not drop below 14% in the five years.

The alternative is the fixed rate — 15,75% now — and which is guaranteed for five years. In the present financial climate with interest at 20%, the fixed rate is less attractive than the variable one.

S8

Collateral

Mr Wharton-Hood advises acceptance of the fluctuating rate because he does not think interest rates will drop below 15% — certainly not in the next three years.

Should the Minister of Finance implement the proposed changes in taxation of interest rates, MPBs would become an attractive investment for all. If it is possible to obtain 20% gross and 18% after tax it becomes a worthwhile form of investment.

An advantage of a PMB is that it is one of the few investments which can be ceded as collateral.

In the case of Masterbond Trust, the investment is placed in a trust account for allocation to a bond which has either been or will shortly be registered. Once this has taken place, the investor is given details of the specific property in which his money has been placed.

However, no matter how long the allocation may take, the interest payable is the rate agreed for the five years.

If a person dies within the five-year term of the investment, the original capital sum reverts to the estate.

A five-year investment is restrictive, so Masterbond Trust set up a short-term bond (STB) which operates on the same principle as the PMB, but for a shorter stipulated period. These bonds are also governed by legislation, in this case the Companies Act.

Mr Wharton-Hood says: "The interest is guaranteed. But the fluctuating, floor or fixed rates are set for the shorter term according to Masterbond's specific bond capital requirements.

Death

"At the moment the 24-month rates are the most attractive — for example, 20% fluctuating with a 16% floor rate or 17% fixed rate. Conversely on a six-month investment one can select a fluctuating rate of 19,75% with a 15% floor rate or 20% fixed."

Through the IPC connection with Masterbond Trust, it is possible to enhance an investor's after-tax return. By combining an IPC product with a Masterbond investment, the capital is invested in the short-term bond with the interest being redirected into either the independent retirement annuity fund or the incentive pension fund where it becomes a tax-deductible contribution.

House buying m

C/Press 29/4/90

What to look out for when you set about looking for that first home

BUYING a house? How do you find the finance and what will it cost you? Here are tips and advice from *A Home of Your Own*, a manual on home-ownership in the townships:

Few people have enough money of their own to buy a house. If a buyer has that large an amount of money it is probably the best form of investment. It is decidedly better than interest-bearing investments with building societies and banks, as the rate of inflation is considerably higher than the highest interest rate available at a financial institution.

For the same reason it pays to make the highest deposit that one can afford, which is not only a sound investment but may reduce the monthly instalments on a loan to more manageable proportions. Or it will reduce the term of the loan if the amount of the monthly instalments is not reduced.

Where interest on a loan is subsidised by an employer, the subsidy is regarded as a taxable fringe benefit. Although it is not yet fully taxable, it might ultimately be better not to have a big loan, especially not for people in the higher income groups.

It is also advisable to pay higher amounts than the minimum monthly instalments on the bond account, either when spare income is available or as a fixed amount monthly. An ordinary investor is unlikely to find a more lucrative investment elsewhere.

Even a small amount, say R20 a month, quickly adds up to a substantial tax-free saving and reduces the term of the bond considerably. Building societies will gladly provide information about the exact benefit that may be derived from an increased instalment.

A buyer must, however, anticipate hidden costs over and above the price of the house. These are dealt with under the heading "additional costs" below. A buyer has to have some extra money available to cover these costs as and when they arise. In the case of leasehold they are negligible, but generally it takes more than the deposit to buy a home.

Bond subsidies

Many employers are willing to help their employees to buy houses. They do it by direct loans, building society loans supported by collateral security, subsidies or a combination of these. Companies will probably not grant financial assistance to one employee but will devise a scheme under which all employees derive equal benefits.

These will take one of the following forms:

■ Direct loans – granted to employees, mostly at a low rate of interest. The company will use its own funds or company pension funds and the amounts of assistance will vary from small loans for deposits to the full cost or a substantial portion of the cost of buying a house.

Employees will not receive loans as a matter of course. Loans, and the other forms of assistance discussed below, will probably be linked to salary, the period of service or the employees' pension fund contributions.

■ Building society loans supported by collateral security.

The employer or pension fund can arrange loans through a building society, bank or other financial institution. If an employee does not have the necessary deposit, the company could provide collateral security by way of a guarantee to enable the building society to increase the loan, so reducing the amount of the deposit. In other words, the building society would grant a loan of 80 percent and on the strength of collateral security furnished by the employer another 10 percent, resulting in the would-be buyer requiring a deposit of only 10 percent.

■ Subsidies, the most common form being:

(a) A fixed monthly housing allowance.

(b) Payment of part of the interest charged by a building society. If, for instance, the interest charged by the building society is 14 percent the company could undertake to pay eight percent. Companies often apply this on a differential basis according to an employee's income – the more an employee earns the less subsidy he receives.

(c) A combination of methods. In practice, housing schemes consist of a combination of loans, subsidies and guarantee schemes.

An employer may provide a building society with a guarantee to reduce the deposit requirement and subsidise the interest. It may also invest its own funds or money obtained elsewhere with a building society to be borrowed by its employees.

(d) Public servants' housing loans. The government, as an employer has two schemes to assist public servants to acquire their own homes – a housing loan scheme and a subsidy scheme.

In order to qualify one must be an officer or full-time employee and must have been a contributing member to one of the public service pension funds for at least one year. Details of other qualifications, like age, marital status and length of service can be obtained from the personnel branch of the department concerned.

The housing loan scheme simply boils down to this: that the State, with the backing of public service pension funds, provides security to enable a public servant to obtain a housing loan of up to 100 percent from a building society and the State subsidises the interest. If one does not need the collateral security, one still qualifies for the interest subsidy.

As may be expected in the case of a large employee like the State, there are detailed rules and regulations to ensure equality of treatment.

The schemes operate smoothly and information about them is readily available from building societies, the officials dealing with the applications and public servants' staff associations.

(e) State home-ownership savings scheme. This scheme is, in effect, a savings plan run by all building societies. A person may save up to a maximum of R20 000 over a period of not more than 10 years. The savings earn the current building society interest plus three percent contributed by the State. All interest is tax free. The tax benefit and the State's interest subsidy fall away if the maximum amount or the maximum period is exceeded or if the money is used for any purpose other than the buying of a home, a plot of land, or both.

Any amount may be saved each month.

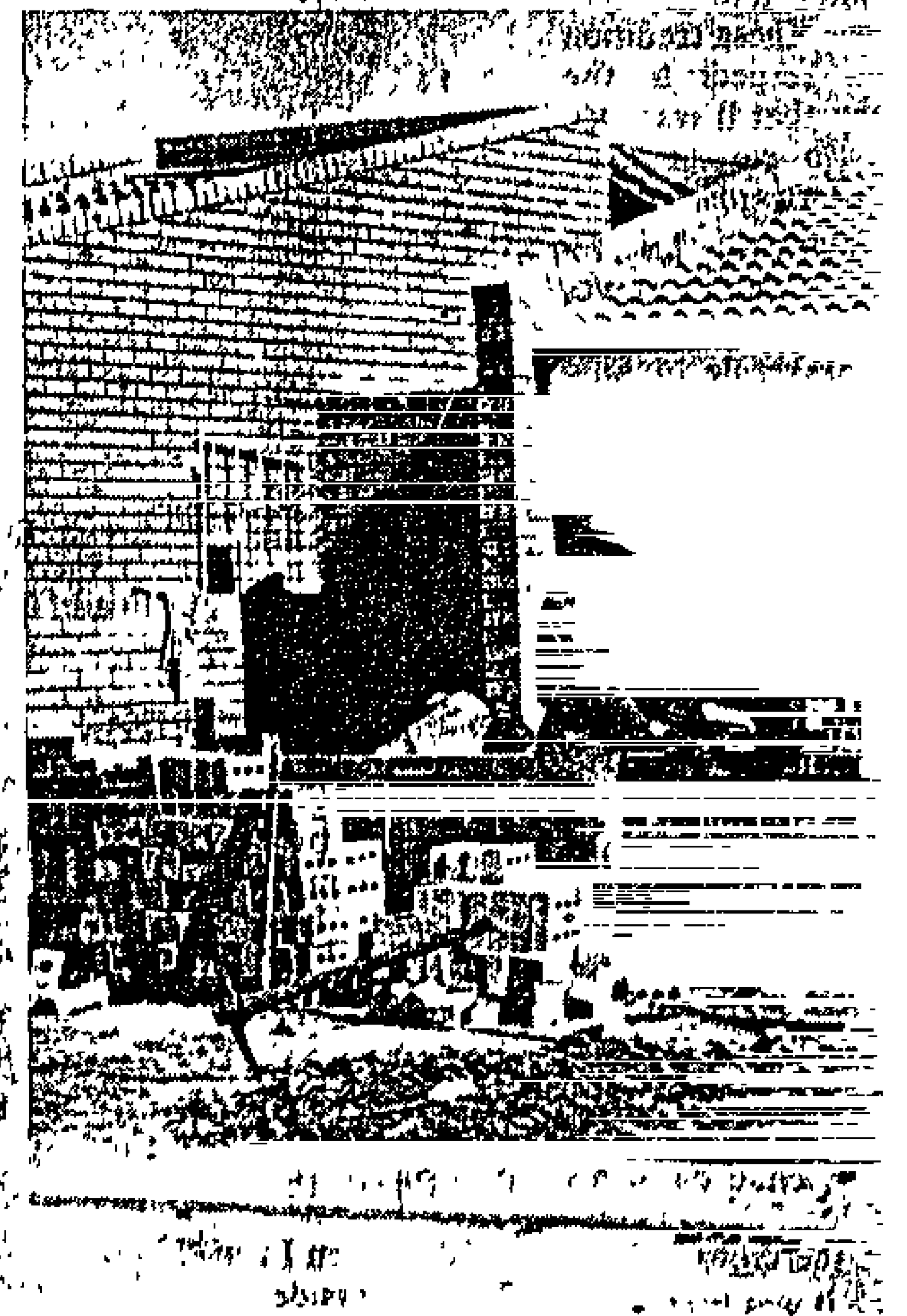
Building societies will generally grant bonds to investors who have accumulated funds under the scheme.

Half the savings may be used to buy a stand if the investor intends to build his own house on it.

The money must be used for the acquisition or building of a home within 12 months after the investor has reached the R20 000 limit.

(f) State 33 1/3 percent interest subsidy.

First-time home-owners, regardless of sex or marital status, are eligible to apply for this subsidy. An applicant should, however, not receive any housing allowance or subsidy whatsoever from an employer or



New houses go up in a township. But what is ...

from any other source.

The home must be a new one; the would-be buyer must be its first occupant; and the value of the home, excluding the land, must not exceed R40 000. The subsidy will be payable on a maximum of R40 000 of loan granted by a building society or other recognised financial institution. It follows that the applicant must qualify for a loan.

The subsidy is 33 1/3 percent of the interest portion of the monthly instalments, but not the capital ... It will be calculated at the minimum applicable building society bond interest rates.

The scheme is valid for the first five years of bond repayment period. The subsidy is paid directly to the building society, bank or other financial institution in equal instalments and the borrower's monthly instalments are decreased by the subsidy amount.

(g) Loans by local authorities or national housing commission.

Only people who are unable to obtain financial assistance from a building society or other financial institution qualify for these loans.

The scheme is open to married breadwinners, regardless of sex, or to an unmarried person with permanent dependants, with a maximum monthly gross income of R800, including allowances, bonuses, etc.

The applicant must be a first-time homeowner and must occupy the house himself. The house, whether new or existing one, must not have more than five rooms, a pantry, bathroom, toilet, kitchen and outbuildings.

The maximum loan is presently R29 700. Preference is given to new houses because the government wants to encourage the creation of new housing.

(h) Finance for building materials.

A maximum amount of R5 000 is available for people who have bought a stand on which they want to build a house, either themselves or by a building contractor. The interest rate is presently 11,25 percent; the loan is repayable over a maximum period of years.

c/Press 24/4/90 (58)

ng made easier

New houses go up in a township. But what is involved for the buyer to wants to live in one?

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Local authorities and the regional offices of the provincial administrations will provide information about this scheme.

Buying land

A buyer of leasehold will naturally want to know what he may expected to pay for leasehold land, as distinct from the house or other improvements on the land.

To understand how the price of leasehold is regulated it must be borne in mind that almost all sales of leasehold are "first-generation" sales – that is the first grants of leasehold. This means that there is no real property market yet – no widespread buying and selling of land and houses. The market forces of supply and demand have not come into play.

Secondly, most of the land is public land. It belongs to the State, an administrator or a local authority. This in itself is somewhat unusual. Normally land on which townships are developed belongs to private developers and from them it passes into the hands of private owners.

In practice, all this boils down to the fact that a first-time buyer from the State, administrator or local authority will pay a fixed price.

He must be told how the price is made up. If he, in turn, wants to sell, he can negotiate his own price with the buyer. Likewise, a private township developer can even in the first instance sell at a negotiated price, unless the land was made available to him under section 34(9). Lastly, business and industrial sites will be sold by public tender.

Mortgage finance

What is a mortgage bond? Most buyers borrow at least part of the money required to buy a house, in the form of a mortgage bond. The money may be borrowed from a building society, bank, other financial institutions, company or a private person.

A mortgage bond is created when a person borrows money from a building society, any other financial institutions, such as a bank, company or another person, against property which the bondholder holds as security for the loan. The bondholder can, of course, not physically hold the property. Its interest is secured by an endorsement on the title deed of the property registered in the deeds office indicating the existence of the bondholder's claim on the property.

The effect of the endorsement and registration of the mortgage bond is that the property may be not be sold until the mortgage bond has been cancelled or some other arrangement has been made with the bondholder.

In terms of the Mutual Building Societies Act 24 of 1965 and the Building Societies Act 82 of the 1986 the risk of a building society is limited to 90 percent of its valuation of the property. If, on the other hand, the selling price is less than the valuation, the loan may not exceed the selling price.

This means that a buyer will need to pay 10 percent of the purchase price plus additional costs, which are discussed below. The 10 percent share of the purchase price may be reduced if collateral security can be offered.

The collateral security can be in the form of an investment with the building society or an employer's guarantee.

The monthly instalments are repayments which include a reduction of the capital, which is very small at the outset, plus all the interest for the month and calculated to wipe out the whole loan in a fixed period, which is normally 20 years.

The instalments should preferably not exceed about 25 percent of dependable income. The yardstick is not so much a mathematical calculation but whether the borrower can afford the instalments. Under certain circumstances part of the wife's income can be taken into account.

There are no hard and fast rules, but building societies will take the wife's income, or part of it, into account if the applicant does not get a subsidy. There must be continuity of her income. If, for instance, she has a temporary, or casual job, a building society is unlikely to consider her income.

The 25 percent hurdle can also be overcome if somebody, say a relative or employer, can provide surety. In that event the applicant's income must cover a minimum of 80 percent of the monthly instalment.

The ability to meet the monthly instalments is therefore really the point of departure to determine the loan one can afford. This aspect should be clarified before looking at houses.

The interest charged may vary from one building society to another and it is constantly adjusted upwards or downwards. The repayments are therefore adjusted from time to time.

When the monthly repayments are reduced as a result of the reduction in the rate of interest the lender may maintain the existing instalments, giving him the benefit of an increased capital repayment.

Building a new home

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Building a new home

Building a new home calls for even more careful planning than buying an existing one. The first step would be the acquisition of an erf which is acceptable to the building society. The agreement of sale should therefore contain an "escape clause", allowing the buyer to withdraw from the contract if the erf is found to be unsuitable.

The next step is the provision of a plan for approval by the local authority and the building society.

An oral contract with a builder is legal, but it would be more sensible to enter into a written agreement. The Building Industries Federation of South Africa has drafted a standard contract which can be used to save costs. But it is even more important that both parties come to an agreement about the finishes.

A misunderstanding about the end result can be disappointing and subsequent additions and alterations not provided for in the agreement will cost extra money.

To avoid this it is suggested that a schedule of finishes down to the finest detail be drawn up and agreed to by the builder.

The building contractor will usually agree to draw up a check list specifying the finishes in detail. Some builders do provide a convenient checklist to make it easier for both parties. It may be emphasised that the builder is not obliged to do work or to use material not agreed upon. Any changes called for after agreement may prove extremely expensive.

Additional expenses

Buyers should bear in mind that building societies do not include additional expenses in calculating the 90 percent loan. They should therefore carefully note what these expenses are so as not to be caught on the wrong foot when payment becomes due.

■ *A Home of Your Own*, by JC Bekker, is published by JL van Schaik and is available from local bookshops.

10% bonus for savers

NEDBANK has introduced a notice deposit account which pays a 10% bonus on monthly interest earned.

The saving scheme requires 32 days' notice of withdrawal.

Nedbonus is intended for investors looking for the best interest rate while having reasonable access to funds.

A minimum of R2 000 has to be maintained in the account. It may be added to at any time or withdrawn after giving the required notice.

The base rate is the one ruling at the time of investment for any Nedbank notice deposit account. Should rates increase, the deposit immediately receives the higher figure and the bonus.

(58)

S Times 29/4/90

Mortgage bond rate battle shifts into a higher gear

Business Staff

FURTHER salvoes in the bond-rate battle between banks and building societies are expected in coming weeks, with spokesmen for at least two financial institutions predicting a decline of at least one percent in the home mortgage finance rate before the end of the year.

The prediction follows this weekend's announcement by First National Bank (FNB) of a comprehensive new approach to home mortgage finance, including a reduction of up to 0,5 percent in mortgage rates, shifting the bond war between the country's leading financial institutions into a higher gear.

Its mortgage rate has been dropped to 20,75 percent across the board while a further reduction of 0,25 percent will be made if the client uses at least two other products from the FNB stable, including associated insurance companies.

Biggest lender

In another development, United, still the biggest lender in the residential property market, is negotiating for a substantial shareholding in De Huizemark, one of the country's largest property marketing companies.

United, in an effort to hold off the increased competition from the banks in recent years, already owns 33 percent in Multi-Listing Services (MLS) as well as a strategic interest of 25 percent in Aida Holdings, the only listed estate agency.

By gaining strategic stakes in estate agencies United has stolen a march on its competitors as this provides it with an ideal vehicle to increase market penetration. It is understood that Aida franchise holders will be trained to grant United bonds immediately on the sale of a property.

FNB has built up a mortgage finance "book" of more than R4,3 billion since it entered the home loans market in 1983, roughly equivalent to 10 percent of the total residential mortgage finance market.

In addition to a reduction of mortgage rates, FNB is now offering 90 percent bonds on properties valued up to R150 000 plus a further 10 percent for renovations and extensions.

It is also enticing mortgage holders to transfer to FNB by offering to pay for bond cancellations and re-registration costs, under certain conditions.

The senior general manager for FNB, Mr Jimmy McKenzie, thinks mortgage rates could decline to 19,5 percent by the end of the year.

FNB lines up for new bond-rate war

CT 30/4/90 (58)

By Magnus Heystek
Finance Editor

The mortgage bond war between the country's leading financial institutions shifted into higher gear over the weekend when First National Bank (FNB) announced a comprehensive new approach to home mortgage financing which includes a reduction of up to 0,5 percent in mortgage rates.

It's mortgage rate has been dropped to 20,75 percent across the board while a further reduction of 0,25 percent will be made if the client utilises at least two other products from the FNB-stable, including associate insurance companies.

Further salvos in this battle between banks and the former building societies are expected in coming weeks, with spokesmen for at least two financial institutions predicting a decline of at least one percent in the home mortgage finance rate before the end of the year.

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Yesterday FNB — after nearly a week of "informed speculation" in the financial press — placed full-page advertisments in the country's Sunday papers announcing its decision to drop the interest rate as well as other significant moves in the mortgage bond war.

R4,3-bn 'book'

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It is also enticing mortgage holders to transfer to FNB by offering to pay for bond cancellations and re-registration costs, under certain conditions.

Like several other financial institutions, FNB now offers endowment and unit trust-linked bonds, a relatively innovative financing mechanism that offers the possibility of earlier repayment of mortgage bonds, depending on the performance of the stock market.

The home-owner can choose the endowment option through Southern Life or go the unit trust route with Guardbank, one of the best performing unit trusts.

While FNB's decision to reduce its mortgage rate took the market completely by surprise last week, spokesmen for other institutions pointed out that this move only brings FNB's rate into line with that charged by the other institutions.

But from a psychological point of view, which is bound to have a positive marketing impact, FNB's decision was timed nicely, creating expectations of further declines later in the year.

It could also rejuvenate the residential property market which has been showing signs of slowing down in recent weeks.

Senior general manager Jimmy McKenzie thinks mortgage rates could decline to 19,5 percent by the end of the year, which is bound to be a major saving for homeowners.

Already the decline of 0,50 percent means a reduction of R40 to R1 720 in the monthly repayments on a housing bond of R100 000 while the minimum monthly repayments on an FNB bond of R60 000 will decline by R30 a month to R1 030.

SBSA gets go-ahead to rescue African bank

By James Tomlins, Foreign Staff

PARIS — The French government has dropped its initial opposition to Standard Bank of South Africa (SBSA) saving a major African bank operating in 16 countries, it was learned here over the weekend.

The ANC was contacted in Lusaka, and said "there are no objections from our side".

They were referring to the recent offer made by the SBSA to invest massively in the prestigious, but ailing, Banque Internationale pour l'Afrique Occidentale (BIAO).

BIAO employs 8 000 in 17 branches in 16 French-speaking African countries, with offices in Hamburg, London, Luxembourg, Monaco and New York.

France's BNP bank — one of the country's Big Three — which has a majority share in BIAO started a crisis when it decided six months ago to withdraw its holding owing to heavy losses.

African banks in the struggling BIAO group had previously accused BNP of rushing in to strip the group's assets and ignoring a deal with SBSA which would have given them time to produce a recovery plan.

Managing directors of the bank's branches said they had no objections to Standard Bank SA taking a share in the (BIAO).

The BNP reflected French business thinking that banking operations in Africa suffered from loose government financial practices and staff problems.

Its branches faced massive embezzlements, loan failures and unacceptable government pressures.

BNP took a controlling 51 percent share in BIAO in 1988, but is seeking to sell its stake.Bankers said France accepted BNP's withdràwal from the African bank after it lost some $105 million last year, doubling the 1988 loss.

French press reports said BIAO needed $210 million to cover losses for its Paris operation alone.

BNP has 42 percent of the BIAO shares which would presumably be taken up by SBSA.

Other major shareholders include Banco da Brasil (20 percent) and the Union des Banques Suisses (20 percent).

The Standard's move has been fully supported by Alassane Ouaattara, director-general of the Abidjan-based Banque centrale des Etats de l'Afrique de l'Ouest (BCEAO), an umbrella body.

He previously put the case strongly to French Finance Minister Pierre Beregovoy on April 4.

Police to probe missing millions

Star 30/4/90 (58)

The police are to investigate Craighall Park-based venture capital operations Equity Participation Investments (EPI) and associated companies Capital Growth Investments, Multi Gold Holdings and Mazuma Gold Holdings Ltd.

The police announcement follows last week's Star Line expose of the activities of EPI, its network of companies and two directors, former lawyer Mr Roy Sellers and Mr Steven Wolff, who netted R14 million from local and overseas investors.

Mr Wolff is in California and Mr Sellers moved to East London two weeks ago.

Three Johannesburg men who are also involved in the organisations being probed are Mr Colin Hartley, former Rhodesian Mr Cecil D Holmes and his son, Robert.

Investors were lured with assurances of massive profits in funding unlisted companies which were to reopen gold and diamond mines, re-treat existing dumps and develop mining seals and bushes for overseas marketing.

Star Line
JUNE BEARZI

A Sandton man and his wife were persuaded to put R250 000 into two of the ventures; a Namibian businessman handed over R72 000 and 30 Swiss investors paid R800 000 for unlisted shares.

Promises to list the companies on the Johannesburg Stock Exchange were never kept.

No assets

Instead it has been established the companies' affairs are chaotic. Three of them — Epigro, Supermax and Compufax — have been wound up while several others appear to have no assets. Investors who demanded to know what happened to their cash have slated directors for "ducking and diving".

Star Line has established, however, that large sums were put into British and Swiss bank accounts.

Mr Norman Tilley of Livingstone Mining and Exploration Company, who describes himself as a troubleshooter, says he has taken over Mr Sellers' major shareholding in EPI and Multi Gold and has started a clean-up and capital-raising drive. Existing investors have been canvassed to buy more shares as part of the salvage bid, he said.

When pressed, Mr Tilley conceded that the ventures were "in a mess" and that there was "a lot of murky water around". He said he would also have to establish whether certain mining rights existed.

He explained: "I knew I was walking into a minefield but I acquire businesses with problems and put them back on path."

Mr W Dresselhaus, an angry Namibian businessman with R72 000 in Multi Gold, said:

"I'm not interested in giving them more money. I don't know what happened to my initial investment anyway. The men who ran these companies must be called on to explain what they have done with investors' money."

PPC is enjoying investor confidence

Star 30/4/90

Bottom Line

MICHAEL MENOF

Pretoria Portland Cement's 1989 annual report is impressive — characterised by low debt, increased income contribution from the four divisions, a healthy and increased working capital position and more than R100 million record profits.

But I was surprised that only R3,12 million was spent on education, training and development.

This presumably included R500 000 spent on PPC bursary and other tertiary education schemes during 1989.

Management boasts that more than 70 percent of PPC's employees have more than five years service and 47 percent more than 10 years service.

But a workforce of 4 577 in 1981 has declined to only 3 786 in 1989. Where are those vital new jobs and what is the point of producing record profits without creating more jobs?

On page 20 of the annual report is a full page picture cautioned "Soweto at dawn — housing represents a substantial baseload in the demand for cement — PPC is looking at ways and means of developing products capable of playing a role in addressing the country's housing shortage."

With significant cement plant under-utilisation, averaging only 63 percent in 1989, PPC must find ways to increase cement consumption.

A new development division started in 1989 promoting new products and businesses — it includes acquisitions and investments.

Botswana is high on the list for constructing and operating a cement-producing facility. In addition a 50 percent interest stake will be made in a company that designs residential structures which can be erected on problematic soils, says management.

But why not lower prices, produce more to utilise plant surplus capacity, employ more, expand and encourage more people to build and own their homes.

Surely this is a more effective way to increase cement consumption?

Capex for 1990 is R87 million (1989: R39,6 million) — what for? Not to create jobs but "in the main, a contribution of the programme of upgrading and modernisation of production facilities to enhance plant efficiencies," says management.

Turnover increased to R689,2 million (1988: R588,8 million) with operating income R161 million (1988: R136,7 million). Interest paid declined significantly to only R3,4 million (1988: R6,3 million) while investment income from associates and interest received almost doubled to R26,5 million (1988: R14,8 million).

Pre-tax profits were R187,5 million (1988: R151,4 million). After deducting tax of R85,1 million (1988: R71,2 million) and minority shareholders' profit share, the bottom line reached a milestone at R100,4 million (1988: R78,7 million). Earnings per share were 252,6 cents (1988: 202 cents) and the annual dividends upped to 130 cents (1988: 100 cents).

The cement division increased sales to R400,6 million (1988: R337,9 million) and improved their income contribution before interest and tax to R109,9 million (1988: R93,1 million).

High sales at the beginning of the year followed reduced demand in the second quarter. This soon resulted in the shutdown of certain clinker producing units leaving only the newer and most efficient kilns operating. But a second palletiser is being installed and cement storage and despatch facilities at all factories will be improved in 1990.

The remaining three divisions — lime, packaging and investments all increased their sales and income — sales R288,6 million (1988: R250,9 million) and income R81,1 million (1988: R64,6 million).

Priorities

Expansion of the lime and limestone markets are a priority. New projects promise to increase lime sales.

A textbook balance sheet was produced at end September 1989 — shareholders' equity totalled R494,4 million (1988: R435,4 million), total debt R9,88 million (1988: R24,1 million) and working capital R102,7 million (1988: R75,9 million) which included liquid funds of R74,9 million (1988: R57,6 million).

Held 61 percent by Barlow Rand the group enjoys investor confidence judging by a current JSE price of around R27,00 per share compared to the net asset value of R12,00 at end September 1989.

What are the prospects? High interest rates will stymie growth in the building and construction industries and a slowdown in the world economy will lower commodity prices, discouraging further major investments in mining and mineral beneficiation says chairman Mr J C Hall.

At best a flat year for both cement and lime is forecast. But with 1990s interim due shortly I would be surprised if sales and bottom line suffer any reversals in trend.

Banks still wary of lending to SA

LONDON — Nelson Mandela may be free, but most world banks are still reluctant to lend South Africa money.

International banks suspended new lending to South Africa in 1985 after protests in black townships. They show no sign yet of resuming loans.

Peter Schabort, political counsellor at the South African Embassy in London, said: "Not a single bank has taken steps to reverse its previous policies."

But Dr Chris Stals, Reserve Bank governor, seems confident about South Africa's ability to borrow.

He told Reuters foreign banks were adopting a softer line on credit, adding that trade finance was available and even short-term loans were easier to find.

However, others in the banking world who monitor the situation see no sign of relaxation.

STRONG DEMAND

West German bankers appear to be the only ones seriously reassessing the status of South African debt.

Indeed, investor demand was reported to be strong for a recent $59 million Eskom private placement, led by Commerzbank AG.

Mr Schabort said South Africa now must compete for funds with the emerging market-orientated states of Eastern Europe.

"It's difficult to get money," he said.

He pointed out that Britain was a natural place for South Africa to turn for new funds because of the extensive economic and historical links of the two countries.

But British banks appear to be no closer to modifying their policies towards South African borrowers. — Sapa-Reuter.

FINANCE - GENERAL

1990

MAY.

Overseas analysts too optimistic on SA equities

Canada and the US should offer the most attractive equity investment opportunities during calendar 1990, according to a worldwide survey carried out by Citicorp.

The same survey ranks South Africa eighth — out of 15 major world markets — in terms of forecast company profit growth in 1990.

Response from most local analysts is that the SA forecast is too optimistic and that, although it is the latest updated quarterly picture, it does not appear to incorporate the significant deterioration in outlook that has occured during the past two months.

This deterioration is chiefly politically based and stems from talk of nationalisation of major SA assets and the increasing violence, particularly in Natal. The latter factor has had a considerable adverse impact on consumer spending.

In addition, there is considerable disappointment on the local front about the lack of any tangible economic benefits following President De Klerk's moves in February — no significant improvement in exports and no sign of an inflow of capital from overseas sources.

The Citicorp forecasts, published in the latest issue of the Economist, represent the average guesses of 2 500 analysts at 150 investment firms. The guesses relate to the change in corporate earnings, between 1989 and 1990, of 7 000 companies.

For each country the percentage change is measured in national currency; the sector totals (and the grand total) are based on dollar equivalents.

Canada is well ahead of the pack with an expected total increase of 33,7 percent — profit growth in the Canadian finance sector is expected to surge by a massive 91 percent in 1990.

Next in line is the US with an expected increase in the total of 22,5 percent — again the finance sector heads the field with an 84 percent hike.

The sectoral predictions for South African firms range from a 10,1 percent profit increase for basic industries to 25 percent for transport companies.

Diagonal Street

ANN CROTTY

The technology sector is expected to show profit increases of 20 percent; the consumer goods and services sector an increase of 19,7 percent; finance, an increase of 16,7 percent and; capital goods an increase of 12,8 percent.

Even though these figures do not take into account an expected inflation rate of about 13 percent, the increases are regarded by local analysts as generally being on the optimistic side. (In real terms Citicorp is expecting the average earnings of South African firms to decline by about 1 percent, giving an expected total net increase of a nominal 12,2 percent).

The 25 percent forecast for transport companies is regarded as being way off the mark. With gdp growth expected to be in the region of one percent it is very difficult to see from where the volume of goods needed to support this sort of growth could come. Increased competition within the sector will hold profit growth well below the Citicorp figure of 25 percent.

The technology sector will be hard pressed to achieve its 20 percent figure. On the positive side is the strong demand for networking facilities but on the negative side is the cut-back in government spending, particularly on the military and post office.

On the basis of company figures released over the past few weeks and on more recent developments, the consumer goods and services sector is not expected to make the 19,7 percent mark.

As one analyst notes: "The political unrest across the country is physically preventing people from spending, either because they cannot get to work and therefore have no money to spend or because they have restricted access to shops."

Results from clothing companies; from Pick 'n Pay; from Pepkor and; from Tedelex which relate to trading periods ahead of the more recent deterioration, all suggest that the Citicorp figure will be hard to realise.

Although the finance sector has produced a spate of very strong figures, there seems to be some uncertainty as to whether this can be sustained throughout 1990, chiefly because of the noises coming from the Reserve Bank about the need to take steps to control growth in money supply.

Capital goods related counters could do better than the forecast, not because of current demand but with the help of demand that has built up over the past 12-18 months.

The 10,1 percent forecast for basic industries is expected to be more or less in line.

The Economist notes that over the past three months the consensus forecasts for the entire sample has barely changed, although the deviation in forecasts has widened considerably.

It warns that the table (see below) is useful as a broad survey of expectations, but specific entries should be treated with caution.

Nixdorf, the biggest of the seven companies in the German technology sector, is now expected to cut losses by far more than analysts predicted in January, inflating the sector's entry from 131,5 percent to 206,6 percent.

Forecasts for the American technology entry, a 416 company sector, are still high, primarily because the earnings of IBM, the sector's biggest company, are expected to recover from large restructuring write-offs last year.

The Economist expects a slight decline in profit expectations, especially in the US, when the survey gets published again in July.

Over the past nine years Citicorp has discovered that analysts covering US companies lower their forecasts by an average 4,1 percent as the year progresses, almost always producing headlines heralding lower profits. But often all that has declined is the cyclical optimism of analysts, the Economist says.

Company net profits, analysts' forecasts for 1990, % change over 1989

	Sector							
Country	Basic industries	Capital goods	Consumer goods and services	Energy	Finance	Technology	Transport	Total
Australia	18,8	20,6	4,5	27,4	9,2	NA	−16,5	14,3
Canada	2,2	0,1	4,4	49,9	91,0	44,3	−4,5	33,7
Denmark	23,0	19,3	19,9	NA	7,3	NA	7,2	10,8
France	9,1	12,7	18,2	9,3	10,7	71,6	24,5	13,1
W Germany	2,8	13,7	9,6	NA	9,5	206,6	12,2	8,2
Holland	−8,1	16,7	7,4	−5,5	7,4	16,9	−1,6	0,9
Hong Kong	14,0	8,7	13,9	NA	4,9	16,2	12,5	9,1
Italy	2,2	10,7	11,3	29,2	11,4	15,4	NA	9,0
Japan	7,5	9,6	7,8	−4,4	8,0	6,5	10,0	8,0
S Africa	**10,1**	**12,8**	**19,7**	**NA**	**16,7**	**20,0**	**25,0**	**12,2**
Spain	8,6	17,8	13,7	16,9	16,0	NA	NA	14,8
Sweden	0,7	18,8	1,0	NA	9,0	NA	−26,2	8,4
Switzerland	7,0	23,2	13,6	NA	9,9	−0,6	11,3	13,5
UK	7,0	4,7	12,5	−2,4	88,6	19,0	10,0	17,0
USA	−9,9	19,3	11,7	20,6	84,0	38,9	38,7	22,6
Total	**1,2**	**13,1**	**11,2**	**12,6**	**40,3**	**29,9**	**19,4**	**16,4**

Sophisticated burns unit to open at Bara

Stor 1/5/90 (58)

By Carina le Grange

The most sophisticated burns unit in the world is to be built at Baragwanath Hospital — thanks to a R3 million donation by a private company.

The unit will be open to all races.

A senior surgeon at Baragwanath and a University of the Witwatersrand lecturer, Dr Dimitri Dimitriades, will head the unit.

"I found almost 40 percent of burn deaths were potentially avoidable. Because of a lack of a burns unit, these patients were treated in an ordinary surgical ward. They became infected very easily and died of septicaemia. I strongly believe 40 percent of those who died would have survived if we had a burns unit," he said, after a study was conducted at the hospital.

Dr Dimitriades said he consequently approached the private sector for contributions towards building the specialised unit and Johnson and Johnson donated R3 million.

"To the best of my knowledge this is the largest single contribution to any medical institution by private enterprise," he said.

Malbak, Smith and Nephew, Roche and Wits Rag also gave substantial sums, while a number of smaller amounts were recieved from other companies. These donations will be used to buy equipment in the unit.

The unit is expected to be completed in November this year, and will include 20 high care beds, an operating theatre, and a research laboratory.

Last year, 450 adults and 300 children were admitted to Baragwanath with severe burns. Dr Dimitriades said that as a result of South Africa's particular socio-economic factors, which included open hearth fires inside homes, a high number of burns cases existed.

Police warn of fake R50 notes

Own Correspondent

THOHOYANDOU — The Venda police announced yesterday that hundreds of counterfeit R50 notes were in circulation in the homeland.

CID chief Colonel D N Makwarela said arrests were expected soon.

The police said that the notes were discovered on Tuesday last week when a farmer wanted to deposit R400 at the Thohoyandou Standard Bank. He had earlier sold his produce to local pensioners who received the money as old age pension.

The Director-General of the Venda Department of Pensions and Welfare, Mr Samson Makhuvha said the money was withdrawn from the First National Bank at Thohoyandou for pensioners.

The Venda police said that so far their investigations were based in Johannesburg.

Reserve Bank to build in Newtown

Staff Reporter

The first major project announced in the redevelopment of Johannesburg's Newtown area is the erection of a Reserve Bank building on the corner of West and President streets.

Excavation for the building which planning chief Mr Eddy Magid has dubbed the "financial anchor of the CBD", is expected to start in about eight months, said Reserve Bank administration manager, Mr Eric Pike.

But the bank's new branch office is unlikely to be the first building to be occupied in the first phase of the redeveloped area west of the city.

Oakwood Realty/Office Accommodation Investment which was last week awarded the R22,1 million tender to develop the remainder of phase 1, including Turbine Hall and Boiler House, has undertaken to commence immediately, he said.

Mr Pike said no details were available at this stage as a brief was still being prepared for the architects. Completion date is expected to be in four or five years' time.

No decision has been taken on the future of the Rseerve Bank's existing three Johannesburg premises.

Rent boycott hits council for R7,8-m

By Abel Mabelane, East Rand Bureau

The administrator of Tokoza (near Katlehong), Mr Gert Muller, said there was a 100 percent rent boycott in the township with arrears owed to the council by residents now standing at R7,8 million.

Mr Muller was appointed administrator of the Tokoza Council after several councillors resigned because of pressure from the community left the council without a quorum.

"Since I took over as administrator on April 11, the council has not collected a cent from the residents which means the rent boycott is 100 percent effective," he said.

He added that the council had no reserve funds and the salaries of its employees were this month paid by the Transvaal Provincial Administration (TPA).

Different organisations

Mr Muller said the TPA could, however, not be expected to foot the council's bills indefinitely.

He said he was going to hold talks with the Tokoza Civic Association tomorrow, because they were alleged to be behind the rent boycott in the township.

Mr Muller said members of the TCA had already indicated they would like to meet him alone without councillors and he said he was prepared to meet their demands.

By meeting the different organisations in the township, he would be able to determine whether the problems in Tokoza were political or internal.

Mr Muller said if the problems were within the council, he would address them, but if they were political they would be beyond his scope.

New debt-rating agency welcomed

ROBERT GENTLE

SA GETS its first debt-rating agency today in a development welcomed in corporate treasury circles and at the Reserve Bank as likely to increase the sophistication of SA's financial markets.

Republic Ratings, based in Randburg, aims to give SA what developed financial centres abroad have enjoyed for decades — unbiased ratings on public debt issues.

It will assess the risk profile of anything from a debenture issue by a little-known provincial concern to a securitisation issue by a major bank, and assign it a rating.

Investors, whether private citizens or major life assurers, can use the rating in deciding whether or not to hold the paper.

Republic Ratings will use a system similar to that of Standard & Poor in the US. A

☐ To Page 2

New agency

☐ From Page 1

triple "A" would carry the lowest expectation of investment risk while, say, a triple "C" would denote the possibility of default.

Gencor GM, treasury, and Association of Corporate Treasurers committee member Marius Ferreira welcomed the establishment of Republic Ratings

"Issuers of paper will benefit from better pricing and investors will be able to better assess the risk of such issues," he said.

Registrar of Banks Hennie van Greuning said: "We at the Reserve Bank are very supportive of the idea. It is a good development for the SA financial markets."

Julian Knopf, manager at Discount House of SA, said such agencies would open up the SA commercial paper market.

All three observers said the success of Republic Ratings would rest on the soundness of its ratings methodology and its ability to remain completely independent of government and the big corporations whose paper it might be called on to rate.

Sectional title schemes picking up in popularity

SECTIONAL title schemes are gaining popularity as an alternative to shareblock schemes whose potential pitfalls have been illustrated by the troubles of the Helderberg Retirement Village.

Board of Executors (BOE) Properties director Rob Walters, writing in the latest issue of BOE quarterly The Walc Street Journal, said the most important consideration for anyone contemplating buying a retirement unit of any kind was that the developer should be reputable.

Walters said the main difference between shareblock and sectional title ownership was that under sectional title the purchaser owned the unit and had a registered interest in common property such as a clubhouse, swimming pool or catering facilities.

"This means that in respect of the common property, he or she is a part owner — the size of the part being determined by the size of the owned interest in relation to the entire scheme," Walters said.

If the sectional title development ran into trouble, owners of individual units were not at risk in respect of their investment.

The purchaser of a shareblock unit does not acquire title to the unit but enters into an agreement that provides usufruct. He pays a nominal amount for a share and the rest of the money goes to the developer as loan capital.

Sectional title and shareblock unit owners have to enter into a contract with the developer where the developer estimates the running costs of the block for three years and levies for two years, taking escalation factors into account in the process.

The risks to the shareblock purchaser are that if the developers run into financial difficulty, the villagers can lose their homes, to which they have no title.

Bought

Their loan to the shareblock company is ranked as a claim and they would participate in dividends with other creditors on a pro-rata basis.

Walters said a third alternative for retirement villages was "life-right", where the prospective villager bought a unit for the rest of his life or until he wished to sell, but the capital appreciation of his investment would go to the village, not the individual.

He warned prospective investors in any type of scheme to take into account the running costs of the village and the likely escalations in these costs.

These costs could eat into a cash flow from income that in all probability was not going to increase.

2/5/87 Cape

Sage positioned to benefit from sound base and spread

B Day 2/5/90 (58)

PIERRE DU PREEZ

SAGE Holdings — with assets under management of nearly R4bn — is well positioned to benefit from the group's sound base and spread of interests, chairman Louis Shill says in the group's 1989 annual report.

He adds that although certain of the group's foreign interests are not performing satisfactorily, the financial services and property subsidiaries are well placed to achieve continued growth.

The listing of Sage Financial Services (SFS) last year enabled the group to focus sharply on its core business in the two areas of financial services and property.

However, Shill says it is unlikely in the current year that economic growth will exceed 1% in real terms and interest rates are not expected to begin to decline until late in the year.

Subject only to the proviso of unexpectedly prolonged high interest rates, Shill believes the group as a whole is capable of making satisfactory progress.

Group results were below initial expectations due to muted growth and a restrictive monetary policy that maintained interest rates at punitive levels.

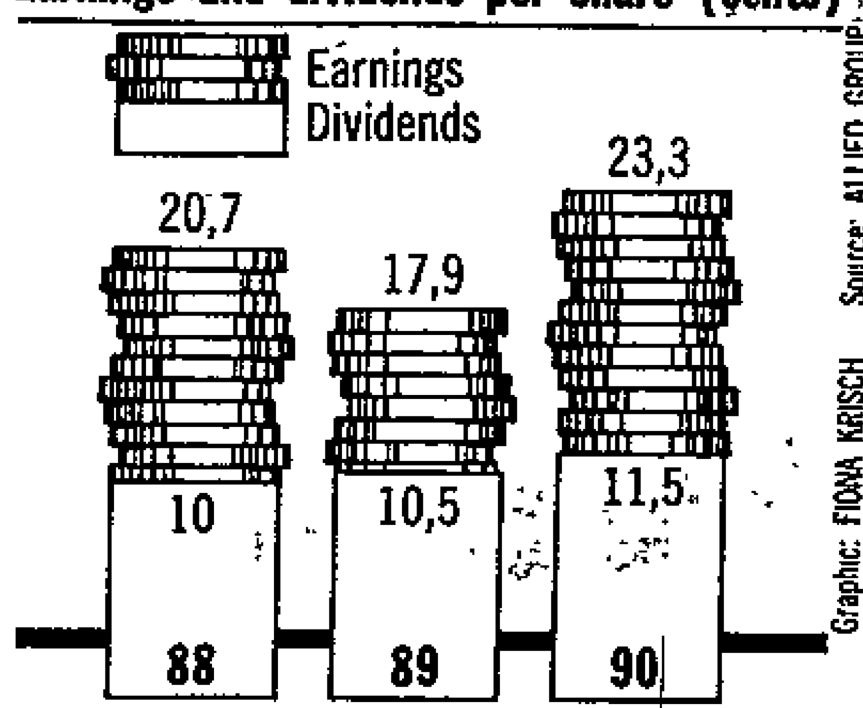
In the separate report for SFS, Shill says the group is expected to achieve sustained growth in earnings in the current year.

SFS consists of Sage Life, the FPS group consisting of financial planning and trusts, the group's unit trusts, Sage Trust and Sage Securities. At year-end it had consolidated assets of R1,7bn (R1,4bn).

Shill says developments in the financial services industry make further groupings and integration between various categories of financial service interests inevitable.

SFS, Shill says, has an exceptionally strong balance sheet.

COMPANIES



Allied Group boosts dividends as earnings climb 30%

BARRY SERGEANT

THE Allied Group's 1990 dividend rose 10% to 11,5c (10,5c) for the year to end-March.

Dividends were diluted by a small increase in cover to 2,0 (1,7) times, with earnings — before extraordinary items — up 30% at 23,3c (17,9c) a share.

The results disclose no information whatsoever on bad debt experience or bad debt provisions, but the directors simply refer to "increased provisions".

The Allied Group houses Allied Bank, Allied Building Society, Allied Information Services, Allied Holdings, Allied Insurance and Allied Development Company.

Services provided include home loans, consumer and corporate finance, foreign exchange and international facilities to more than 1-million clients.

High development costs in financial 1990 saw Allied Group's non-interest expenditure advance 30,5% to R328,5m. Taxed income after extraordinary items was up 23,8% to 68,7m (55,5m).

The critical equity:asset ratio fell to 5,9% (6,3%) despite a higher dividend cover. The ratio is still well ahead of most banks, indicating no short-term need to strengthen Allied's capital base.

Assets reflected no growth in real terms at 14% up to R9,8bn, helping to buffer the capital base.

Net asset value advanced marginally by 6,5% to 193,6c a share, leaving the share trading at a substantial discount.

The directors said the year "sees the Allied Group rapidly approaching its goal of providing a full range of domestic and international banking services backed by high-quality systems, sound financial controls and excellent service".

Investec launches 'green chip' trust

BDay 2/5/90. (58)

INVESTEC Merchant Bank has launched a closed-end investment trust, the first of its type in SA, which will focus on potential blue chip equities — "green chips".

Investec Investment Trust Limited (Intrust) will be listed as an investment company on the JSE via a reverse takeover of Witbank Consolidated Coal Mines Limited (Witcons).

In an interview this week, Investec MD Stephen Koseff said: "Intrust is unique in SA in terms of the category of asset it is targeting.

"It could, in theory, acquire an unlimited stake in any listed company. However, the intention at this stage is to acquire minority stakes in targeted listed equities."

David Shapiro of sponsoring stockbrokers Max Pollak & Freemantle said: "We're directing the focus to the smaller investor with the aim of providing him with a one-stop entry into quality companies which have been largely ignored by the institutional investor, but which still provide promise and good returns."

Intrust would probably exclude only mining and banks/financial services-related shares from its ambit.

Investec senior manager: corporate finance John Snider said Intrust would have an initial notional market capitalisation of R14,8m. "However, it has the scope to grow to hundreds of millions of rands worth."

Investec Limited, a wholly owned subsidiary of Investec Bank, has been authorised by the Registrar of Banks to acquire

BARRY SERGEANT

65% of Intrust's equity. Koseff said the focus was to arbitrage between green chips and blue chips where a 50% discount on p:e's was not unusual.

"Since the October 1987 'crash' institutional interest has been focused on blue chips, which has driven prices upward, while the second tier has been neglected.

"The current dividend yield on the industrial index is 3,7% but there are excellent companies offering forward dividend yields in excess of 7%."

Over time, Koseff said, Investec aimed at reducing its 65% stake to a minority interest.

"In addition," said Koseff, "Intrust will not borrow to acquire shares as it is not tax-efficient. It will acquire minority stakes of 5%-10% in companies where a re-rating by the market seems likely."

☐ Two interrelated offers to minority shareholders will result in the formation of Intrust.

In the first offer, Witcons will offer its shareholders the 1,69-million shares it holds in Duiker Exploration for R8,80 each. In the second offer — which will enable shareholders to participate in the first offer — Investec will offer to purchase Witcons shares at R15,98.

The timing of the Duiker offer and the Investec offer will be such that any Witcons shareholder accepting both of the offers will not need to outlay any money.

Lonrho SA has undertaken to underwrite the Duiker offer for no consideration.

Sanlam: SA investment prospects the best

LESLEY LAMBERT

CAPE TOWN — Sanlam had considered several foreign investments but found none more attractive than local investment prospects, Sanlam MD Pierre Steyn told policy-holders on Monday.

Answering their questions at a meeting here, Steyn said that unlike other leading SA companies that had established significant offshore holdings, Sanlam had no substantial direct investments overseas. (58)

A better place

The life assurer had some interests in Zimbabwe to cover liabilities on policies remaining from the time it had been active there, and several of its subsidiaries, such as Gencor, had interests abroad.

But, while the company had "looked at several foreign propositions" which had crossed his desk, it had not found one more attractive than local investments, Steyn said.

"Sanlam has always taken the view that we are an SA company, our policyholders live here and we feel we must use their investments to help make the country a better place for themselves and their grandchildren," he said.

Many of the policy-holders' questions were aimed at clarifying confusion over the issue of nationalisation. Steyn assured policy-holders recently that whatever happened in the future SA economy, they would lose neither their policies nor their annual bonus payouts.

He reiterated on Monday evening that in the "unlikely event" of the nationalisation of life assurers, similar experiences in other countries had shown that people did not lose their life investments.

"Nationalisation would not be in anybody's interests. What we need is for companies like Sanlam to grow and make greater contributions to the economic growth of this country," he said.

Policy-holders were also concerned about Sanlam's indirect investment via Federale Volksbeleggings and Continental China, in the company Serena, which planned to extend its kaolin mining interests on Chapman's Peak, against the wishes of local residents.

B Day 21/5/90

Decisions

Steyn said Sanlam applied a policy of decentralised management to its subsidiaries and was entitled neither to make decisions on their behalf nor to force them to make a certain decision. However, he said, Sanlam would do everything possible to ensure that Serena did not make a hasty decision and that it had access to all information necessary to make a decision.

Bank policy 'takes a step back'

THE Reserve Bank's current strategy is a step back from market-oriented monetary policies, the Standard Bank says in its latest Review. 8|Day 2|5|90

"The focus on restricting the availability of credit rather than reducing its demand amounts to informal rationing. This represents a step backwards from the financial deregulation and increasingly market-oriented stance of monetary policy over the past decade," the bank says.

Sechold economist Pierre Faure, in the latest edition of the Securities Markets, criticised the policy of squeezing the banks while not allowing them to raise their interest rates. Banks could not be expected to influence the demand for credit.

The Standard's economists said politics and fear of inducing a recession had caused

GRETA STEYN

the Bank to avoid an increase in interest rates, that is, an increase in the cost of credit. Banks were now being pressured into restricting their lending by raising the cost of their funding.

The squeeze was motivated by the battle against inflation and the consequent need to curb growth in the money supply. In 1989, total bank credit in SA grew by 31,5%. Despite signficant interest rate hikes over this period, this was only marginally lower than 1988's 35,1% growth in credit.

The Standard welcomed the importance attached to reducing inflation.

Interest rates were likely to remain higher for longer than previously expected when the focus of policy was on slowing domestic economic activity.

COMPANIES

SPH sustains strength despite mixed fortunes in property market

NEIL YORKE SMITH

THE CONTRAST between continued buoyancy in the fixed property market and difficult conditions faced by the housing sector was characteristic of the property market last year, directors of Sage Property Holdings (SPH) said in their annual report.

"SPH's diverse investment base enabled the group to maintain its underlying strength, they added.

Its activities include construction and development, direct property investments and property management — three property trusts and the Sage Life portfolio.

The upward phase in the rental cycle continued last year, "reflecting the sustained strength in demand for accommodation in most sectors of the market and relatively limited supply positions," the report said.

The office sector remained fundamentally healthy, with strong demand for prestige accommodation resulting in sharper-than-expected rental increases, it added.

Limited supply in decentralised office nodes like Rosebank and Parktown ensured these areas continued to feature strongly in the property market.

"With lower economic growth forecast there will inevitably be some consolidation in the commercial property market, and rentals are unlikely to rise as rapidly as they have done in the past year," it said.

"The strong recovery phase in the industrial property market continued during the review period and was reflected in declining vacancies and escalating rentals."

Generally, the market remained reasonably active and any downturn was expected to be short lived, said the report.

Demand for industrial space was likely to revive in 1991 and rentals would increase.

Demand for industrial space was likely to revive strongly in 1991, it added.

Because there was no substantial pool of vacant space, as was experienced at the start of the last upturn, rental levels would increase rapidly, it said.

Reserve Bank strategy slammed

CAPE TIMES 2/5/90 (58)

Own Correspondent

JOHANNESBURG. — The Reserve Bank's current strategy is a step backwards from market-oriented monetary policies, the Standard Bank says in its latest Review.

"The focus on restricting the availability of credit rather than reducing its demand amounts to informal rationing.

"This represents a step backwards from the financial deregulation and increasingly market-oriented stance of monetary policy over the past decade," says the bank.

The Standard has added its voice to that of Sechold economist Pierre Faure, whose article in the current edition of the Securities Markets criticised the policy of squeezing the banks, while not allowing them to raise their interest rates.

Faure said banks were in the business of granting credit and could not be expected to influence the demand for credit.

According to the Standard's economists, politics and fear of inducing a recession had caused the Bank to avoid an increase in interest rates, that is, an increase in the cost of credit.

Instead, banks were now being pressured into restricting the extent of their lending by raising the cost of their funding.

The squeeze was motivated by the battle against inflation and the consequent need to curb growth in the money supply.

In 1989, total bank credit in SA grew by 31,5%.

In spite of signficant interest rate hikes over this period, this was only marginally lower than the 35,1% growth in credit recorded in 1988.

The Standard welcomed the importance attached to reducing inflation. There was little doubt that high inflation had hampered the efficient functioning and long-term growth performance of the SA economy over the past two decades.

"The battle against inflation will be a lengthy one and spectacular short-term success in reducing inflation to the levels of SA's major trading partners is unlikely."

Thus, interest rates were likely to remain high for longer than was previously anticipated when the focus of the policy was on slowing domestic economic activity.

"However, as the pace of economic activity slows further, the monetary authorities will increasingly be forced to maintain a delicate balance between the desire to reduce inflation and the necessity of avoiding economic recession if socio-economic priorities are to be addressed."

Allied lifts dividend 10%

Cape Times 2/5/90

Own Correspondent

JOHANNESBURG. — The Allied Group's total dividend is up 10% to 11,5c (10,5c) for the year to end-March.

Dividends were diluted by a small increase in cover to 2,0 (1,7) times, with earnings a share — before extraordinary items — up 30% at 23,3c (17,9c).

The results disclose no information on bad debt experience or bad debt provisions, but the directors refer to "increased provisions".

High development costs saw Allied Group's non-interest expenditure advance 30,5% to R328,5m.

Taxed income after extraordinary items was up 23,8% to 68,7m (55,5m).

Allied's tax rate fell and tight management of interest margins saw a marginal increase in the spread between interest income and interest expenditure.

The critical equity:asset ratio fell to 5,9% (6,3%) in spite of a higher dividend cover. The ratio is still well ahead of most banks, indicating no short-term need to strengthen Allied's capital base.

Assets reflected no growth in real terms at 14% up to R9,8bn, helping to buffer the capital base.

Net asset value advanced marginally by 6,5% to 193,6c a share, leaving the share trading at a substantial discount.

The directors say the year "sees the Allied Group rapidly approaching its goal of providing a full range of domestic and international banking services.

"In spite of relatively high development costs, increased provisions, tight interest margins and deteriorating economic conditions, profits have improved and market share has been maintainted.

"Under the current political and economic circumstances accurate projections are difficult. However, the Allied is well-placed to meet the challanges ahead and is budgeting for a further improvements in the current year."

De Beers stocks up as the market softens

By Neil Behrmann

LONDON — World retail diamond sales rose four percent to a record 54 million pieces or 14,9 million carats worth $39 billion last year, said the chairman of De Beers Julian Ogilvie Thompson yesterday.

And to promote diamond sales this year, the advertising budget of De Beers will be $130 million, he said.

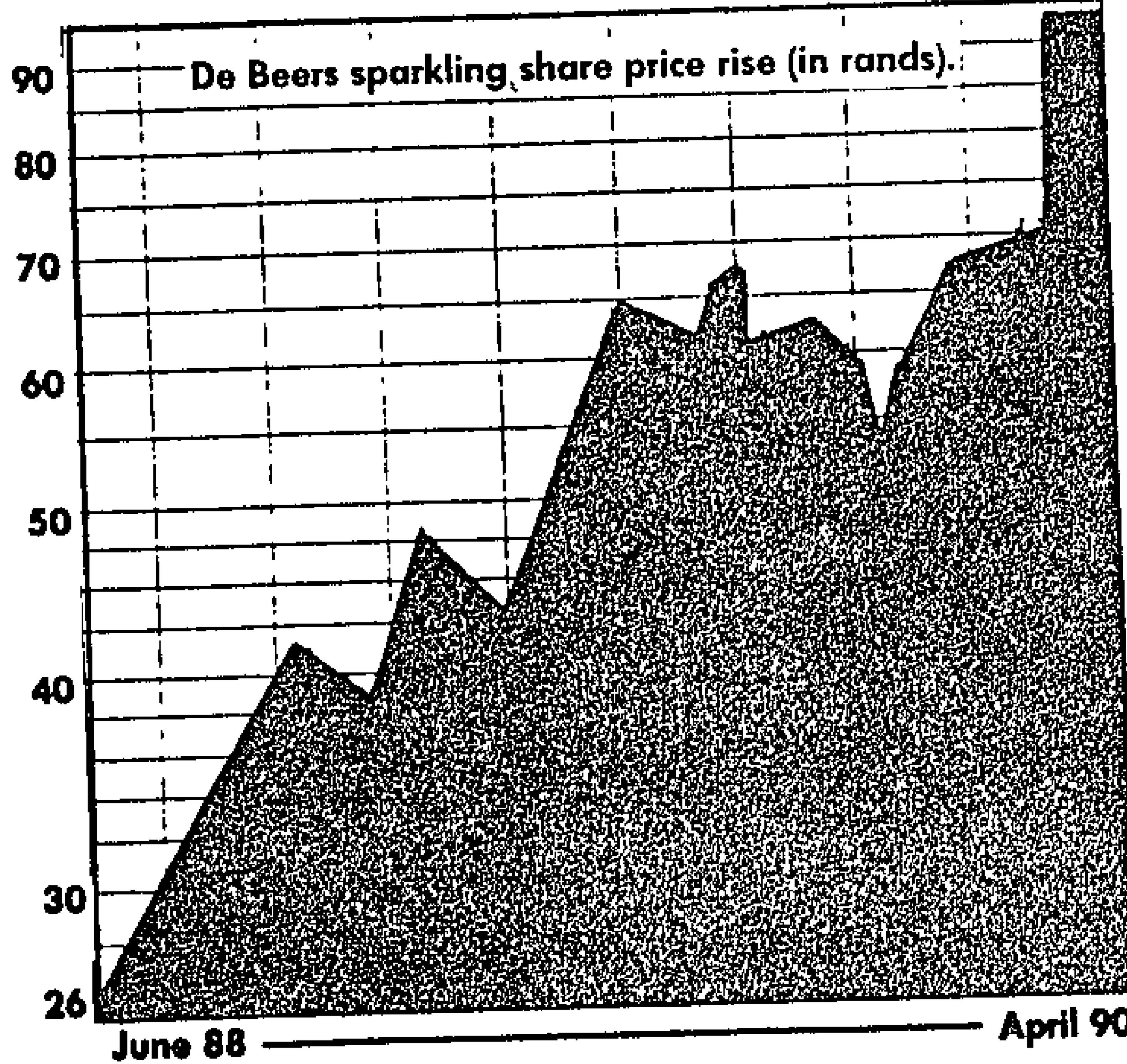
After "three exceptional years of double-digit increases, however, the growth in sales slowed to a more normal rate".

Expressed in dollars the overall increase came to 4 percent, but most of the slackening was attributable to the strengthening of the US currency.

Measured in local currency terms, the rise was 8 percent, compared with 10 percent in 1988. Growth was particularly strong in Europe and also Japan, where sales were boosted by a reduction in sales tax on jewellery costing more than 37 500 yen (R640). Growth in the United States, still the largest market for polished diamonds, was modest.

Mr Ogilvie Thompson said at a London press conference that so far high international interest rates this year had not affected demand for diamonds.

Executives of De Beers confirmed that sales of high priced diamond jewellery of $5000 a piece or more had not been dented by punitive real interest rates. Turnover of cheaper jewellery, notably pieces of $500 or less, however had been hit by higher interest rates.



Wealthier consumers earning higher income on their capital could afford to buy more diamonds, added a marketing executive of the company, but other income groups are tailing back purchases of luxury goods.

On average, however, consumer demand for diamonds continues to "grow both at a rate and in a regional pattern that is similar to last year".

"The mood in the cutting centres as well as the retail trade generally is positive," said Mr Ogilvie Thompson.

He added that the diamond market had readily absorbed De Beers' March price increase of 5,5 percent. Sights in March and April were satisfactory.

He did caution, however that there was an increase in diamond stocks at the cutting centres, although "by historic standards their inventories are low in relation to sales".

De Beers' diamond sales slipped by 2 percent to $4,09 billion last year — despite a diamond price rise of 15,5 percent in March 1989 — because of the slower growth in retail turnover.

The reason is that retailers had less need to raise stocks, says Mr Ogilvie Thompson.

De Beers thus had to withhold diamonds to support the rough market and in consequences its own stocks rose by $473 million last year. The proportion of De Beers' stocks to turnover rose to 56 percent from 50 percent in 1988, but it is small when compared with 168 percent in 1984.

Moreover, if the market worsened, De Beers Centenary has the power to increase borrowings markedly, said Mr Ogilvie Thompson.

Events in the gold and platinum markets indicate that demand could wane, despite the enthusiasm of De Beers executives. Nevertheless, the diamond trade is sufficiently strong to withstand any downturn in the cycle.

Even though rough diamond stocks have risen at cutting centres, said Mr Ogilvie Thompson, the increase was financed largely by the trade's own capital rather than by bank borrowings.

"This is a healthy sign," he said.

Mr Ogilvie Thompson stressed that the company had no intention to de-link De Beers Centenary from De Beers Consolidated. It is incorrect to speculate that the units will be de-stapled, he said.

In response to a question how the group would react if a bank held the stapled units and offered investors depositary receipts of De Beers Centenary, he said, however, that the group would be powerless to prevent an effective unstapling by outsiders.

He also denied that Anglo American would be following the De Beers' route of putting its foreign interests into a separate company based overseas.

"Anglo American was basically a South African company and there was no compelling reason for it to separate its foreign interests from its local interests," Mr Ogilvie Thompson said.

16 pc more visitors came to SA in a bumper year for tourism

Sta 3/5/90 (58)

Last year was a bumper year for South Africa's tourism industry with arrival figures almost 16 percent up on 1988, the South African Tourism Board said in a statement yesterday.

In all, the 1989 figure was set at 930 393 visitors, an increase of 15,6 percent over the previous year, according to extracts from Satour's 1989 annual report.

In an industry worth an estimated R5 000 million, earnings from foreign visitors, excluding airfares, amounted to approximately R1 900 million in 1989.

During the year and in a newly appointed Cabinet, government added tourism to the portfolio title of the Minister of Trade and Industry, thereby stressing the role the industry plays as a foreign exchange earner and in the economic growth of the country.

Satour and the Development Bank have also commenced work on a national strategy for tourism development in South Africa, Satour said.

These investigations should be finalised by mid-1990 and a concept plan formulated shortly afterwards, in close co-operation with the private sector and regional authorities.

At Satour's request, the Board of Trade and Industry is conducting a thorough investigation into the tourism industry.

Particular reference is being given to those matters that hinder the orderly development of the industry, such as the present arrangement of school holidays, seasonal shortages of air capacity to and within South Africa, and deficiencies in the infrastructure.

Satour's board of control was reconstituted during the latter part of the year, with 11 of its 14 members coming from the private sector.

A notable trend in the domestic market in 1989 was the growing awareness among black South Africans of the considerable rewards of travel.

Travel increased noticeably among black businessmen, adult package tours and groups of black school children.

Following on guidelines formulated in 1987, the newly formed Tourism Marketing Forum, representing South Africa, Transkei, Bophutatswana, Venda and Ciskei, formulated a strategy for a planned and co-ordinated approach to tourism development and marketing.

Co-operation between South Africa and the SARTOC member countries — Malawi, Swaziland, Lesotho and the Islamic Republic of the Comores — also remained good, and all the countries took part in the Indaba/Focus '89 travel workshop.

Satour's annual desk calendar won the SAPPI national award for printing, while the Satour film "SA Animal Land" won first prize at the United States Industrial Film and Video Festival, where 1 200 entries were submitted by 28 countries

Significant measures to deregulate the hotel industry were achieved during the year.

The amended regulations, promulgated on July 29 1989, are market-oriented and less prescriptive, while at the same time promoting high standards in the industry, particulary in terms of hygiene and general maintenance, according to Satour.

Future timeshare holders may now register with Satour provided that, within reasonable limits, they satisfy the demands of the tourist for accommodation.

By December 31 1989, 1275 registered hotels with 46 486 rooms and 91 235 beds had been graded.

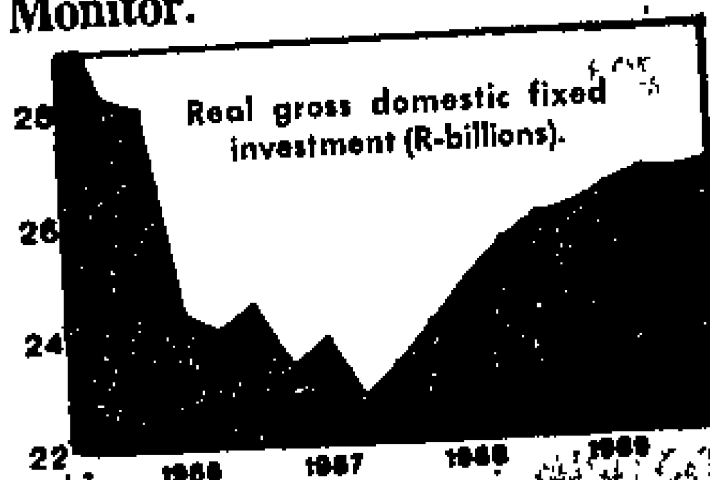
The full complement of registered tour guides now numbers 1 044. — Sapa.

(58) STAR 3/5/90

Capital spending likely to decline

Real spending on capital projects could decline this year, the Old Mutual Economic Research Unit writes in its latest Economic Monitor.

The economists argue that the deterioration in general business conditions is expected to have a detrimental effect on investment expenditure.



Investment spending slowed down to around 4 percent last year compared with 8,6 percent in 1988 (see graph).

However, Old Mutual does not foresee a repetition of the 24 percent cutback experienced during the 1985/86 recession "as the cyclical bottlenecks in the economy do not call for the same degree of domestic demand constraint as in the previous downward phase of the business cycle".

Moreover, newly released figures indicate that inventories are being run down and a further decline is foreseen this year.

On a broader front the economists expect a further moderate decline in aggregate real domestic expenditure during 1990.

Domestic production, however, could register a small increase as a result of anticipated moderate increases in foreign demand, but a poorer agricultural year in 1989 may restrict the scope for any improvement in domestic production.

Commenting on the short-term prospects for the economy, Old Mutual argues that it is essential that the current consolidation phase in the economy be extended to provide a further boost to the foreign exchange reserves and to curb inflationary pressure.

Frigate expands reserves

Frigate group has increased its coal reserves by 70 percent from 29 million tons to almost 50 million tons, chairman Mike Stanley says in his annual review.

This puts the company in a position to achieve its projected production levels for the next 15 years.

Frigate, which was listed on the Johannesburg Stock Exchange in October last year, has started direct coal exports for its own account. Until now, the company has been on-selling all of its coal export production to organisations holding export allocations.

Mr Stanley says Frigate plans to develop a new colliery, Westside, in the Delmas district, to supply coal for metallurgical use. On future prospects, Mr Stanley is confident that that the group will achieve results projected in the prospectus, notwithstanding any untoward changes in the economic and political environment.— Sapa.

Star 3/5/90 (58)

NEWS

De Beers boss calls for more welfare expenditure

Political Reporter

A market-orientated economy was the only realistic means of satisfying black aspirations, according to De Beers chairman Mr Julian Ogilvie Thompson.

In the mining company's annual report, released yesterday, Mr Thompson said visible progress in addressing socio-economic backlogs would be more convincing than any rhetoric in convincing the majority that a vigorous market-orientated economy was the most realistic means of satisfying their legitimate aspirations.

Economic control and intervention would only re-allocate and perpetuate poverty.

"A higher growth rate, permitting more welfare expenditure, would be facilitated by the restoration of peace in the country and the removal of economic and financial sanctions, so that South Africa could once more attract substantial institutional and private venture capital from the international community."

Lower inflation

Mr Thompson said the government was tackling with urgency and vigour the tasks of getting the economy on to a sounder footing, with lower inflation and higher growth, and of remedying the gross inequities and inequalities of the old system.

Black communities should actively participate in addressing housing, educational and medical needs and the economic opportunities available to them.

Lauding President de Klerk's reforms, he said it was to be hoped that a new constitution and bill of rights would facilitate the creation of a prosperous, non-racial multiparty democracy.

Such a system would be the engine of growth for a region that desperately needed an escape route from poverty.

Mr Thompson said all people would have to have access to the market place as much as to the ballot box if they were to be able to create wealth for themselves and prosperity for the country.

● See Page 18.

perpetuate poverty. ... Black communities should ac-

Funds give R47-m to education

Education Reporter

Last year more than R47 million was given by the Anglo American and De Beers Chairman's fund and the Chairman's Fund Educational Trust towards improvements in education.

In the De Beers annual report released yesterday, the directors said this included R33 million which was spent on secondary and tertiary education, primarily for the benefit of black students.

One of the major projects was the incorporation of Saint Ansgar's School and Grace College into the non-racial "Schools of the Resurrection" at a cost of R15 million.

Other educational projects included the recent opening of Saint Andrew's High School in Welkom.

A tertiary college in Cape Town is expected to open in January 1991 after a R6 million grant was made to the LEAF organisation. The college will provide bridging tuition from school to tertiary institutions.

A R15 million technical college in Atteridgeville is also expected to open in January next year and a R3,6 million grant was made to the Technikon Witwatersrand towards a Technology library. In addition, a R5,8 million residence with 220 beds was opened in November last year.

At the University of Natal, a R4,4 million residence accommodating a total of 96 pupils has been completed.

Other areas of expenditure included a home for the mentally handicapped in Soweto, which should reach completion at the end of the year, an art gallery at the University of Fort Hare and a three-year educational project in the Kimberley region run by the Read Educational Trust.

The directors said the focus last year was also on the development of the small business sector.

STar 3/8/90

'Watchdog' a huge

Retail sales hit R60 billion level

Finance Staff

Retail sales last year increased by a mere 3 percent in real terms (at constant 1985 prices).

In nominal terms they were up by 19,6 percent to just over R60 billion compared with 1988, the Central Statistical Services reported yesterday.

Hire-purchase transactions still showed a surprisingly high growth rate of 27,5 percent.

Sectors which recorded good increases were stationers and booksellers (19,5 percent), general dealers (13,4 percent) and jewellers (12,9 percent), while large sales declines were recorded by department stores (6,8 percent) and sports and entertainment shops (3,3 percent).

DEVELOPMENT BANK (58)

Solid stocks

The Development Bank of SA says funds invested in its coming stock issue will be as safe as any other government stock, despite the weakness of homeland structures and black local governments, to which most loans have been made.

GM André la Grange says 84% of the SBDC's R1,8bn callable shares are held by government and can be called only to meet obligations on loans in the financial market.

These capital shares effectively offer a government guarantee and also represent a limit to which the bank can seek private-sector funds. FM 4/5/90

The assurance came with the announcement at the bank's new R26m Midrand headquarters of plans to raise R1,5bn on the capital market in the next three to five years. Stock of R175m in R100 units will be issued on May 9, with an additional R125m issue later — allowing the bank to disburse almost R800m this year. The first issue will carry a coupon of 14,5%, term of 20 years and redemption date of September 30 2010. The effective rate to be announced the day before issue is expected to be nearer 17%. It is hoped they will trade at the same level as other government stocks.

The bank minimises risk by allocating development aid in increments as projects proceed, says La Grange.

Close communication and support from all elements in the black community are essential. Contacts with the ANC "have been maintained for some time."

Executive chairman Simon Brand says in the latest annual report that the years ahead will see continued demand for development aid. Planned projects will continue despite

FM 4/5/90 (58)

possible "erosion or crumbling of political and administrative structures." In fact, more attention will be paid to strengthening the financial position of borrowers.

Development plans include road construction, water and electricity supply schemes, small business development, education and technical assistance.

Greater attention will also be paid to neighbouring states, making the bank "a truly southern African institution." A considerable chunk (between R800m and R1bn) has already made its way out of SA — mainly to Lesotho but also to Swaziland, Mozambique, Namibia and Zimbabwe.

Brand hopes to see the bank operate more on business principles, with thorough appraisals of projects to determine their economic viability and careful assessment of borrowers. In addition, 50% of future funds should come from the private sector, with government grants and self-generated funds making up the difference. To help curb costs, staff numbers are to be kept at present levels.

Since its inception in 1983 the bank has approved projects worth a total of R4,9bn: 42% went to infrastructure, 22% to business promotion, 16% to urban development, 11% to rural areas and agriculture and 9% to human resources. Government contributed R375m in the year to March, bringing its total to nearly R2bn, and has earmarked R500m for this year. ■

LIFE ASSURANCE F|M 4/5/90

Looking at limits (58)

It has been standard underwriting practice to call for medical examinations of potential clients before issuing life policies. This is the best way to ensure risks are acceptable in terms of probability of payouts over the life span of an assured even though medicals carry hidden costs in lost sales.

Sanlam chief actuary Chris Swanepoel says the risk-cost equation shows that, if anything, limits on examination-free cover could be lower but to get a competitive edge many assurers are raising the limit on policies issued without a medical.

Several factors bring changes in limits but, because they are not static, the sector has continually to adjust. Factors include the cost to the company of medicals, inflation — which creates nominal increases in the value of cover required — and people are living longer.

Sanlam chief underwriting consultant Nic Laubscher says it spent R6m on medical expenses for the 1989 financial year and raising non-medical limits cuts costs.

One assurer not easing limits is Old Mutual. Chief medical officer Ivan Lockyer says the life office has stopped raising the age and sum assured limits for non-medical insurance and, in some cases, has reduced them. The intention, he adds, is to protect the bulk of policyholders.

Moreover, he says, significant benefits can be gained by successful applicants who have a medical.

Raising limits has some fundamental consequences.

"There has had to be an improvement in underwriting standards," says Liberty Life joint MD Mark Winterton. He adds that an experienced underwriter should be able to identify potential problem clients without calling indiscriminately for medical examinations.

Andrew McGinn, actuary for Fedlife, which is among those raising limits, maintains reinsurance companies have also had an influence on non-medical limits. Smaller companies may depend more directly on reinsurance firms but all life companies have to respect the conditions of treaties and cannot accept risks that could lead to high loss.

Winterton and Swanepoel distinguish between problems created by Aids and those arising from raising medical limits.

Swanepoel explains that underwriters can look at an individual's medical history and make some assumptions about his or her health.

The HIV virus complicates matters because the only way to establish its existence is through a blood test. Nothing in a medical history could accurately indicate its presence. Aids-related death claims on policies granted before blood tests were required are made mostly early in a policy's life.

Now that the size of the Aids problem is clearer, and blood tests can screen out HIV positive applicants, it's a fair assumption that HIV negative policies will stay on the books for 10 years or so. This should ensure their profitability. ■

F/M 4/5/90 (58)

LIBERTY LIFE (58) FM 4/5/90

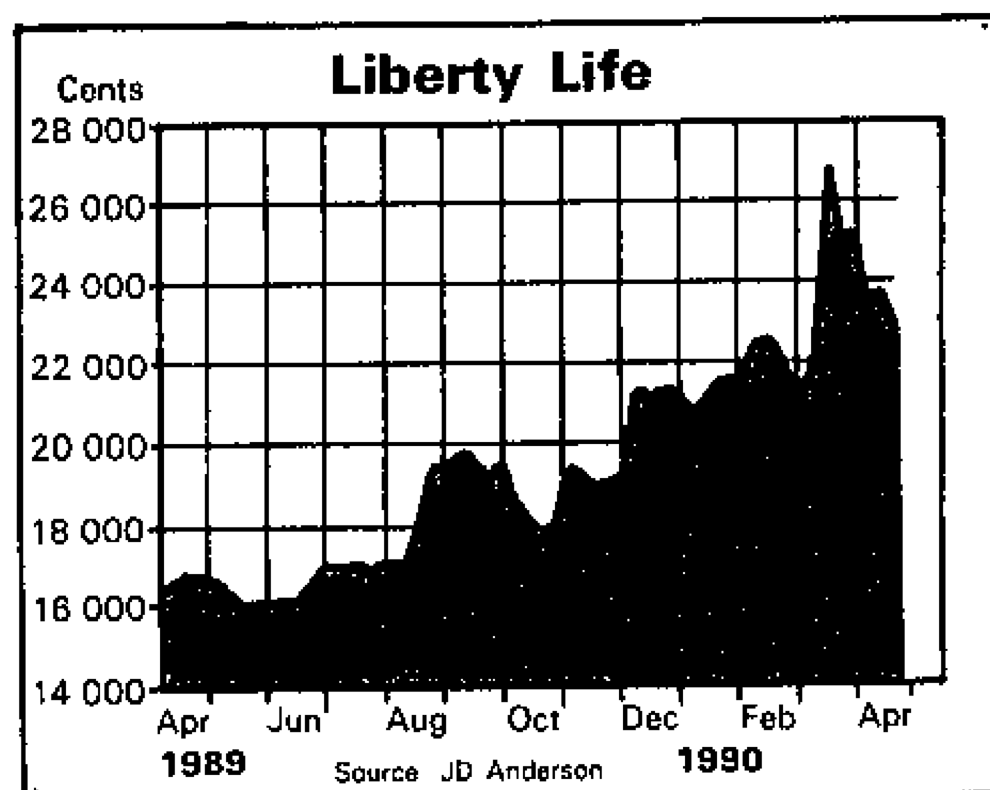
Entrenching alliances

Activities: *Long-term assurance and pension fund management.*
Control: *Liberty Holdings has 56% and is in turn held 52,2% by Liblife Controlling and 10,4% by Guardian Royal Exchange Plc.*
Chairman: *D Gordon; joint MDs: P D Wharton-Hood and M Winterton.*
Capital structure: *18,9m ords; 2,5m pref ords; and 74 115 conv red cum prefs. Market capitalisation: R4,25bn.*
Share market: *Price: R225. Yields: 2,9% on dividend; 4,0% on earnings; PE ratio, 25,3; cover, 1,3. 12-month high, R300; low, R147,60. Trading volume last quarter, 101 329 shares.*

Year to Dec 31	'86	'87	'88	'89
Total assets (Rbn) ...	7,64	11,39	14,80	19,20
Net premium and annuity income (Rbn) ..	0,9	1,42	1,46	1,78
Investment income (Rbn)	0,50	0,79	1,02	1,35
Earnings (c)	501	618	730	889
Dividends (c)	360	440	530	662
Net worth (R)	79,9	86,3	106,8	117,4

If developments offshore had tended in recent years to overshadow Liberty Life's domestic activities, chairman Donald Gordon showed, last year, he remains quick to seize opportunities to extend the strategic interests at home.

Among the more important moves was the enlarged stake taken in Gold Fields of SA (GFSA) during the break-up of Consolidated Gold Fields by Hanson. Through an exchange of certain of Liberty's existing holding in GFSA and participation in the mining house's R1bn rights issue, Liberty emerged with a 20% stake in GFSA Holdings, the unlisted investment holding company which has 43,7% of GFSA.



More significant than the effective 8,74% stake that Liberty thereby acquired in GFSA, was the pivotal position the assurer gained in the control structure. Gordon bolstered his standing as a power broker and entrenched his alliance with the Remgro and Richemont interets. The balance of the equity of GFSA Holdings is held equally by Rembrandt Group and Asteroid (Pty) — the latter essentially controlled by GFSA management.

Liberty's Gordon ... uncertainties for UK property sector

There were also developments within the local industrial interests. Premier Group shareholders — of which Liberty is among the largest — agreed to shift Premier's 34% stake in SA Brews into a new investment holding company, Beverage & Consumer Industry Holdings. Premier reverted to being primarily a food business, with some higher-margin interests such as pharmaceuticals and CNA Gallo; a rights issue was held and management was obliged to become more self-sufficient with the operations more exposed to investor scrutiny.

Liberty Holdings increased its stake in Liberty to 56%, following the acquisition for about R140m in late 1989, of 800 000 Liberty shares held by Prudential Corp Plc as well as a capitalisation issue by Liberty.

The group continues to consolidate its offshore expansion through TransAtlantic Plc, held 49,3% by First International Trust (FIT), which is in turn held 60,2% by Liberty. TransAtlantic's holding in Sun Life remained at 29,8% but the group invested a further £22m in property group Capital & Counties, lifting the fully diluted holding from 65,4% to almost 69%. In net asset value terms, Capital & Counties represents 72% of TransAtlantic's shareholders' funds.

Gordon says the UK property industry faces considerable uncertainty. The development boom will lead to over-capacity in some areas, while dwindling business confidence will make tenants reluctant to expand overheads by taking on new premises. In the retail property sector, some retailers are suffering from over-expansion while their customers are being buffeted by high interest rates and pressure on disposable incomes.

Nonetheless, lettings for the three major shopping centres the group is developing in the UK at Lakeside Thurrock, Watford and Bromley are satisfactory. Thurrock is for completion in October and tenants are in place for most of the rental floor area with rentals in line with budget; Watford opens at about the same time and should be fully let; and Bromley opens in 1991 with Watford's final phase for completion in 1992.

The surplus expected on completion of Thurrock will come into the 1990 results and should improve what may otherwise be an uninspiring year in capital growth terms. Meanwhile, Gordon says, the real value of the centre may not be fully recognised for some time, "until it becomes clear that only a limited number of out-of-time shopping centres of this size and dominance are likely to be built in the UK, particularly in the crowded south-east."

An accord was signed last year with French assurer UAP (*Fox* March 23), which, Gordon believes, should reduce the uncertainty and instability that resulted in Sun Life from two major international institutions together owning more than 50% of the equity. That presumably indicates he is comfortable with the long-term potential for expanding his interest in the UK assurance sector.

Dividend growth of at least 20% can again be expected this year, which places Liberty's share on a prospective yield of 3,5%. The counter remains one of the best growth stocks available. *Andrew McNulty*

FIRST NATIONAL BANK F/M 4/5/90 (58)

Profit focus pays off

First National's focus on bottom-line performance rather than on chasing business volume at any cost is paying off. And, while competitors such as Trust Bank have been forced into drastic action to shore up deteriorating profits, First National now reckons it has the appropriate balance sheet structure to push business growth.

Nevertheless, it is tempting to compare FNB's performance with that of Nedbank, which reported its interim results a day later. Nedbank grew its advances and notched up faster pre-tax profit growth. This will not have been lost on FNB's management, which implies the group will be particularly aggressive in seeking new business.

FNB's Bartlett . . . a new aggression

By end-March, the group was fully-capitalised in terms of the Reserve Bank's 1992 capital:assets ratio requirements and, to all intents and purposes, the bank can finance internally the asset growth needed to carry conceivable lending volume increases. Perhaps more to the point, at end-March FNB's contingent liabilities in terms of repo agreements were a comparatively tiny R164m, which means there should be no strain as liquid assets are increased when repos have to be brought on to the balance sheet.

According to chief financial officer Viv Bartlett return on total assets is running at 1,2% and, if that is combined with a dividend cover of three, capital growth will be adequate to sustain a 16% increase in assets and advances. Management remains unwilling to run the risk of penal Reserve Bank interest rates and the cost of bidding for deposits if advances grow too rapidly.

For the record, the group's advances have been virtually static for a year, total assets have slipped by 2,5% and the interim pre-tax profit has increased by 38%. That profit growth came despite a sharp increase in the half year's doubtful debt provision, in part arising from improved management information systems which have allowed earlier identification of potential bad debts, Bartlett says. In addition, it seems, FNB was able to identify other bad or potentially bad debts not previously picked up. Growth was based on more efficient management of assets and liabilities, as well as efficiencies possible now that the bugs have been eliminated from the previously troublesome Hogan system.

Bartlett has no illusions about the scope for increasing lending. FNB believes corporate demand for credit will remain depressed while business confidence levels remain low and that many consumers who have borrowed to maintain living standards, are facing credit crunches.

In contrast, the bank is targeting home loans as the main lending growth area. At the end of March, the mortgage loan advances were some R3,7bn, or about one sixth of the total advances book. FNB's rates have been higher than its competitors for some time and the bank has been losing share in the mortgage bond market to competitors such as Stanbic. Bartlett says there is no specific target for mortgage lending increases, but this week's 0,5% cut in FNB's home loan lending rate clearly signals the start of an aggressive push for new business.

The first half's dividend cover was raised to an all-time high of 3,8, underscoring FNB's determination to finance capital growth internally. By year's end cover should be somewhere over 3, pointing to a final dividend of about 110c. That expectation may not be enough to restore the share's former rating, but it does imply that FNB's down-rating has been overdone. *Jim Jones*

Flow of funds

FM 4/5/90

Japie Jacobs, special advisor to Finance Minister Barend du Plessis, was last week appointed to chair a committee to investigate the impact of the tax system and financial requirements on the flow of funds between competing financial institutions.

This follows objections by banks and building societies to the sale of investment-type products by life offices which, they claim, are effectively long-term deposits. Their only protection against this competition is that policies which do not run at least five years lose life products' tax benefits.

While tax has long been a contentious issue between different institutions, a different issue was recently highlighted by the decision that banks should hold cash and liquid asset reserves against certain repurchase agreements (repos) to protect

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their liquidity.

Life assurers, whose solvency is monitored by actuarial valuations and scrutinised by the Registrar of Financial Institutions, need no buffers against illiquidity because of the constant flow of contractual savings. Securities dealers, who also participate in the repo markets, are free of prudential requirements because they are not registered. Banks argue that, by increasing funding costs, they are disadvantaged in the market. ■

FM 4/5/90 (58)

REPURCHASE AGREEMENTS (58)

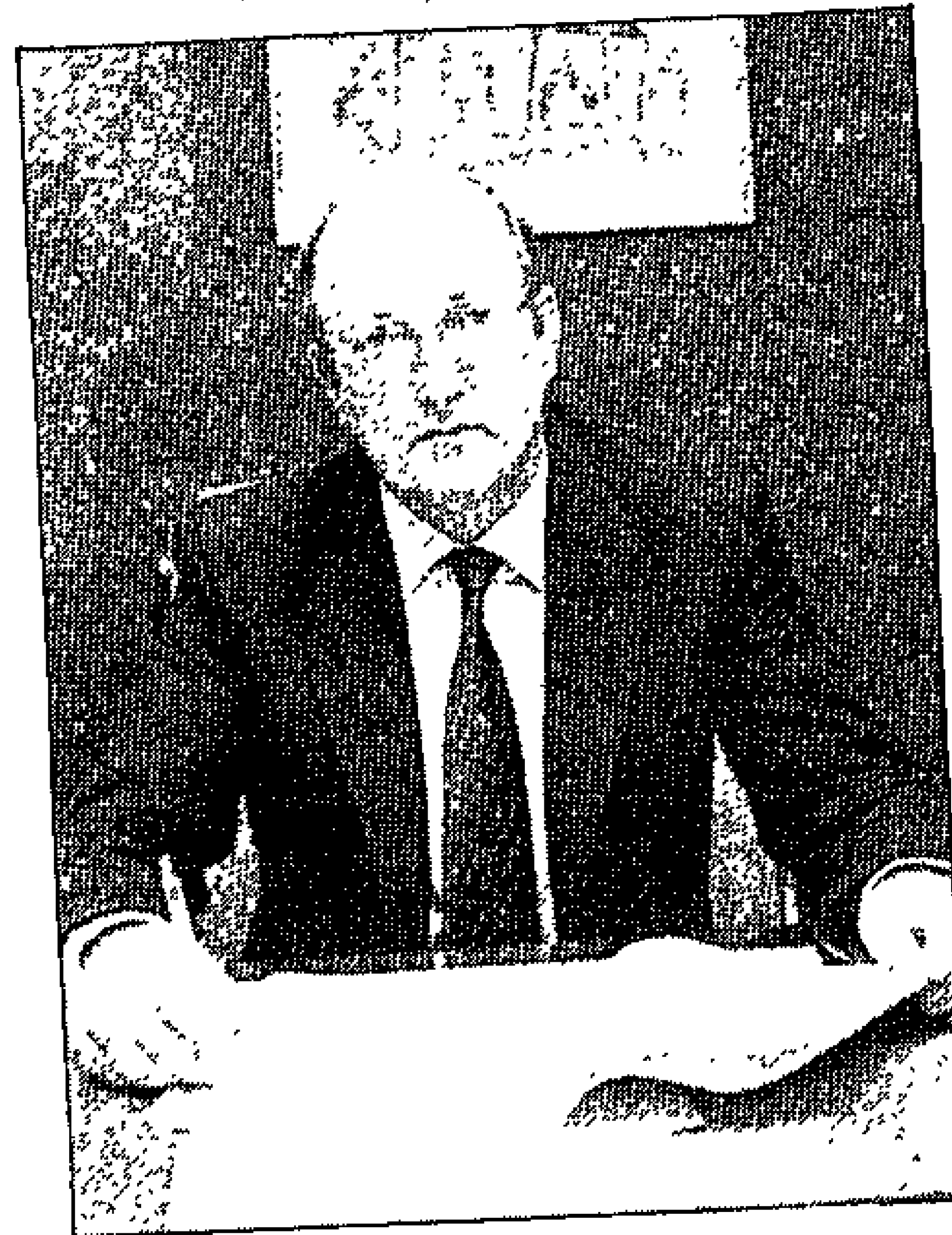
FM 4/5/90

Next round

The bank most actively involved in repurchase agreements (repos) until the end of February has not since increased its portfolio. Standard Bank treasury head John Lloyd says the book is still R3,6bn (of which R1,4bn was with the Reserve Bank). So no additional cash and liquid asset reserves are required because those before February are exempt.

First National Bank's holdings, R348m at end-February, fell to R140m by end-March, says senior GM Viv Bartlett.

Another twist to the tale, however, is the news that FNB had used stockbroker Anderson Wilson to acquire funds, thereby reducing its costs. This transaction involved the issue of long-term CDs, which attract far lower reserving requirements than those of short-term, leaving the broker to find short-term investors to fund them.



Bartlett . . .
arrangements cleared

FNB won't reveal figures. Bartlett says: "Arrangements with Anderson Wilson have been cleared with the Reserve Bank and all statutory requirements have been complied with."

Lloyd believes publicity surrounding repos has created a false perception. "Nothing has ever been hidden. The figures have been in the notes to our annual accounts and monthly returns to the Registrar for five years. We have been running a repurchase portfolio for 10 years on a prudent basis and have never experienced liquidity problems." At the financial year-end in December, group repos were R2,5bn — less than 10% of total assets. He also points out that about half Standard's current repos are with the Central Bank and, therefore, require no reserving.

Repos involve a liquidity risk, as do deposits. The credit risk depends on the nature of underlying assets, which may be a broad mix of money and capital market instruments. As many will mature over the next few months, total levels should decline automatically. Banks should be able to "reposition themselves comfortably by the time the new legislation becomes effective," say bankers. ■

Lloyd . . .
nothing hidden

NEDCOR FM 4/5/90 (58)

Mortgage honeypot

If there was any doubt about the banking industry's most attractive lending avenue, it will have been laid to rest by Nedcor. Fastest profit growth in the half-year to end-March

FM 4/5/90 (58)

was notched up by the Perm, which lifted its net income before tax and tax equalisation to R67,9m from R36,5m in the year-ago period.

Nedcor's other divisions performed well, but nowhere near as well as the Perm — based on mortgage lending. The commercial bank increased its interim contribution to net income by 22%, to R119,6m from R98,1m.

Presumably, the pattern will persist for the next few quarters as the group remains particularly choosy about the quality of commercial loans it is prepared to make. There should be no balance sheet constraints on lending — as is also the case with competitor FNB. Nedcor has a capital:asset ratio of 4,7% even if assets are calculated after the highly-conservative inclusion of all normally off-balance sheet contra items. Basically, Nedcor is eager to tell shareholders there is no likelihood of a rights issue for at least a couple of years, if then.

Of course, that implies comparatively high retentions and the first half dividend cover has been lifted to 4,5 from 1989's first-half 4,3. Cover will be cut by the financial year's end once the seasonally-high second-half earnings are known, but shareholders should not be surprised if it runs as high as 3,5 against 3,0 for the last financial year as a whole. In addition, there is the possibility of another transfer to a "technology reserve." Last year, R50m was transferred, largely to reassure shareholders that Nedcor had enough tucked away to cover likely spending increases on computer systems and, when added to tax-equalisation retentions, to flesh-out the capital base.

That is underscored by the high liquidity disclosed at end-March. Newly-appointed CE Chris Liebenberg calculates cash and liquid assets at 17% of total assets including repos. Liebenberg also says Nedbank's repo exposure is less than R1bn, again underscoring the group's relative immunity to the problems of capital adequacy.

Full merger between the commercial bank and the Perm will take time. Some back-office services have been merged, but for the

FM 4/5/90 (58)

present there are no plans to merge the two companies at the branch level. The same goes for the UAL and Finansbank merchant banking arms, though market talk has been suggesting merger possibilities for some time.

The interim dividend increase was comparatively modest and the same conservatism is likely when the final is declared. But year-end earnings are likely to exceed 160c, with a full dividend for the year of at least 50c on the cards.

Jim Jones

PERMANENT WAVE

Six months to	Mar 31 '89	Sep 30 '89	Mar 31 '90
Operating income (Rm)	204	289	327
Debt provision (Rm)	25	60	73
Pre-tax profit (Rm)	179	229	253
Total assets (Rbn)	27,3	28,3	31,9
Advances (Rbn)	18,7	19,9	21,5
Earnings (c)	92,0	106,4	122,2

Mining industry on brink of new expansion phase

Star 4/5/90

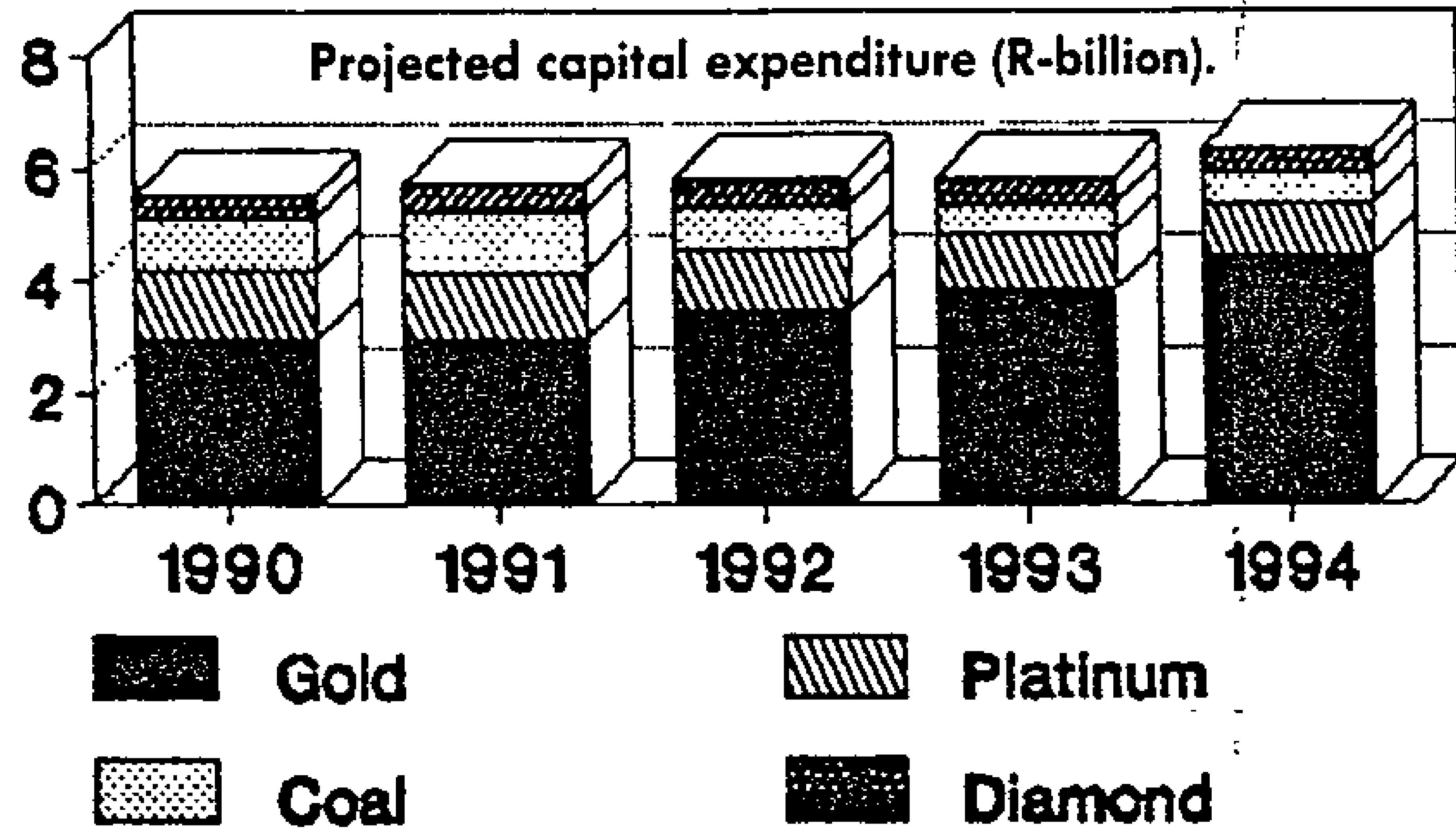
By Jabulani Sikhakhane

Capital expenditure by the mining industry is forecast to rise to R31,4 billion between 1990 and 1994, with gold mines accounting for some 55 percent of total expenditure, according to Mr Mike Brown, an economic consultant with stockbroking firm, Frankel Kruger & Vinderine.

He told the "1990's Capital Expenditure Prospects Conference" in Randburg yesterday that the mining industry would invest between R6 billion and R7 billion a year on capital projects between 1990 and 1994.

The rise in exploration expenditure in recent years "holds promise that a further wave of mining expansion" could be herald in the 1990s. The main thrust of exploration spending suggests that gold, platinum and diamond mining will be the main targets, he said.

Capital expenditure by the mining industry over the past five years grew at an annual rate of 19 percent, giving a total estimated investment of R21 billion or R14,6 billion in real terms (1985 prices).



The main focus of mine expension over this period, he said, was the platinum mining industry which has been expanding in current terms by 500 percent, followed by exploration and the diamond mining industry. Expenditure in gold and coal mining fell in real terms.

Capital expenditure on existing gold mines has levelled-off, while expenditure on new gold mines seems to be on a rising trend. However on a combined basis, the gold mining industry "appears to have been in a rather dormant phase over the past five years".

He said coal mining capex remained consistent at around R400 million in each of the past five years, but was dominated by two groups, Amcoal and Witbank Colliery which in 1989, accounted for 85 percent.

"The significant sums (around R500 million) spent in prospecting over the past five years indicates the expansion potential of the diamond mining industry".

In his forecast for the next five years, Mr Brown said that while capital expenditure by existing gold producers will continue declining in real terms, development will be boosted by probably three new gold mines and major expansions by current producers.

Gold mines

Projected capital expenditure by gold mines is expected to rise from R2,945 billion in 1990 to R4,410 billion in 1994.

Expansion of the platinum industry should maintain capital expenditure at around R1 billion or more in each of the next five years, while some R2,3 billion is expected to spent by the diamond mining industry.

Mr Brown said a revival in the coal mining industries' capital expenditure programme will push spending up from some R400 million in 1989 to over R1 billion in 1991 and close to R4 billion for the five years 1990 to 1994.

Exploration expenditure should stay at R400 million or more a year in real terms until 1994.

Countdown to the big homes show

By Marguerite Moody

Builders are adding the final touches to their houses and the last preparations are being made for the largest homes exhibition mounted in the Transvaal — The Star 1990 Homes Show Spectacular at Kyalami Estates.

Nine luxurious designer homes in the R400 000 price bracket will be on show with a feast of exhibits and family entertainment when the prestige event opens on May 12.

Several exciting events have been planned for the 75 000 expected visitors, including fashion shows, aerobics displays and live music entertainment. Puppet and magician shows, jugglers and a jumping castle are sure to keep the young happy.

Several equestrian events have been planned, including a challenging cross-country race meeting on the last day. Children can enjoy pony rides every afternoon between 2 and 5 pm.

Anyone can win in the exciting "dig for a diamond" competition to be run for the duration of the four-week show.

Celebrity fashion

Because mums should be spoilt on Mother's Day, a special lunch and celebrity fashion show have been planned for May 13. A mother and daughter look-alike competition is also in the pipeline.

Kyalami Estates, a township developed and marketed by Anglo American Property Services, was conceived with the specific aim of providing a safe and secure neighbourhood and is enclosed with only one point of entry.

The estate boasts attractive, spacious parklands with spring-fed water features, sidewalks and a horse stabling centre.

Most of the stands in the estate's first phase have been sold, with the sale of stands in the second and third phases expected to pick up during the show.

The show will be open to the public on Saturdays, Sundays and public holidays from May 12 to June 3.

The German Oompah Band of Mr Derrick Denniss (left) and Mr Otto Kahl will be one of the bands providing live musical entertainment to the 75 000 expected visitors to The Star Homes Show at Kyalami Estates which opens on May 12. ●Picture by John Hogg.

'Remarkable' results from new-look African Bank

NEIL YORKE SMITH

THE African Bank appears to be recovering from its recent troubles, with its interim results recording a doubling of net after-tax income to R495 000.

CE Jack Theron said yesterday the results, for the six months to March 31, "are remarkable under present circumstances and reflect excellent performances by the management team".

"We have maintained strict control of operating costs and of the mix and cost of funding," he said.

Theron was brought into the bank last year after a series of debacles. These included a foreign exchange scandal, the departure of CE Gaby Magomola and the resignation of senior staff members.

"Particular attention has been paid to the quality and after-care of our lendings and we will continue to focus on this area," Theron said.

He said he was delighted with the bank's return on total assets which at 1,2% was higher than figures achieved by most other banking groups.

At end March total assets stood at about R182m, compared to R149m for the corresponding period last year, he said.

"We have also been highly successful in improving staff productivity.

"Income per staff member has soared 140% over the past year," he said.

However, Theron confirmed the bank was still seriously under capitalised.

"We are definitely restricted by the existing capital situation, but we are discussing options to improve the capital to asset ratio."

Theron said he preferred not to illustrate likely capital strengthening strategies.

After declaring preference dividends of R210 000, the bank's retained income for the period increased eightfold to R285 000. This boosted retained income at the end of the period to R461 000, more than four times the R108 000 recorded for the corresponding period last year.

Ample provision had been made for bad debts, which had been well controlled during the period, Theron said.

"Full year earnings should be at least double the interim figures, which are very conservative," he said.

Profits for Boland Bank show negative growth in real terms

BOLAND Bank recorded a negative growth in profits, in real terms, for the year to end-March.

BARRY SERGEANT

Earnings and dividends per share were an unchanged 101,3c and 46c, respectively.

The directors say that in spite of exceptional financial challenges during the past financial year, the Boland Bank group was still able to record a 9,3% increase in profit to R14,9m (R13,6m) after taxation and transfers to internal reserves.

They say a combination of tighter interest margins, "a substantial increase in bad debts" and the gradual phasing-in of the increased statutory capital requirement applicable to banks, restricted profit growth.

Boland does not disclose figures in any of these areas, revealing less than a number of other banks. Internal reserves are not disclosed.

Changes, if any, in Boland's capital-to-asset ratio, which would give an idea of the adequacy of its capital, are also not disclosed by the directors.

The directors say that unaudited consolidated results for the year will be dealt with in more detail in the bank's 1990 annual report.

COMPANIES

BDay 4/5/90

All-round growth gives BoE a big earnings boost

(58)

LESLEY LAMBERT

CAPE TOWN — All-round growth and a strong inflow of new business helped the Board of Executors (BoE) boost attributable earnings by 102% to R3,67m for the six months to March.

Reporting its first interim results since the unsuccessful takeover bid by Investec and the acquisition of Mercury Trust in October last year, BoE appears to have backed up the undertakings it made to former Mercury — now BoE — shareholders at the time of the takeover bid.

As expected, the growth in earnings a share of 40,6c was watered down to 25% after the Mercury Trust acquisition resulted in an increase in the ordinary share base of 61% to 9 029-million. The group's EPS has grown at a compounded annual rate of 44% between 1982 and 1989.

An interim dividend of 10c a share, four times covered and up 25% on last year's first half payout, was declared.

A further R3,66m was transferred to the general reserve fund while retained income increased by 102% to R2,77m.

The amount transferred to the general reserve arose out of a capital surplus of R12,7m on the sale by Mercury Trust of 20% of BoE to the Liberty Life group, less R8,8m that was used to write off in full the premium paid on the Mercury Trust acquisition.

Assets under administration rose by 31% to R2,8bn during the review period.

BoE MD Bill McAdam said the results reflected good all-round performance. Core financial services were doing well, there had been a strong inflow of new business and associated companies — Storeco, Speciality Stores and Fidelity Bank — had reported excellent results, he said, adding the outlook for the next six months was promising.

An announcement on negotiations between Storeco and Speciality, in which BoE holds an effective 30% and 9% respectively, was imminent, he said.

In the long run . . .

Fears over repos aside, shares are affected by changing conditions of banking

A storm in a teacup, maybe, but news that repurchase agreements (repos) will have to be moved on-balance sheet led investors to think the squeeze on bank margins would tighten and losses in interest hit operating profits. So share prices were ticked down.

Stanbic, with the most repurchase agreements, has fallen from 2 800c just before the meeting between bankers and Reserve Bank Governor Chris Stals (*Economy* April 13) to 2 450c; Nedcor 1 015c to 925c; Volkskas 1 375c to 1 250c; and Bankorp 295c to 255c. First National Bank was unscathed and held around 2 400c, mainly because its reported repo book is small.

This could be an overreaction to the meeting. The dip might not have been so severe had investors known of the concession banks have since been granted to get their repo books in order. Until the new Deposit-Taking Institutions Act is promulgated, possibly at the end of this year, repos not in excess of February 1990 figures will be exempt from cash reserve and liquid asset requirements.

In any case, cash reserves and liquid asset requirements for on-balance sheet assets are secondary to Bank capital requirements.

The real storm in the sector has been brewing for some time. Bank shares have been badly rated for nearly five years. Despite a brief surge from the middle of last year, and some reasonable profit reports, banks are beset with problems which have little likelihood of disappearing.

Monetary policy's effort to curb credit growth still threatens banks' margins. Banks have been "asked" by the Bank not to raise assets by more than 1% per month — though this has been largely ignored.

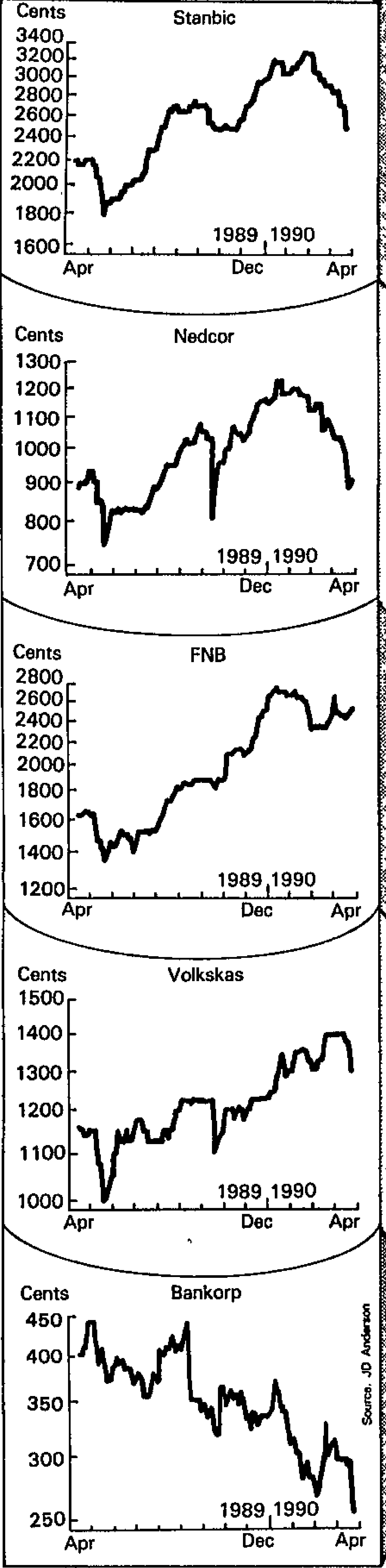
By forcing banks to come to the window to borrow at rates which sometimes exceed prime — the penalty rate for borrowing against prescribed assets is 22,75%, 1,25% above prime — the central bank believes it can curb money supply.

But banks argue their business is to extend credit: as long as there is demand, they will supply. They also argue that they should be allowed to do so profitably.

Securities Portfolio Managers consultant Pierre Faure says the price of credit to bank clients determines the demand for credit, not the price charged to banks by the Bank. It is the latter which is supposed to influence the former in a competitive environment.

"Banks are not encouraged to determine their own prime overdraft rates in response to market forces and in competition with other banks." He adds that interest rates should be free to find their own levels.

FM 4/5/90 (58)



However, with the continued linking of prime to the Bank rediscount rate, margins are increasingly under pressure as banks' cost of funds becomes higher and the gap between borrowing and lending narrows.

Increases in the cost of wholesale money have caused other distortions. With banks having to borrow at levels higher than prime, round-tripping has become popular. Large companies borrow at prime and lend to other banks at higher rates, resulting in an increase in the stock of money and bank credit — and more competition for banks.

Banks are already suffering from intense competition among themselves and other institutions, such as life assurers. They have seen long-term investors switch from conventional deposit accounts to contractual savings which protect better against inflation.

Banks and building societies have been fighting for assets in the hope of winning market share and benefits from economies of scale. Some say it is a fight to the death — for not everyone can survive and more rationalisation is expected in the next two years. Most have found the chase after asset growth to the detriment of the bottom line.

The area of keenest competition has been the home loans market. With promises of tax and interest rate advantages, Standard Bank increased its home loan book from R3bn to R4,5bn in 1989, mainly thanks to Access Bond — where bondholders can draw up to R20 000 against their mortgage.

Nedbank's merger with the Perm has paid off, with the building society's strong footing in the home loan market. "Despite high interest rates, demand for home loans continued to be strong, which resulted in growth of R777,1m for the six months compared to growth of R406,4m in the same period last year," says Nedcor's interim report.

After last week's improved interim report, FNB also looks set to enter this market with gusto. It curbed asset growth to improve capitalisation and meet the Bank for International Settlements' formula, likely to be the standard. Soon after releasing its interim report, FNB cut its home loan rate by 0,25 of a percentage point, to put it in line with other banks. A follow-up marketing campaign promised to pay cancellation and re-registration costs of transferring a bond from another bank and will give some account holders another 0,25% reduction in the rate.

It's to be hoped it won't make the same mistake again by increasing assets at the expense of capital — as Bankorp has continued to do.The most poorly rated share in the sector, Bankorp, is grossly under-capitalised. It has continued to boost asset growth, mainly with large increases in mortgage loans, resulting in a capital-asset ratio of a meagre 3,8% at December 31 (mid-financial year) despite a R345m rights issue.

Main shareholders Sankorp and Sanlam promise to take their final dividends in capitalisation shares, to the tune of R23m. But Bankorp still has a long way to go before it improves profitability and capital adequacy.

Strategic meetings now being held could result in drastic rationalisation as Piet Liebenberg, who takes the chair on July 1, looks to put the group on the right track. Speculation is that Santambank (HP and financing) will merge with Trust Bank (commercial) in an effort to pool resources. It is likely Liebenberg will want to write off as many assets as possible by the June year-end.

Inflation has also played a part in bad performance. All banks have been hampered by high operating costs which have not been met by real returns. Installation of costly computer systems to keep banks competitive has come at a time of spiralling salaries and rising office space costs.

In fact, partly because of these inflationary factors, banks haven't been able to generate enough profit to give shareholders a real return on their investment and at the same time support real growth in assets.

Standard Bank group MD Conrad Strauss says a bank needs a return on year-end shareholders' funds of almost 21% if it is to be self-funding — a figure only some approach. Many banks have been forced to ask shareholders regularly for additional funds to subsidise growth.

Though adequate capitalisation has allowed Standard to grow, forthcoming results may not be so good. A year of avidly chasing assets has affected its capital base. And there is some speculation it might have read the wholesale market incorrectly, expecting interest rates to fall sooner than they will. Standard is still best-rated in the sector — but will have to watch its capital-asset ratio.

FNB's decision to focus on profits rather than volume growth has paid off. Possible under-capitalisation problems could arise when, under the new Act, subordinated debentures issued last year will have to be redeemed by 20% per annum for five years.

However, senior GM Viv Bartlett says revaluations, such as investments in associates and property, will compensate.

Nedcor has also been conservative on the asset side and reports a capital-asset ratio of 4,7%. It is quick to point out it won't need a rights issue for a few years, if at all.

Volkskas attracts little attention. But Finance GM Frans du Toit believes continued improvement in profitability, greater financial disclosure and the head office move from Pretoria to Johannesburg will give the share a higher rating.

However, he does not expect the squeeze to ease in the coming months. The group is adopting a conservative strategy of going for quality asset growth with the emphasis on protecting margins.

With tougher times looming, bad debts are likely to increase, hitting profitability. The two recent interim reports for the six months to March 31, FNB and Nedcor, both drastically hiked provisions for bad debts — to R147m (R76,3m in the same period last year) and R73,4m (R25,3m) respectively. Only rationalisation and an easing in monetary policy, along with the freeing of prime, can restore some calm. See ***Fox***.

Heather Formby

Cautious Sygro increases liquid assets

LIZ ROUSE

58

SYFRETS Group's general equity fund, Syfrets Growth Fund (Sygro), is taking a cautious view of the stock market and has increased its liquidity in the current quarter.

Portfolio manager Anthony Gibson said yesterday the fund's liquid assets had been increased to 26% and would be kept at that level until fundamentals changed.

Liquid assets totalled R46,7m or 19,78% out of total assets of R235,8m at the end of the March quarter, a record quarter for the unit trust industry. Gibson forecast a slowdown in the June quarter, with decreased inflows and higher repurchases.

The strategy of Sygro portfolio managers was based on a view that cash and deposits were attractive at present. There were too many negative factors outweighing positive factors for the market to perform as well as it did last year, Gibson said.

Long-term charts showed the JSE industrial index had been in an uptrend for 13 years despite corrections, which usually lasted three to six months. Gibson saw a downtrend in 1990 but no crack in equity prices.

BDay 4/5/90

The JSE all share index had fallen by 12% since the beginning of the year, and Gibson saw a further decline to 20% as gold shares were heavily overweighted and blue chip industrials were expensive.

He expected high interest rates until the latter part of the year, no softening in the authorities' monetary policy, and a slowdown in corporate earnings growth — all negative factors for stocks.

Whereas average corporate earnings rose by 30% to 35% on an annual basis over the past five years, Gibson forecast a slowdown to about 5% this year.

Gold shares were definitely over-valued on the current gold price, Gibson said. Sygro's exposure to this equity sector was only 3%. Gibson was neutral on gold and gold share prospects because of declining profit growth at mines.

Given the international background of positive interest rates and stable curencies, he could not see gold going through the $400 mark this year.

Sygro would, however, retain its core of blue chip industrials although liquidity would be created by selling part of its highly marketable shares. These could always be bought back.

BOE doubles earnings

CAPE TIMES 4/5/90

(58)

By ARI JACOBSON

CAPE-based financial services company, The Board of Executors (BOE) doubled attributable earnings to R3,67m (R1,82m) for the interim period end-March, based on new business inflows and strong performances from associates.

However, earnings a share, up 25% at 40,6c (32,4c), were diluted by an increase in ordinary shares to 9m (5,6m).

An interim dividend of 10c (8c) a share was declared, which is four times covered by earnings.

MD Bill McAdam said this performance supported BOE's decision to resist the takeover bid by Investec Bank and the subsequent acquisition of Mercury Trust.

"These results were achieved while maintaining conservative management policies — a transfer of R3,7m to a general reserve and retained income doubled to R2,3m."

The transfer arose from a captial surplus on the sale by Mercury Trust of 20% in BOE to the Liberty life group, less the premium write-off on the Mercury Trust acquisition.

"The financial services segment enjoyed a strong inflow of new business which was backed up by excellent performances from associates Storeco speciality stores and Fidelity Bank."

McAdam says notwithstanding the current political uncertainty, satisfactory growth for the full year is expected in both earnings and dividends.

ble to accommodate more people in the city.

Advice for black home buyers

Star 4/5/90 By Joe Openshaw

Incompetent contractors, unethical credit brokers and dishonest developers may soon prey on the millions of homeless people desperate for proper housing as the black population becomes rapidly urbanised

This warning was given in Johannesburg yesterday by Mr Keith Sandile Kunene, executive member of the Black Lawyers' Association, at the launch of a Housing Advice Centre.

The centre is being set up by the Legal Aid Burea (LAB), assisted by the South African Housing Trust (SAHT) — to give guidance and assistance to people new to property ownership and who could fall victim to exploitation by unscrupulous operators.

The SAHT presented a cheque of R50 000 to Mrs Pauline Lipson, director of the LAB, for the initiation of the first advice centre.

"The SAHT believes the housing shortage in the whole country could top 2 million units by 1992.

"By the end of this centrury two in every three black South African will be city or town dwellers.

Today's population of 38 million is expected to have grown to 48 million by then.

Deepening despair

"These statistics spell just one thing for millions of homeless people — deepening despair.

"Unsophisticated people not acquaintated with private ownership, the savings ethic, with capital and interest or mortgages and repayments are obviously going to be confused when moving into the affordable housing market for the first time," he said.

Mr Kunene said unscrupulous exploitation of the desperate and ignorant could derail or seriously hamper the whole national housing effort.

The first Housing Advice Centre will be run from York House, Johannesburg and it is hoped, eventually, to have a network of advice centres at townships throughout the PWV area.

Iscor plans capex of R3,6 billion

Finance Staff

Iscor is planning to spend over R3,6 billion on capital projects over the next three years, it was reported today.

The steel giant's corporate planning manager William Rober said yesterday that most of the funding would be undertaken internally and the bulk of the money spent on upgrading existing facilities.

In the current year, Iscor plans to spend R1,3 billion, a similar amount next year and R1 billion in 1992.

The expansion programme is set to launch Iscor fully into the production of value-added products, it was reported.

MD Willem van Wyk said that Iscor hoped to reduce its dependence on imported products in the areas of electro-galvanised steel products, seamless tubes, chromium plated sheet and electrical grade steels.

As a result the group has already entered into a R120 million joint agreement with Dorbyl on a R120 million seamless tube plant near Vereeniging and R200 million for the production of two plants manufacturing chromium sheet and electronically galvanised steel strip.

It is also earmarking R30 million annually to reduce pollution at its Vanderbijlpark plant.

Get in quick with three of the best

Star 5/5/90

Inside Out

ANNE CROTTY

BUY De Beers, Anglo and Richemont and do whatever you like with the rest.

Myles reckons it's a bit pointless to clutter investors' minds with any more advice than that.

He seems fairly certain that De Beers will reach the R100 level early next week although he was unable to explain why it was that the share took off this week.

There have been no really significant developments since the announcement of the creation of De Beers Centenary so it is difficult to see why the price hesitated around R85 for so long. Now the whole world is piling in with every new day seeing another bullish brokers' reports from some part of the globe.

Some of the more imaginative investors are comparing De Beers' price/earnings rating of around 10 times with Richemont's 26 times. Although both are nice Mandela hedges, this notion seemed a bit over the top. Even Myles had trouble taking on board the point that the two companies are in the luxury goods market — a market that is all about selling image.

He's worried that some day the rich may decide that they don't want to pay quite so much for image — so he wouldn't be prepared to buy De Beers on a 26 P/E even if he could unstaple the thing.

But expectations of soon-to-be-announced good results from Richemont and revived rumours about a separate listing for Cartier are currently pushing Richemont to even higher levels.

After a brief suspension on Thursday, Plate Glass was back on yesterday and traded a few rands higher at R62.

Overseas deal

The overseas glass deal certainly does look like a good one for the group but hardly enough to support a p/e of over 17 times, particularly as the problems in the timber operations (reason why earnings will be down 30 percent in financial '90) are unlikely to be sorted out in the near future.

According to Myles, it appears that some of the countries that grow the trees want to see a bit more local processing and this increases the industry's risk profile. In addition there are some bad debt problems in Brazil — this will hardly come as a surprise to anyone who keeps in touch with the fortunes of the World Bank.

Anyway it puts a bit of a cloud over the Whitestone deal and that can't be too good for the share. But Myles points out that it is quite tightly held.

No firm news yet about the Valard bid for Landlock. Myles thinks it looks like a good deal for all concerned and it seems to have attracted quite a lot of positive attention to Valard which is a reasonably low profile company that has been busy getting on with the job of making profits for its shareholders.

Reports are that the strategic study on Bankorp is just about finalised and the guys are now waiting for Piet Liebenberg to make the decision when he takes over on July 1.

At this stage it looks as though TrustBank and Santambank will be merged. This will obviously lead to considerable rationalisation of branch networks, computer facilities and so on.

Rationalisation

Senbank will also be brought into the fold. Rationalisation decisions here may be facilitated by the recent fall-off in staff numbers — apparently six guys have left the corporate finance department and the bank's economist Dr Du Pissanie has left to set up his own economic unit.

Myles says he was reliably informed that in terms of turnover (staff or business?) Senbank is still the major merchant bank in the country.

The Interboard share price seems to bear a sort of inverse relationship with news about the company. The price has gone up despite reports that plans to sell off, or merge, parts of the business have come to nought.

In addition, Sappi's new particle board division (very hi-tech by all accounts) is about to come on stream. All this extra capacity in the industry hardly seems bullish for Interboard. So why is the price going up?

Plans for an overseas investor to acquire Mynkar have apparently fallen through but no formal announcement as yet from the company.

News that Storeco (remember John Orr's in the old days) may see a change of control reminded Myles of the time — around 1982 — when Julian Askin and Hugo Bierman (the guys who recently acquired control of Duros) were rumoured to be keen to acquire John Orr's, apparently for an asset stripping exercise.

Only for the rich

(58)

SANLAM is launching an individual policy investment portfolio — for the brave. S/Times 6/5/90

An aggressive investment policy will be the main characteristic of the 500 Plus, says Sanlam assistant general manager for product development Charl le Roux.

"The series is exclusiveluy aimed at wealth creation through savings and retirement benefits," says Mr Le Roux. "The portfolio will be managed to give the maximum return for people who want their money to grow or who want to build capital for retirement.

"The managers will respond quickly to trends in the market, aggressively adapting the composition of the portfolio."

Clients can share in the profits of a portfolio compiled without limits. All assets may be invested in shares.

Where guarantees are given, up to 85% of assets may be invested in shares and property, and up to 65% in shares alone.

Where there are no investment guarantees, all the funds may be invested in any asset.

The minimum monthly premium is R100, or a lump-sum investment of R2 000 in a retirement annuity.

l was largely responsible

He was heavily involved in the merg of the Transvaal Chamber of Industri

Senbank is hit by new brain drain

By Dirk Tiemann

SENBANK has suffered another blow with the departure of five senior officials who are starting their own corporate finance house.

The resignations will hit the project and corporate financing divisions of the bank, which will lose three assistant chief managers, one senior manager and two senior consultants.

Chief economist Johann du Pisanie will also leave at the end of this month in an unrelated resignation.

History

Dr Du Pisanie says: "I have decided to start my own economic information business. I will do research on contract for the private and public sectors.

"The restructuring in Bankorp did not influence my decision. I view the changes positively and believe they should improve profitability."

History is almost repeating itself for the Bankorp group, of which Senbank is a member. Corporate finance executives left Senbank and Mercabank in June 1987 to start Duros.

Senbank managing director Reg Sherrell and general manager Charles Turner led the group. They were joined later by Murray Louw, investment manager of Rembrandt Group

Four months later, five TrustBank project finance executives, led by Senbank's Mike Bolton and Alan Long, left to form Finco — allied to Unidev — New Bernica and National Discount House. Finco later joined Duros.

Senbank managing director Doug Anderson says the 1987 walk-outs were not unusual in the finance business.

He believes the latest resignations will have a negative impact only in the short term.

"Bankorp, and particularly Senbank, is seen as a good training school. This encourages outsiders to poach our staff."

Altech

● From Page 1

with the UK's Lucas Automotive for the formation of a joint venture company, Automotive Electronic Technologies, to make components for the motor industry.

It will play a big part in the Government's push to increase local content in the motor industry, and "significant orders" have already been won.

Altech has worked closely with the Chamber of Mines over 18 months on the development of an electronic millisecond blasting system.

More than 1-million detonations take place every day in SA, and any improvement in efficiency will be a major breakthrough, says Mr Snedden.

Santam hints at good interim performance

LINDA ENSOR

SANTAM will be reporting its interims for the six months to end-March in about two weeks and while the results of other short-term insurers leave little room for confidence about the outcome, MD Oosie Oosthuizen hints at a better-than expected performance.

Poor expectations of the short-term insurance market generally spun off on the Santam share price which fell 20% (50c) on Wednesday to a new low of 200c after peaking at 305c in January.

By the end of the week, however, the share had recovered somewhat, closing on Friday at about 230c — still 8% lower than the previous week's close of 250c.

Oosthuizen says Santam will show an underwriting surplus for the year to end-March, but in line with other companies this would show a decline over the previous, exceptional year. The results will include the R12m claims from the Welkom hurricane, which in any event were largely reinsured in terms of the company's catastrophe reinsurance..

The loss ratio has deteriorated, Oosthuizen says, adding that net after tax profit will show an increase because of growth in investment income.

"I would like to see an increase in dividends,"

Rates on the personal lines business of Santam — 70% of the total — were cut in the rates war, but Oosthuizen does not believe this was to the same extent as other companies.

"We came in quite late with rate-cutting so the effect of the rates war was not so severe," he explains.

Oosthuizen says the effect of the approximately 20% increase in rates which came into effect from April 1 — the first in two years — will come through in the second half of the year.

His opinion of the share price fall is that the market over-reacted to results coming through, taking a bearish view of the sector as a whole.

"All the quoted companies have already reported and we, as the last to come through, are something of an unknown factor."

Oosthuizen says the personal lines business is showing signs of hardening, though this is not the case for the corporate business.

AGF bids for SA operation

LINDA ENSOR (58)

ASSURANCE Generales de France (AGF), which has bought out 90% of the UK business of National Employers Mutual General Insurance Association (Nemgia) of the UK, is a contender for Nemgia's SA operation, National Employers' General Insurance (NEG).

AGF's purchase of the UK business was initially of the agency operations of Nemgia — 90% of the total — and was followed by the buy-up by AGF of its small direct client business.

AGF also bought NEM Ireland.

AGF's new subsidiary is called NEM Insurance Company (Nemic).

According to a statement issued from London by Nemgia MD Stanley Hallowel last week, Nemgia's only remaining UK interest will be a small presence in the London market where no further business will be written.

NEG's MD Peter D'Arcy-Jones said last week that Nemgia — which holds 73% of NEG — had commenced preliminary negotiations for the sale of its stake.

7/5/90

(58)

Bank rate and prime remain unchallenged

IN THE MONEY MARKETS

Harold Fridjhon

AT THE weekend the money market was looking strangely comfortable with a shortage of R2,75bn, down from R4bn (on the fourth day of the month!). Wholesale call on Friday was 18,75, a six-week low, and with most rates marginally softer.

But these are not future hopes casting optimistic shadows. Bank rate and prime are not being challenged. And nor are they likely to be, at least not for the next six months unless the slow-down gathers momentum and the so-called soft landing plummets into a belly-flop and the authorities start to panic.

Prevailing rates, easier as they might temporarily be, are not in market terms questioning the validity of Bank rate. The rate for 90-day bankers acceptances (BAs) at 18,40% is 10 points above its re-discount rate. The treasury bill (TB) rate is pinned by the authorities to its re-discount rate.

The wholesale call rate is genuinely market-determined by the degree of market illiquidity — and the banks' determination not to be puppets animated by the major financial institutions.

But while within the market place itself rates might be market related, a remote control of the market is exerted by the Reserve Bank which can turn the liquidity taps on or off, or pull out the plug, as it pleases.

Government spending in the first days of the month and a windfall from a forex inflow reduced the banks' debt on balance by R1,3bn to the current R2,75bn, while the notes issue stood at a high R8,73bn. A shortage of the present magnitude cannot be too pleasing to the monetary authorities. Using their liquid assets, the banks can comfortably cope with a R2,75bn debt to the Bank. They're not in thrall; they're relatively free men.

If the shortage persists at the current level it can be expected the Reserve Bank will pull the plug and drain liquidity from the market by the various means at its disposal. The most obvious of these would be to tap government stock into the market. Next week more than R1bn will flow into the market from the redemption of the government stock 9,5% 1990.

That cash won't be left in the hands of the banks in spite of the deprivation of these liquid assets. To compensate the banks for their loss of liquids it might issue other short-dated stocks. Nor is it probable that the Reserve Bank will repay the estimated R600m it raised from the re-pro deal it had negotiated when it "bought" Krugerrands to bolster the gold reserves last year. The re-pro will probably be rolled over. It could also sell dollars forward into the market.

Pretoria holds all the cards. Rates will remain high and investors should tempt the banks and building societies with offers of CDs, negotiable certificates of deposits.

Civils in a R16m contract for the National Transport Commission.

CAPE TIMES 7/5/90

Senior staff resign from banking groups

Own Correspondent

JOHANNESBURG. — Ten professional staff resigned last week from Allied Group, and six from Senbank, Bankorp's merchant banking arm.

The Allied development, confirmed yesterday by Senior GM Fritz Rieseberg, comes at a time of extensive Allied Group image advertising.

Analysts interpret this as a bid to prepare the way for the launching of Allied's cheque account later this year.

Rieseberg confirmed this: "However, Allied's adspend is in line with its market share, unlike that of some financial institutions which are spending significantly more than market share."

Five resignations were in Allied Information Services (AIS). Rieseberg says all outgoing AIS staff have agreed to work out their notice periods, which averages six months.

"It is hoped that some may not leave at all. In any event, three positions have been rationalised," he said.

Five ex-Sanbankers are to set up a new corporate finance house, while outgoing chief economist Johann du Pisane is to consult independently.

Of the non-AIS resignations at Allied, at least two have been "poached" by a "Big Five" bank; it is believed others will persue their own interests.

Resignations outside AIS include senior GM Stewart Ramsey, previously AIS MD; divisional GMs Gerhard Cloete (private banking), Nico Germishuyse (international banking), and chief manager Roger Walton (international banking).

Rieseberg agrees with Senbank MD Doug Anderson that "walkouts are not unusual in the finance business".

Bankorp's share price recently touched a 12-month low, after rising on news of Piet Liebenberg's resignation as Nedcor CE to take up the Bankorp helm as executive chairman on July 1. Nedcor senior GM Hennie van der Merwe resigned to accompany Liebenberg to Bankorp.

Allied, which lacks any distinct controlling shareholder, reported annual results last week with earnings per share up 30% before extraordinary items and dividends up 10%.

Banking analysts say the results appear better on examination than reported, in spite of no disclosure of bad debt experience or bad debt provisions.

Analysts say the three main questions concerning Allied Group's future are margins and market share in its home loan and corporate areas; the cost and targeted market share of its upcoming cheque account, and the likelihood of a merger or takeover with less restrictive rules for such transactions contemplated for reformed financial services legislation.

Rieseberg says Allied will launch its cheque account towards the end of the year.

He will not disclose its cost, but estimates a "three-and-a-half year payback".

He says Allied will have the expertise to run a cheque account; "all staff will be trained prior to launch".

Rieseberg says no specific market share is currently targeted, but that the main emphasis will be on the "existing client base".

Allied Building Society, for example, has about 250 000 registered bonds.

"The emphasis will initially be on the retail market, with the corporate market to follow."

He added that Allied does not fear decreased home loans margins.

"Our book is still funded by retail rather than wholesale funding, so we have better turns than banks, funded mainly by wholesale funds."

Rieseberg says that in the past three to four years Allied Group has added 40 new systems and products to its showcase.

Cheque accounts would be the final addition for the forseeable future.

Gavin Thomson has been appointed a GM of Federale Volksbeleggings as well as finance director of its domestic consumer goods division and of Tek Corporation Holdings.

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Four major institutions stage weekend launches of innovative products

BARRY SERGEANT

FOUR major financial institutions launched innovative products over the weekend.

They include immediate access to the portion of a home loan paid off, and a no-guarantee life insurance equity fund.

With monetary authorities continuing a determined bid to contain credit creation by the financial sector, the new products are generally aimed at investment by clients, or offer new services.

The United launches Equity Access Plan, allowing the client to access the full amount by which he has reduced his mortgage loan — "for whatever purpose you deem necessary."

Nedbank launched Nedbonus, "a genuine savings account" requiring a minimum R2 000 balance (to be maintained), and a notice period of 32, 60 or 88 days.

"Until such time as notice is given a bonus of 10% of the monthly interest earned accrues to you each month," says Nedbank.

First National Bank (FNB) launched BOB 2000, dubbed "The Big Easy," "The savings card that pays your bills."

The new product offers some of the benefits of a cheque account while paying a "competitive rate of interest on credit balances", says FNB.

Sanlam launches an extension to its existing products in "500 Plus", a no-guarantee fund offering the possibility of 100% investment in equities (as opposed to, for example, cash and/or property).

Sanlam's Charl le Roux suggests that this possibility gives the investor access to high reward/high risk.

Nedbank and FNB do not specify what interest rates their new products will pay.

However, United states clients can "earn 20,75% tax-free on your surplus funds by depositing them into your loan account. Withdraw R1 000 or more at any time".

Fedsure plans to boost investments

B/Day 7/5/90. (58)

BRENT MELVILLE

FEDSURE, the holding company for life assurer Fedlife and short-term insurer Fedg[illegible]n, was expecting to generate about R75[illegible] cash this year, CE Arnold Basserabie s[illegible] yesterday.

The [illegible]et cash income flow would enable the group "significantly" to boost investments — last year at R2,7bn (R2,2bn).

He said that R100m had already been earmarked for several major property developments this year, including a R40m one on Strand Street in Cape Town, an office complex in Verwoerdberg and a retail project in East London.

Commitments carried over from last year brought the total to well over R100m.

Investments this year would be mainly on the gilt options market, enabling the group to take advantage of the high money market rates and falling capital yields. Exposure to the equity market would be decreased, although there would still be a focus on selected mining shares.

He said that Fedsure's investment team had benefited considerably from government's decision last October to replace statutory prescribed asset requirements with new investment regulations.

The group's latest annual report shows total assets for the group of more than R3bn for the first time, up 22% to R3,4bn (R2,8bn). Income from investments was up 32% to R352,1m (R267,6m).

Provision for insurance funds is now R3,1bn (R2,5bn). The figures position Fedlife as SA's largest independent insurance group, and just behind Momentum Life as SA's sixth largest.

Basserabie said the group would strive to remain flexible to take advantage of any opportunities.

He said that the privatisation of state and quasi-state enterprises had presented opportunities to Fedlife, attracting employee benefits from those sources. "Substantial" business had been placed with Fedlife by a "recently privatised" concern, and there were indications that further business of a similar nature would be written this year.

Cape Times 7/5/90 (58)

MMVAF divides market between major players

Own Correspondent

JOHANNESBURG. — The Multilateral Motor Vehicle Accidents Fund (MMVAF) has divided the motor accident market between the major players, but a spokesman says this does not amount to a monopolistic practice.

He says newcomers to the field can apply to a specially constituted committee to be considered as agents handling claims on behalf of the fund.

The latest available figures — for the financial year to end-April 1988 — show that administration fees paid to agents were R5m.

In terms of the present system the MMVAF divides the days in the year between the major players on the basis of their market share.

The Third Party claims arising from accidents which take place on any particular day are handled by the insurance company allocated to that specific day, and this agent is paid a fee by the MMVAF for handling the claim.

This system, finally introduced from May last year, has obviated the need for Third Party discs and, the MMVAF spokesman says, has expedited the processing of claims and cut down on the cost of processing them.

The agents also handle court cases on behalf of the MMVAF.

"A newcomer to the market is not automatically included in the system but has to be considered by the director and a special committee established for this purpose," the MMVAF spokesman says.

"An application will be considered on its merits."

He says the system works well and agents are satisfied with their allocated days and with the (undisclosed) fees paid.

In terms of the present system, days are allocated to 12 companies. Santam has 140 days a year and the second largest agent, President, has 41 days a year.

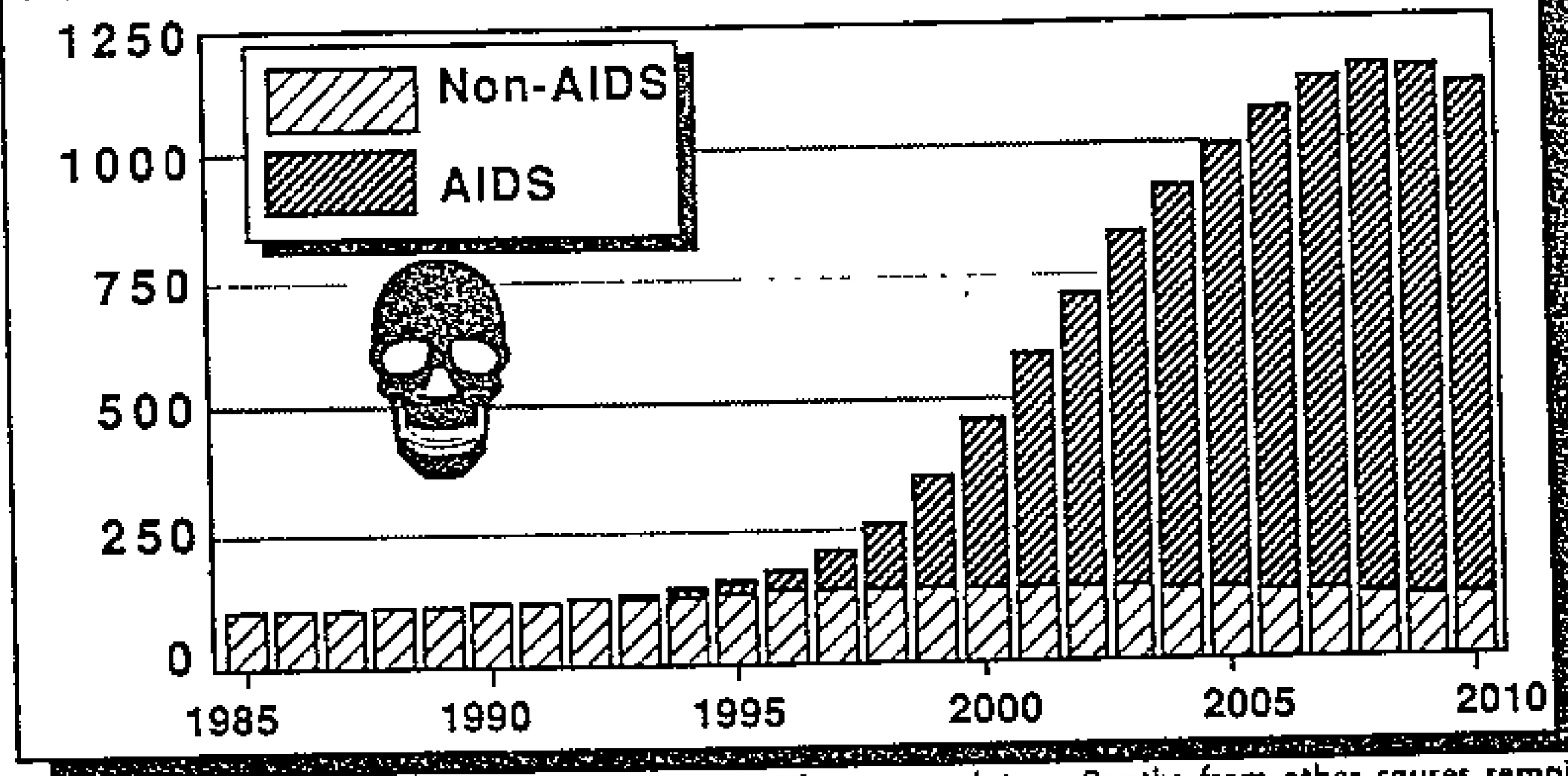
The amount in MMVAF at the end of the 1988 financial year was R231,5m. The amount obtained from the Third Party levy on fuel was R256m and direct claims paid were R253m. There were other expenses such as re-insurance, hospitals and administration.

The levy on fuel is 3,6c a litre on petrol and 2,7c on diesel.

Star 7/5/90 (58)

BACKGROUND

'Conservative' Aids forecast: 10-m infected by year 2000



This graph projects annual deaths in the South African population. Deaths from other causes remain fairly constant, but there is a huge jump in Aids-related deaths. By the year 2000, well over 250 000 people a year could be dying from Aids. Projections beyond 2000 rise to a peak before dropping. Actuaries caution that projections beyond the year 2000 could be unreliable. They say an urgent programme is needed to make people aware of Aids.

Own Correspondent

DURBAN — Nearly half of South Africans over the age of 15 will be HIV positive by the the end of the 90s — unless preventative action is taken soon.

This is the "conservative" projection of Old Mutual corporate actuary Mr Graham Prentice, who has been conducting a statistical analysis on the spread of the killer disease Aids.

The giant assurance group has been taking a close look at the likely impact of Aids in view of its rapid spread in Africa and the enormous impact it holds for the economy in general and insurance in particular.

Mr Prentice's figures show that unless people begin to take more precautions, in 10 years time more than 10 million South Africans will be infected. About 321 000 people a year will be dying from Aids and another 472 000 will have Aids-related diseases (the last stage before death).

Projections beyond 2000 suggest that Aids will reduce the overall potential population by millions of people — but Mr Prentice cautions against the reliability of projecting figures so far ahead.

"The important thing to note from the graphs is that the incidence of Aids-related death should 'peak out', probably between 2000 and 2010."

Mr Prentice stressed that an urgent education programme was needed to help SA avoid being overtaken by a catastrophe which already is increasingly evident elsewhere in Africa.

The disease has reached such proportions that some insurance companies are refusing to expose themselves to the risk in African countries.

While the incidence of Aids in SA appears to be lower at this stage, the country is moving in the same direction. This means that other African countries are just "further down the track" and — if behaviour does not change — in a few years SA will reach the same point.

Among the frightening statistics of the African incidence of HIV positive cases, some from the Aids Policy Research Centre, are:

- Zambia — blood donors 19 percent, hospital staff 27 percent.
- Nambia — Swapo returnees (sample of 100) — 66 percent.
- Kampala — blood donors 70 percent.
- Nairobi — prostitutes 85 percent.
- Malawi — Blantyre blood bank 29 percent, many clinics 54 percent.
- Zimbabwe — blood donors seven percent. However, incidence in the general population could be between 20 and 30 percent.

Old Mutual's overall tests in SA (on clients applying for big policies) show an HIV positive incidence of one in a thousand. Figures for ante-natal blood samples are five per thousand.

However, the doubling period is just eight months.

Mr Prentice said on average it took just over seven years after contracting the disease for a patient to fall ill. During these seven years, the infected person may well not even be aware of his or her plight.

The consequent period of sickness lasted an average of 18 months before death — usually from secondary diseases such as pneumonia and TB.

He said the incidence of Aids appears worst in Africa. Educated and receptive people can learn to reduce risk by changing their habits — it appears risks are being modified in developed countries. The problem is to get this message through in Africa.

"If half the local population is infected you are not going to find foreign tourists willing to run the risk of visiting South Africa. This could be just one of the major economic implications for the country."

Mr Prentice said his calculations were based on data obtained in SA and elsewhere in Africa, where the giant assurance company has many sizeable operations.

Bankers prepare for harder times

Star 7/5/90 (58)

By Ann Crotty

Recent results from Nedcor and First National Bank reflect the benefits of strong demand for credit as well as the correct forecasting of interest rate movements.

Volkskas' results are due out tomorrow and are expected to show another strong performance.

But despite this strength the market has recently become nervous about bank shares and many of the counters have been marked down.

Major cause of this weaker sentiment was the Reserve Bank's announcement that the banks' repurchase agreements (which are off balance sheet items and so do not carry any reserve and liquid asset requirements) will have to be moved on to the balance sheets.

But, in addition there is the awareness that the slow down in economic activity must soon adversely impact on credit demand and margins.

With regard to repo agreements, the Reserve Bank is attempting to curb growth in money supply by making the creation of credit less profitable for the banks. Feeling among investors was that this move would have an adverse impact on bank margins, hence the mark-down of prices.

Subsequent realistion that the Reserve Bank's move would take some time to impact on bank margins does not seem to have bolstered investor sentiment. Feeling now is that despite the strong performances that are being reported for the period (six to 12 months) to around March 1990, prospects do not look too bright for this sector.

The results from Nedcor and FNB give some indication why — after 12-18 months when earnings figures benefited significantly from a fall off in bad debt experience and provision, bad debts are now back to haunt the bottom line.

To end-March it was still just provisions. Nedcor and FNB both imposed massive increases in bad debt provisions — Volkskas is expected to do the same.

At a later stage, bad debt experience is expected to see a hike.

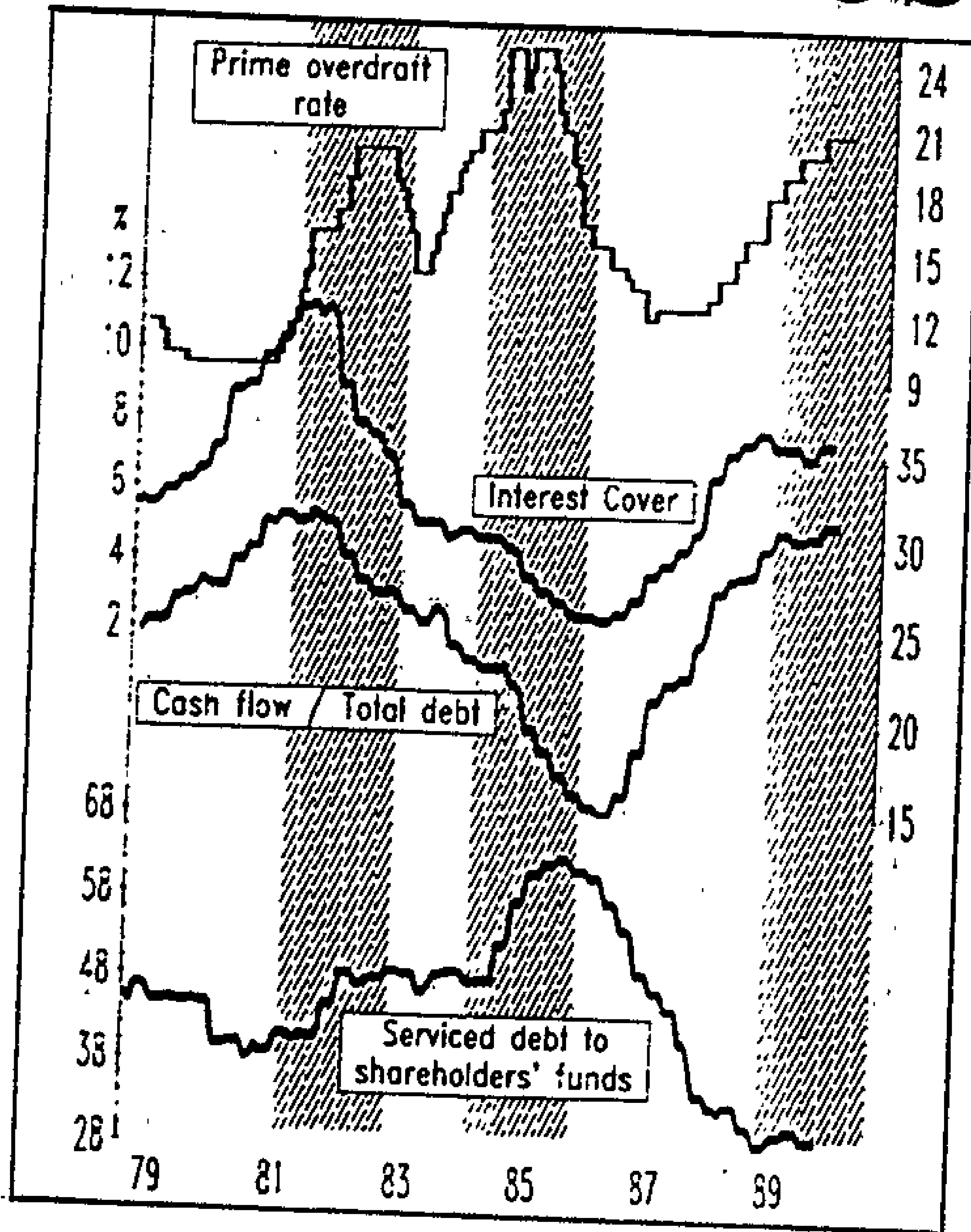
Things in the local market are not quite as bad as the UK where, in quick succession just over a week ago, heads of two major banks (Midland and Barclays) issued warnings about trading conditions.

In his recent address to the Economic Outlook Seminar at Stellenbosch University's Business School, Rand Merchant Bank's economist Rudolf Gouws stated that: "The present downswing phase is likely to last throughout this year as well as through the first half of 1991, and worse is still to come for consumer spending, inventory accumulation and private fixed investment."

The good news is that the current downswing is not expected to be as severe as that of July 1984 to March 1986.

Reasons why include: inventory levels in commerce and industry are now much lower in relation to sales; corporate financial ratios are now much healthier (see graph) which means that the same sort of large scale retrenchments and capital spending cutbacks are unlikely.

Real interest rates are lower this time around; tax cuts announced in the latest budget will have at least a mildly stimulatory impact on the economy and; despite recent unrest, the business mood is currently significantly better than it was in 1984/85.



Board examines indemnity plan

B/Day 8/5/90 (58)

LINDA ENSOR

THE Public Accountants and Auditors' Board (PAAB) is investigating ways of providing professional indemnity insurance for registered chartered accountants and auditors.

PAAB professional indemnity insurance committee secretary Danie Joubert said yesterday the major difficulty in establishing a scheme was the relative dearth of such underwriting business in SA, where only one or two underwriters provided such policies.

He said it was this situation and its effect on rates that led to the board's decision to examine the feasibility of establishing its own scheme.

Initially, a co-operative mutual indemnity scheme was considered appropriate and an application for registration was made, but this was put on ice pending the outcome of the Melamet Commission of Inquiry into the operations of co-operatives.

Joubert said the Institute of Chartered Accountants recommended an SA scheme for its members. Cover was also available on the international market, although this was not satisfactory as rates were based on the much higher international claims experience.

He said it was difficult to get precise statistics on the risk profile of SA accountants and auditors, but a 1988 survey indicated a loss ratio of 16% to 18% of premium income.

Life policy surrenders 'at high level'

Star 8/7/90 (58)

Finance Staff

Life insurance policy-owners received a record amount of almost R9,7 billion in benefits during 1989. This represents an increase of more than 32 percent over the amount paid out during the previous year.

Figures released by the Life Offices' Association (LOA) indicate that benefit payments to policy-owners increased at an average of more than 30 per cent per annum over the past ten years.

"When one considers that benefits are now paid at a rate of R1 million in just over ten minutes of every working day, one realises the important role that the life insurance industry plays in the lives of South Africans." Said Mr Dorian Wharton-Hood, chairman of the LOA.

Premium income received from individuals increased by only 12 percent to R11,5 billion.

"It is the smallest increase in many years and, in fact, represents a decrease in real terms," said Mr Wharton-Hood.

"This was due to the fact that single premium income increased by only two percent in nominal terms, which is a dramatic decrease in real terms. It is an indication of the effect of LOA members' agreement not to market investment policies for terms of under five years.

Investment income

"The agreement was entered into at the end of 1988 after the banks and, especially, the building societies complained that life insurers were encroaching on their market by offering short and medium term investment products," he said.

Investment income, earned on behalf of policy-owners, increased by 40 percent to amount to R9,2 billion. This is largely due to the very high interest rates and increased dividends received during most of 1989.

"A very encouraging feature of the industry's results for 1989 is that the surrendering of individual policies came down in nominal as well as in real terms from 1988," said Mr Wharton-Hood.

"However, it came down off an unacceptably high level in 1988 and policy surrenders are still higher than the industry would like them to be.

"It is difficult to pinpoint the exact reasons for the high level of surrenders, but one assumes that the high level of interest rates has something to do with it. A high interest rate makes it difficult for bondholders and other borrowers to maintain their policy premium payments.

A policy surrender means a loss of capital available for the funding of economic growth and it usually means an enormous loss of benefits to the policy-owner, which is why the industry is concerned about the figure."

In 1989, income tax paid by the life insurance industry amounted to R594 million, up from R575 million in 1988.

"The tax figure is about what we expected when the new tax formula for life insurance was introduced last year," said Mr Wharton-Hood, "The relatively low increase comes after tax more than doubled between 1987 and 1988, when the rate was arbitrarily increased. Compared to other forms of saving, life insurance policy-owners are still completely over-taxed."

Assets held on behalf of policy-owners stood at R114 billion at the end of 1989. This is an increase of 36 percent over the previous year.

Sharp drop in single premiums reported

(58)

B Day 8/5/90

LINDA ENSOR

THE undertaking given by life offices to banks and building societies that they would not market investment policies for terms under five years, has resulted in a dramatic real decrease in single premium income.

The 1989 figures for the life industry — which held assets worth R114bn (R83,3bn) on December 31 — were released yesterday by the Life Offices Association (LOA).

They show that single premium income increased by only 2%. This affected total premium income received from individuals which increased by only 12% to R11,5bn (R10,3bn).

"It is the smallest increase in many years and, in fact, represents a decrease in real terms," said LOA chairman Dorian Wharton-Hood.

"The agreement was entered into at the end of 1988 after the banks and, especially the building societies, complained that life insurers were encroaching on their market by offering short- and medium-term investment products," he said.

Last year, holders of life policies received a record amount of R9,7bn (R7,3bn) in benefits — an increase of 32,3% compared with 1988. Over the last 10 years an average increase in benefits of over 30% has been recorded.

Premium income from group schemes and pension funds rose 18,4% to R6,5bn (R5,5bn). Investment income earned on behalf of policy-owners by the industry as a whole increased by 41% to R9,2bn (R6,5bn) due to higher interest rates and dividends. This resulted in total income of R27bn (R22bn), an increase of 22%.

Wharton-Hood said an encouraging feature of the industry's results for 1989 was the nominal and real decline in the number of policy surrenders which were nevertheless still too high. Surrenders, he said, were possibly related to high interest rates which made it difficult for bondholders and other borrowers to maintain their policy premium payments.

The life industry paid R595m (R575m) in tax last year — a rise of 3,4%.

"The tax figure is about what we expected when the new tax formula for life insurance was introduced last year," Wharton-Hood said. "The relatively low increase comes after tax more than doubled between 1987 and 1988 when the rate was arbitarily increased. Compared to other forms of saving, life insurance policy-owners are still completely overtaxed."

The value of total assets held on behalf of policyholders rose 32% in 1989 compared with 1988. Between 1979 and 1989, assets have increased from R9,2bn to R113,8bn. Expenses in 1989 totalled R3,3bn (R2,7bn).

Banks shift focus to 'grey market'

ARI JACOBSON

THE banking sector is wriggling out of the tight squeeze on interest-oriented business by moving into the "grey market" of off-balance sheet corporate planning.

This coupled with the ever-increasing prominence of one-stop-banking-services has become the banks' last line of defense against shrinking interest margins.

"There is no margin", says a disillusioned banker refering to the hazardous scenario of clients charged 20,75% on a home loan which costs the bank upwards of 21% in the money market.

Fee income derived from a wide array of banking services such as cheque book facilities, insurance broking, export-import planning and corporate structuring has the added advantage of requiring no capital reserve backing.

First National's senior GM Jim McKenzie says the movement towards a broader spectrum of financial services has not altered the main focus of banks towards attracting deposits.

"Competition remains fierce in the 'fringe' services on the periphery of banking with, for example, the bank's personal asset management division having to compete directly with specialist fund managers."

McKenzie says a well-established bank can overcome this dilemma by concentrating its policy on servicing existing clientile.

A divisional GM at Standard Bank, Henry Hofman, considers the change in the mix of total banking income away from squeezed interest margins to fee income — as temporary.

But survival within the industry has become imperative with banks targeting markets unable to react to loaded interest rates. These include credit cards facilities, individual clients and small corporate businesses.

"Larger corporations threatened with higher rates would merely switch allegiances," says a market source.

The real income generator for the banking industry is the grey market agency business, of banks moving off-balance sheet money between corporations, he says.

"This matching of depositors and lenders goes unreported and accentuates the Reserve Ban'ks task of limiting such activities."

A Trustbank spokesman says its off-balance sheet pursuits focusses on joint financing and corporate structuring — an example being the recent R280m Rusfurn management buyout (MBO).

Bond rises 'unlikely'

MORTGAGE bond rates appeared to have levelled off since last May and increases in the near future were unlikely, Anglo American Property Services (Ampros) said in a statement this week. (54) 1082

In the Property Exchange published by Ampros today, a graph reflects the home loan rates for new bonds granted by Standard Bank and United Building Society. This shows the sharp increases in mortgage rates since January 1988, when rates were 12,5%, to their present 20,75%. Citizen 11/5/90

Ampros also publishes a graph showing the movement of the JSE property and property trust indices.

The property index at 414 is still 10% below the high of 461 achieved before the crash of 1987, and the property trust index has only recently passed its pre-crash high of 172, although it has since fallen back to 168.

In the last 16 months the property index has gained 45% and the property sector index has risen 39%.

Ampros attributes the recent strength of the indices to the reclassification of property trusts and property loan stock as fixed property instead of equity for the purpose of prudential investment.

"Property stocks are expected to improve their rating in the current uncertain market as they provide a defensive investment backed by assets," Ampros said.

B/Day 9/5/90

Lyntex wants company consolidated

CHARLOTTE MATHEWS

DCM-listed Lyntex Transport believes the next year should be spent consolidating the company and establishing the value of its shares.

"Once the share price is where it ought to be we can use the shares for acquisitions," chairman Eugene Marais said yesterday.

At the beginning of April the Lyntex share fell to 13c but had picked up to 30c yesterday, where it is still below the year's high of 52c reached last July.

"The shares are still grossly undervalued," Marais said. "Net asset value is about 44c. A realistic price would be around 52c."

He pointed out that at interim stage to December Lyntex had doubled earnings to 7,8c (3,6c) a share although turnover had dropped slightly to R11,9m from R12,6m.

At this level it offers a nil dividend yield because it passed on last year's distribution and a price:earnings ratio of 2,1. This compares with a dividend yield of 2,7% and a p:e of 14,5 for the DCM sector and a dividend yield of 4,2% and p:e of 6,8 for the transport sector.

Marais said results for the year to June would still show the effects of high interest charges incurred to improve the company's liquidity but would also establish that interest charges for the following year would be substantially lower.

Unit trusts differ on investment strategy

58

LIZ ROUSE

UNIT trusts are not taking a monolithic view on investment strategy for 1990, making nonsense of the old saying that institutional investors follow one another like sheep.

Views elicited from portfolio managers ranged from extreme caution — increased liquidity — to putting more funds into the market whenever quality stocks showed good value at lower levels.

They also differ on where values will lie in the next six to nine months.

While Syfrets Growth fund's portfolio manager Anthony Gibson last week outlined a cautious strategy in the equities market and a defensive increase in liquid assets to 26% in the current June quarter, from 20% in the December quarter, Southern Equity Fund's Carel de Ridder is prepared to push more funds into the market if prices fall to attractive buying levels.

In between are the conservatives like Sanlam whose portfolio manager Stafford Thomas is satisfied to keep liquidity at the March quarter's low 11%.

Giant Old Mutual, about to launch another unit trust next week, was unwilling to comment at this stage. However, the expansion of its unit trust stable spells confidence in equities.

Although June quarter average liquidity percentages will probably not differ much from the end-March percentages, there may be divergencies later in the year. Most unit trusts reduced their liquidity levels in the March quarter as market value of their portfolios soared in the pre-Mandela release euphoria.

Liquidity

Average liquidity of the general and specialist funds declined to 15,6% in the bumper March quarter from 19% in the December quarter. But in early February the ANC's nationalisation/sanctions statement changed the picture.

Thomas says Sanlam's unit trusts are unlikely to go beyond their March quarter liquidity levels.

Sanlam unity trusts' liquidity were reduced in the March quarter. Sanlam Trust's was down at 10,7% from 15,9% in the December quarter, the Industrial Trust's at 14,1% from 14,1% and the Mining Trust at 10,3% from 18,1%.

Although fund managers are alert to a possible change in equity trends in view of political uncertainties, a weak gold price, high interest rates and declining economic activity, there is no cause to increase liquidity, says Thomas.

The Sanlam unit trusts are experiencing a steady inflow of money from the more affluent investment sector and are still reflecting a net inflow of funds.

The fact the dividend part of a unit trust's distribution is now tax-free is reflected in greater interest shown in units by the higher tax level investor.

However, investment by the smaller investor has dried up as less affluent investors are obviously under financial pressure, he says.

Sanlam's investment strategy remains one of buying quality stock at reasonable prices. Thomas foresees at worst a sideways movement on the JSE board but no indication of a major setback in 1990.

Wall Street is looking brighter and Thomas foresees an improvement on the JSE over the next few weeks.

He says foreign sales of SA shares have dried up to virtually zero after SA stocks worth hundreds of millions of rand were offloaded in February/March, following the nationalisation scare.

Southern Equity Trust's De Ridder says the fund's liquidity will be maintained at 15% in the June quarter, but he would be prepared to push investment in equities to 90% of total assets, given cheaper price levels.

Southern will be looking for buying opportunities among good quality second-liners, some of which are already showing excellent value. De Ridder's strategy will be to pick up previously over-priced stocks when the market goes lower.

Platinum

UAL's Alister Colquhoun says some second-liners are attractive at current levels, but portfolio managers are looking at marketability as well. UAL funds will be looking at stocks with consistent performance and ability to maintain their earnings momentum.

Colquhoun says there is a lot more going for the non-gold mining sector than the middle of the road industrial sector. The UAL funds have concentrated on diamonds and platinum.

UAL Mining and Resources is increasing its focus on non-gold minings such as Samanco and Palamin and intends committing new funds to shares in this category rather than gold.

Sowetan 9/5/90

African Bank looks ahead

58

By JOSHUA RABOROKO

TIGHT control over operating expenditure and sound management of the interest has resulted in an improvement in the results of African Bank Limited.

In an interim report to shareholders for the six months ending March 31, the bank says the adoption of a more selective lending policy would assist in improving the bad debt expenditure of the group.

The collection of arrear loan accounts was also continuing.

Plan

The bank says the implementation of the first phase of the five-year strategic plan of the group has started, however, the bank's acting chief executive, Mr Jack Theron, will not disclose details.

He maintains that the plan is such that when complete it will make the bank to look forward and never backwards, adding: "It is a positive plan."

A mini-branch was opened in Durban city centre on March 1 this year to cater for the retail and corporate clients of the bank.

Move

This move is expected to strengthen operations at the Umlazi branch and the group operations in Natal.

Another mini-branch has been opened in Tzaneen. This will bolster the bank's operations in the northern Transvaal.

Theron has also disclosed that the bank will open a new branch in Johannesburg within two months but does not want to reveal its location.

Share

The company's ordinary share capital increased by R40 000 since September 1989, the banks says.

No interim ordinary dividend was declared. However, should the current trend be maintained, it is anticipated that an increased ordinary dividend will be declared for the year ending 30 September, 1990.

Theron yesterday said their turnover had grown by 43 percent. Staff grew by four percent.

35 councils told to act on rent arrears

The Transvaal Provincial Administration has ordered 35 black councils to take action against rent defaulters.

The councils, hit by rent boycotts, were this week told to "take definite and drastic steps" against people owing rent.

Olaus van Zyl, the MEC in charge of local government and regional services councils, said in a statement the province had limited funds for helping local authorities with bridging finance.

He said the boycott was closely linked to consumers being intimidated into not paying rent and service charges. Councillors were also being pressured to resign.

"We have about R30 million a month to bridge financing but at present we have to pay between R50 million and R60 million a month to make good any deficits of local authorities," he said.

It was the councils' duty to take steps to charge current levies and not to shirk their duties in this regard.

'Councillors of the affected areas were called to a meeting in Pretoria on Wednesday by the TPA to discuss the boycott.

Last week the TPA's executive committee dismissed the entire Lekoa Town Council for failing to rectify the "unhealthy state of its financial affairs".

Residents in the townships under the Lekoa council owe about R147 million in rent arrears dating from the start of the boycott in 1984.

Alexandra education project receives R100 000 boost

Star 9/5/90

Staff Reporter

The Alexandra Community Education Centre (ACE), a R15 million project undertaken jointly by The Star, Bramley Rotary Club and the Department of Education and Training, has received a R100 000 boost from the Otis Elevator Company.

Last August, Otis donated R50 000 towards the centre.

Building of a technical high school, which will accommodate 450 students, is already underway at the centre.

The multi-purpose ACE Centre was made possible by major donations from Barlow Rand and Toyota. Barlow Rand donated R3 million over three years and Toyota will provide workshops for the second phase of the school.

Other donors are JCI Chairman's Fund R250 000, AECI R120 000, The Star Teach Fund R100 000, Sasol R90 000, Millionex R65 000, Premier Food R63 482, Estate late Carleo-Putco R50 000, Allied Building Society Educational Trust R50 000, Argus Newspapers Ltd R50 000, National Orchestra concert proceeds R16 500, Hyde Park Centre R11 000, sundry donations R3 563.

- Barlow Rand Educational Trust has donated R1 million towards building the first students' residence in a residential village at Mangosuthu Technikon, KwaZulu, bringing to R5 mil-lion the amount the company has donated to technical education in South Africa in six months. A total of R3 million went to the ACE Centre in Alexandra and R1 million to Durban's M L Sultan Technikon.
- The residence at Mangosuthu Technikon will accommodate about 50 students. It is part of a R4 million development which will house 400 students.

(58) Star 9/5/90

Business wants Govt to act on mid-week holidays

By Michael Chester

The SA Chamber of Business plans to urge the Government to make sweeping changes to the calendar of South African public holidays.

The idea is to hold down the growing cost of production losses, now running into billions of rands a year.

Sacob manager of labour affairs Gerrie Bezuidenhout said in Johannesburg yesterday that a special report was being compiled. The report would argue the economic merits of doing away with as many mid-week holidays as possible.

Public holidays should be moved to Fridays or Mondays wherever feasible to keep them in a pattern of long weekend breaks. This should be done to minimise disruption to sales and production in commerce and industry.

Mr Bezuidenhout told a news conference the revision of the holiday timetable had become urgent. There was a deepening concern in the business world about the impact of holiday shutdowns on economic performance.

There was evidence that the economic cost of a concentration of holiday breaks in April and May, in particular, was among the reasons for a sharp decline in the overall level of business confidence last month.

The general economic slowdown and political developments may have played basic roles in a decline in confidence, but holidays also had a major impact as manufacturers counted the cost of production losses.

Recent studies had shown that the daily economic cost of each public holiday was no less than R400 million.

Last month, there were two official holidays — on April 13 (Good Friday) and on April 16 (Easter Monday).

Workers' Day

The unofficial toll was even worse because of widespread stayaways on April 30. Workers stretched out their weekend breaks all the way to mid-week in claiming Workers' Day as a holiday when the Government under trade union pressures shifted the celebration from May 7 (Monday) to May 1 (Tuesday).

Still in the pipeline was the closure of most businesses on May 24 to mark Ascension Day.

"In consultation with other employer bodies, we are asking the Government to restructure the pattern to hold back economic losses with occasional longer weekends, better spread over the calendar, except in special instances where decisions may best be made in negotiations between companies and their employees," Mr Bezuidenhout said.

Ken Mason, general manager of industrial affairs at the Johannesburg Chamber of Commerce and Industry, also voiced growing concern about the economic drain caused by the current pattern of public holidays.

"It would make far more sense to turn many holiday dates into moveable feasts — letting the manufacturing sector get on with the job of faster economic growth to the benefit of the entire population."

Sacob chief executive Raymond Parsons said the sharp drop in business confidence levels may have been much less severe if the April survey had been in time to measure reaction to the success of the Groote Schuur talks between the Government and the African National Congress.

Better guidelines to the business mood about the outlook would be provided on analysis of results from the next round of talks.

"At the moment, the decline in our business confidence index shows less optimism and more uncertainty about the future rather than a plunge into pessimism," he said.

● See Page 16.

600 000 unit trust holders in S Africa

THERE'S a well-known witticism: "She said she was entering her declining years so Bill told her that a woman of her age could not afford to decline anything."

One investment that both men and women should seriously consider, no matter what their age, is a unit trust.

Chairman of the Association of Unit trusts, Roy McAlphine says: "Because units trusts are such a flexible investment and have performed so consistently well over time, every South African should, provided financial circumstances permit, invest in at least one general equity unit trust.

Growth potential

Unit trusts are definitely not only for the wealthy. As McAlphine points out, investments can be made with a lump sum as small as R100 or with regular investments from as low as R20 a month.

"The fact that general equity trusts have provided for unit holders an average annual compound return of 24 percent per annum over the past decade, illustrates clearly the merits of unit trusts as a long term investment.

"Ideally, to avoid investing at a time when share prices are at or near a peak, unit holders should invest a regular amount every month. This is called rand cost averaging and its advantage is that you accumulate more units when prices are low and so end up with a lower cost per unit than if a regular number of units were purchased at set intervals.

"Investing in unit trusts is an excellent means of saving and, as unit trusts invest primarily in sound, blue chip equities, with solid growth potential, those savings should provide a real return to investors over and above the rate of inflation." Sowetan

Great virtue

10/5/90

In South Africa today there are over 600 000 units trust account holders whose total unit trust investments had a value of R7,6 billion at March 31, 1990. That is a 43 percent over the value a year ago.

McAlphine adds: "To an increasing extent, South Africans are appreciating the value of investing in unit trusts. The flexibility of the investment medium is a great virtue - you can add to you original investment at anytime and, for those looking at building up an additional retirement fund, unit trusts are ideal.

"When you have some spare cash this can be added to you investment to accumulate value over time.

"And should you need to liquidate a portion or all of your investment for whatever reason, you can instruct the management company to repurchase your unit trusts and you will receive the proceeds within 10 days."

Investec: 12 years of successive growth

CAPE TIMES 10/5/90

By AUDREY D'ANGELO
Financial Editor

FAST-growing Investec Bank has lifted income and earnings by an impressive 25% in the year to March 31. And the total dividend has risen to 40c a share compared with 32c last year.

Net income after tax and transfer to internal reserves was R17,5m (R14m).

Earnings at share level were 87,5c (70c).

Assets under administration rose by 122% to R4,43bn. MD Stephen Kosseff said this was due mostly to organic growth although they had been boosted by the acquisition of Duros Merchant Bank and property management company, I Kuper & Co.

"Without the acquisitions our assets would have gone to R3bn," he explained.

Executive chairman Bas Kardol pointed out that this was Investec's 12th successive year of record profits and growth.

"In spite of the extremely difficult banking conditions I am confident that Investec will maintain its historical growth in both earnings per share and return on shareholders' equity.

"This excellent performance in the past financial year — and the strong base it provides for future growth — has been achieved through Investec's close focus on a defined strategy."

Kardol said developments in the economic environment and the banking sector in particular had confirmed the wisdom of Investec's practice of competing only in carefully selected market segments, and of building a diversity of revenue sources throughout the group.

Said Kosseff: "We are very focused in what we do."

The group had four distinct areas of operation. Its cornerstone was its general bank, Investec Bank. Metboard was its trust company. Investec Merchant Bank, formerly Duros Merchant Bank, served the corporate and institutional market and the Investec Property Group operated under the I Kuper and Incity Real Estate banners.

Confirming that Investec had handled a considerable amount of disinvestment business, Kosseff said that although this was tapering off it would continue as long as there was uncertainty.

And the bank was handling "a lot of cross-border work".

Kosseff elaborated: "People who feel nervous and uncertain about the future are setting up off-shore structures which will enable them to continue to trade regardless of changes which might take place in this country."

These would serve a dual purpose of making it easier to do business with European Economic Community countries after 1992. Some people were setting up offshore operations for that purpose alone.

And there was already some foreign investment coming into SA. "But we are not getting the serious money yet."

Kosseff said Investec's Cape Town operation was growing. And its merchant bank would adopt a higher profile this year.

There were always opportunities for acquisitions in a volatile market and if suitable opportunities arose Investec would take them. "But we have strong enough internal growth without any real need to make acquisitions

"The main advantage of acquisitions is that they can advance growth by a year or two, although they bring problems too while they are being absorbed."

● Investec Holdings (Inhold), which has a 75% stake in Investec Bank, reported earnings of R10,7m (R8,3m). This is equivalent to 53,4c (41,5c) a year. The total dividend for the year is 20c (16c).

'Urgent

COMPANIES

Investec lifts earnings and dividends by 25%

BDay 10/5/90

(58)

BARRY SERGEANT

INVESTEC has posted a 25% increase in earnings and dividends for the year to end-March, outperforming recent results of other second-tier banks and financial institutions as a result of its acquisitions and internal growth.

Dividends and earnings per share were up 25% to 40c (32c) and 87,5c (70c), respectively.

Chairman Bas Kardol said last night that while growth had been achieved organically and by narrow market targeting, the acquisition of Duros Merchant Bank and property management company I Kuper and Co had contributed.

Results showed net income after tax and transfer to internal reserves up 25% at R17,5m (R14m).

Assets under administration increased 122% to R4,43bn. During the year Investec was also involved in the attempted takeover of the Board of Executors via Mercury Trust, and Corbank.

Kardol said results were much in line with projection. "This is Investec's 12th consecutive year of record profits and growth."

He said that while Investec would continue to focus on organic growth, "it remained alert to opportunities in the field of mergers and takeovers".

Kardol said that Investec was sound on fundamentals, pointing to a 6% growth in assets. Banks had become weary of assets growing too fast as this diluted capital ratios, due to become more onerous in terms of proposed new legislation. Kardol said Investec's capital:assets was adequate at this stage.

He added that in spite of extremely difficult banking conditions, he was confident that Investec would maintain its historical growth in both earnings per share and return on shareholders' equity.

He argued that the excellent performance in the past financial year — and the strong base it provided for future growth — was achieved through Investec's close focus on a defined strategy.

Hectic

He noted that developments within the SA economic environment and the banking sector in particular confirmed Investec's practice of competing only in carefully selected market segments and of building a diversity of revenue sources throughout the group.

He said the year had been hectic for the group. In May it acquired Duros Bank Holdings and its wholly owned subsidiary Duros Merchant Bank, which has been renamed Investec Merchant Bank and is set for a major launch to introduce the name to the market place.

In July the group's property operations were strengthened by the acquisition of I Kuper and Co.

□ Investec Holdings Limited (Inhold), which holds 75% of Investec, disclosed earnings of R10,7m (R8,3m) for the year to end-March. This translates into earnings per share of 53,4c (41,5c). A total dividend of 20c (16c) was declared.

Barend hints at relief for banks

GRETA STEYN

FINANCE Minister Barend du Plessis yesterday hinted strongly that banks' liquid asset requirements would be reduced to provide relief from the high costs of bringing off-balance sheet financing back onto balance sheets. B Day 10/5/90

However, he indicated this would be considered only once the economy had cooled sufficiently and he warned the authorities would not hesitate to close loopholes in banking legislation.

In a speech at the annual dinner of the Institute of Bankers in Johannesburg last night, Du Plessis said the authorities were aware the clampdown on off-balance sheet financing would prove to be expensive for the banks. (58)

"In this regard a reassessment of the basis of computation and percentages to be used in the calculation of statutory liquid assets may be appropriate when the circumstances permit," he said.

He emphasised the authorities' intention

□ To Page 2

Barend

B Day 10/5/90 (58)

□ From Page 1

to strengthen the principle of intermediation — so that lending and borrowing will be reflected on banks' balance sheets. But he noted that some banks were already working on ways around the recent steps against repurchase agreements (repos) with gilts and other securities.

"Already we are aware of certain schemes which could be applied to circumvent the measures recently announced, for instance, combining an outright sale (of a security) with options or using promissory notes for such transactions."

He called on bankers to assist the authorities by bringing loopholes to their attention.

"We believe that the combination of a strengthening of the principle of intermediation and a lowering of the cost of intermediation will lead to a healthier deposit-taking sector," he said.

BDay 10/5/90 (58)

UBS Holdings expected to report impressive results

GRETA STEYN

UBS Holdings is expected to announce impressive results soon with earnings per share (eps) likely to grow by about 25% and dividends by about 20%, according to some analysts.

Ahead of its results, the building society group's share price is creeping back after its recent battering when sentiment turned against the banking sector. UBS firmed 5c yesterday to 590c, still far off its January high of 665c, and on yesterday's price has a projected dividend yield of 5,5%.

It had shed about 100c in a few weeks to touch a low of 550c as the Reserve Bank's strict monetary policy stance and tightened banking supervision took their toll on the market's perception of the sector.

The UBS's historical dividend yield (4,8%) is in line with that of the banking sector as a whole (4,9%), but the sector's unpopularity is clear when its average yield is compared to industrials (3,5%).

Analysts regard the UBS as the best capitalised in the banking sector.

The building society group had shareholders' funds of R1,2bn and assets of about R13,1bn in March 1989 — yielding a rough capital-to-assets ratio of about 9%. First National's most recent ratio is roughly 3,6% and Nedcor's 4,8%.

An analyst said yesterday that building societies' margins should be in better shape than banks'. They drew on a higher percentage of cheaper retail funding and the expensive rates in the wholesale market should have had a smaller impact. The Allied's and NBS's results seem to confirm this — the Allied reported eps growth of 30% and NBS 39%. The Perm reported a massive 86% increase in net profits to contribute 30% to group profits.

First National and Nedcor's results also indicate the sector probably does not deserve its low rating.

Saambou and the UBS are due to report soon. Saambou's share price has shot up from 100c, a little more than a month ago, to its current price of 120c and takeover rumours persist. The UBS is the exception among societies as a takeover seems a remote possibility.

SOWETAN BUSINESS

Bumper quarter for unit trusts

THE first quarter of 1990 has been a bumper one for the unit trust industry.

Unit sales hit a record as did the market value of the country's 33 unit trusts and the number of unit trust accounts exceeded 600 000 for the first time.

Sales of units for the period topped the R638m mark, comfortably exceeding the previous record of R599,3m for the September 1987 quarter.

Euphoric

However, on account of a significantly higher level of repurchases during the March quarter, the net inflow into the industry at R634,7m is below the record R453,8m achieved in the September 1987 quarter.

Roy McAlpine, chairman of the Association of Unit Trusts commented: "The industry experienced a strong upturn in sales during the first six weeks of 1990. The mood in the country was euphoric - the gold price was rising, the socio-political climate was extremely optimistic and share markets were firm internationally.

"In addition a couple of new unit trusts were launched which appealed to investors.

Tempered

"However during the latter half of the quarter - from about mid February - the mood of optimism was somewhat tempered in response to a lower gold price, the poor performance of international markets, especially the Tokyo share market, and the ANC's public pronouncements on nationalisation.

"This had an impact on unit sales which slowed quite noticeably."

McAlpine said that in spite of this, it is very pleasing to note that there are now over 60 000 unit trust acounts in South Africa, a 15 percent increase over the last 12 months.

Soared

He added that not only was there a significant rise in the new money that flowed into unit trusts in the quarter, the total value of the assets managed by the industry soared by almost R1-b in the three months, from R6 643m at the end of 1989 to R7 624m at the end of the March quarter.

According to statistics released by the Association of Unit Trusts, the market value of the funds climbed almost 45 pc from March 1989 to March 1990, an impressive increase and an indication of the growing public awareness which the industry now commands.

South African investors have become very aware of the excellent performances which the unit trusts have delivered for their unitholders in recent years and the performances reported for the March quarter are no exception.

The five year compound annual average performance (capital growth plus income) of the country's seven general equity trusts which have been in existence since 1986 ranges from 27,2 pc to 32,5 pc and averages 31,3 pc per annum.

Over the most recent one year period the annual return of the 13 general equity trusts is even more impressive, ranging from 21 pc to 44,3 pc with an average of 35,4 pc.

The specialist equity trusts also performed well for their unitholders, achieving a compound average return over the past five years of 25,2 pc and an average 30,3 pc over the most recent 12 month period.

Unitholders have experienced outstanding growth in the value of their unit trust investments in recent times, but McAlpine cautions that it would be unrealistic to expect unit trusts to continue to achieve returns of the magnitude achieved in the past 12 months.

He also believes that it is unlikely that the record sales notched up in the first quarter of 1990 will be repeated in the current quarter since the prevailing sentiment among investors, both internationally and in South Africa, has become very much more cautious.

Sowetan 10/5/90 (58)

Investec boosts earnings

Finance Staff

Despite losing the battle for control of the Board of Executors, Investec Bank showed good earnings growth in the year to end-March.

Satisfactory results were recorded by most operating divisions boosting earnings per share by 25 percent to 87,5c (70c), while the total dividend was raised from 32c to 40c.

Assets under administration increased 122 percent to R4,43 billion as a result of strong organic growth and the acquisition of Duros Merchant Bank (now Investec Merchant Bank) and leading property management company I Kuper.

Investec executive chairman Bas Kardol said the results were very much in line with projection.

"In spite of the extremely difficult banking conditions I am confident that Investec will maintain its historical growth in both earnings per share and return on shareholders' equity," Mr Kardol said.

In a simultaneous announcement, Investec Holdings (Inhold), disclosed earnings of R10,7 million (R8,3 million), equivalent to earnings per share of 53,4c (41,5c).

A total dividend of 20c (16c) was declared. Inhold controls a 75 percent stake in Investec.

CCB set up 'front' businesses in African countries

Network of spies cost R14-m

The Harms Commission

By Norman Chandler, Pretoria Bureau

Agents of Sector 6 of the Civil Co-operation Bureau (CCB) spent more than R14 million infiltrating African states and on local projects, the Harms Commission heard yesterday.

The countries were not identified by undercover agent "Christo Brits" yesterday, who took the witness stand to tell commission chairman Mr Justice Louis Harms how the CCB ran its activities.

"Christo Brits" is, the commission heard, the administrative name of a CCB employee. The judge ruled that his identity — or photograph or sketch of him — could not be published.

In the public gallery was CCB chairman General Eddie Webb.

The commission heard that at least four foreign projects were specially developed for Sector 6, which was run from Johannesburg by former police colonel Staal Burger.

The judge ruled that information about other similar projects also could not be divulged because of an application by CCB lawyers.

Disguised with wig, beard, moustache and glasses, Mr "Brits" said Sector 6 comprised Mr Burger (former commander of the Brixton Murder and Robbery Squad), and former policemen Abraham "Slang" van Zyl, Chappie Maree and Calla Botha.

Claims of killings

It was one of three such sectors he had worked with over a period.

Mr Maree is the only one of the group who has not been seen since the CCB was exposed in November as a covert SADF operation and accused of being involved in political murders — including those of activist Dr David Webster and Swapo national executive member Anton Lubowski.

The setting up of Sector 6 was codenamed Project Choice, said Mr "Brits". Each member was able to set up a business under a codename.

The sector had also been involved in a project codenamed Project 4, which had resulted in an unnamed CCB member being given a new identity and employment in an African state.

The commission heard about a project known as Maxie. Under the control of Mr Burger, it dealt with espionage activities in "a certain African state".

The affidavit said that to identify the person who helped Mr Burger would be "life threatening".

Another, codenamed Project Imperial, was established to obtain information from an African country's intelligence department.

"The identities of the group, their method of operation, and the country cannot be disclosed," the affidavit said. It added: "The people involved were not aware they were working for the CCB."

Project Imperial continued for some time, according to the affidavit. Entries from the Sector 6 cash book, handed in as evidence, showed that it began on May 12 1989 and ended on January 30 this year.

Another African country was infiltrated through Project Maagd, which involved the setting up of a business there to operate in association with a similar establishment in South Africa.

A fourth country was infiltrated by another CCB sector. It was known as Project Visarend.

"The man involved knew he was working on behalf of a South African security force. He did not, however, specifically provide the CCB with information," the affidavit said.

Mr Justice Harms forbade publication of certain parts of the affidavit.

Tim McNally, Attorney-General of the Free State, who is assisting the commission, said that sums of more than R400 000 had been spent on various projects.

Afcol improves gearing

Star 10/5/90 (58)

Finance Staff

Against a background of a steady decline in private consumption expenditure and highly competitive conditions, Afcol increased its turnover by 21 percent to just over R700 million for the year to end-March.

Attributable earnings rose by 12 percent to R46,69 million (R41,56 million), which translates into earnings a share to 190,3c (170c). A final dividend of 42,5c (40c) has been declared, making a total of 95c (85c) for the year, an increase of 12 percent.

Strict management of working capital demands contained the increase in net assets to no more than 10 percent despite the higher level of turnover, and gearing has improved to 41 percent of shareholders funds, the company said in a statement.

This is reflected in the R23,2 million improvement in cash generated by operating activities. As a consequence the group was able to restrict the increase in its net borrowings to only R4,6 million. Spending on investments totalled R16,6 million.

FM 11/5/90 (58)

Fedsure's Basserabie . . . growing life strains

FEDSURE FM 11/5/90 (58)

Lively growth

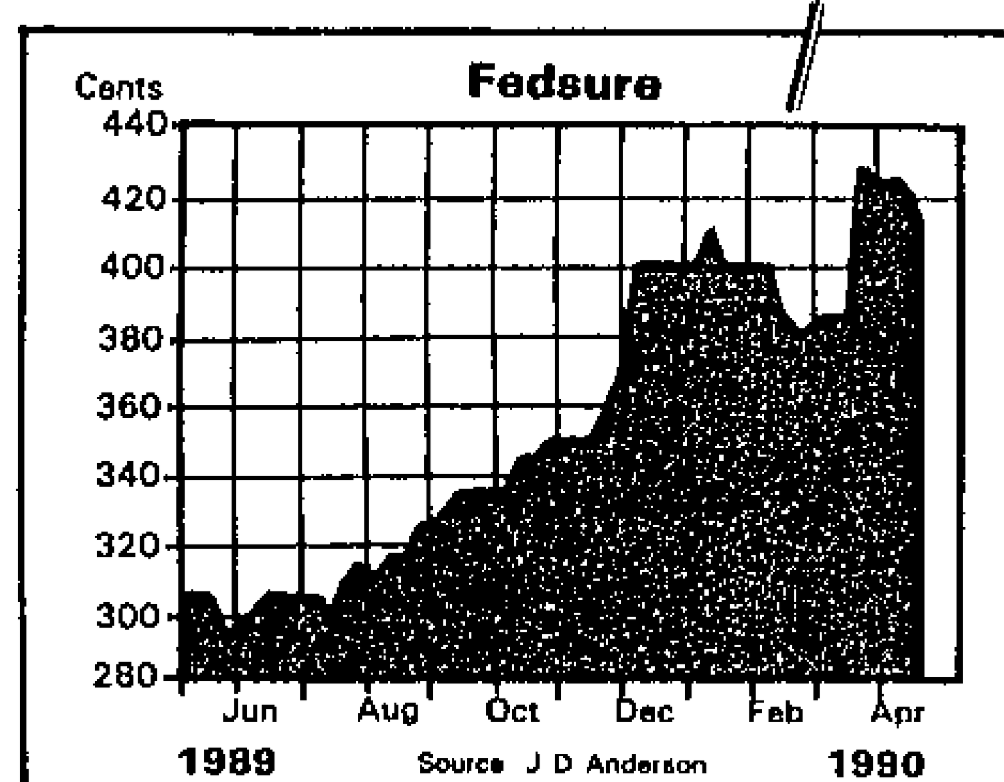
Activities: *Life insurance.*
Control: *A pool, including directors and construction industry organisations.*
Chairman: *J Barrow; MD: A Basserabie.*
Capital structure: *67m ords. Market capitalisation: R275m.*
Share market: *Price: 410c. Yields: 4,9% on dividend; 7% on earnings; PE ratio, 14,3; cover, 1,4. 12-month high, 470c; low, 290c. Trading volume last quarter, 374 000 shares.*

Year to Dec 31	'86†	'87	'88	'89
Total assets (Rm)	1 791	2 485	2 764	3 364
Gross premium income (Rm)	292	363	503	532
Investment income (Rm)	167	236	268	352
Taxed profit (Rm)	6,8	10	15,4	19,1
Earnings (c)	13,8	18,9	23	28,6
Dividends (c)	6	9,6	16,5	20,2
Net worth (c)	—	117	124	132

† Pro-forma

Steady growth in earnings and a high rate of new business written have been features of Fedsure since its listing in 1987. Last year, earnings rose 24% after 22% in 1988, while new life insurance and pension annual premium business increased by 50% after 35% in 1988.

This must create some business strain, but should make for even higher earnings in a few years' time. Group CE Arnold Basserabie says the R50m capital raised in 1987 has been sufficient to see Fedsure through this growth phase but adds more might be needed in a year or so.



Last year, total assets rose 22% to R3,4 bn ranking Fedsure sixth on assets in the life offices league. Life assurer Fedlife is Fedsure's only subsidiary and is held through Fedbel. Fedgen, the short-term company, is a relatively small investment and is accounted with other investments.

Fedgen's performance was poor last year as 1988's R1,6m underwriting surplus was converted into a R8,2m deficit. Basserabie says all short-term companies suffered underwriting profit reverses last year, but Fedgen's seems to have been particularly sharp even if it was struck after an additional R3,1m transfer to reserves. Investment income increased 42% to R12,5m, giving Fedgen an overall profit of R3,2m.

Investment emphasis at present is based on holding a large portion of new funds in cash earning comparatively high interests. The gilts portfolio is hedged on the options market. Uncertainty over SA's future has not yet affected the life market, Basserabie says, and Fedsure's new business was slightly ahead of budget in this year's first quarter and well ahead of the corresponding period of 1988. There might be some tendency to shift from investment to security products in the current climate, but that should not harm business and there has been no increase in lapses, he says.

Fedlife's main target markets are the A and B income groups and some upper C. It is particularly well entrenched in the black employee pension market, on its strong connections with employers, unions and industrial councils. Its moderate rating should improve over time if earnings continue to grow.

Teigue Payne

FM 11/5/90 (58)

BANKING FM 11/5/90 (58)

Ripple effect

More upheavals hit the financial services industry last week, with mass resignations from two institutions. Ten people, five from the computer division, are to leave Allied Group, holding company of Allied Bank and Building Society.

Most have plans of their own to pursue and two will join Nedcor's international banking division. Bankorp subsidiary Senbank is losing six people, five from its project and corporate finance division, who are negotiating with Discount House of SA about jobs.

Allied will not be affected by the loss of skilled senior staff, says senior GM Fritz Riesebcrg, who heads the computer division. "The people concerned are willing to work out their six-month notice, which gives us ample time to make other arrangements."

He says the move will not disrupt introduction of the cheque account. "The first phase of the cheque account, Transcheque, was introduced in April. The second phase will be launched in the last quarter."

In the past, senior staff has been paid out in lieu of notice but "that will not be done with these officials," says Rieseberg. "We will rationalise certain activities. Three posts will fall away and one will be combined with another. So only three vacancies have been created, two of which will be filled internally. The third will be filled by a highly respected ex-Allied man who will rejoin us."

Senbank will follow standard practice and allow those who have resigned to leave as soon as possible, says MD Doug Anderson. "This will be before the end of May."

Both institutions have had highly publicised departures of senior staff in the past. Given the general uncertainty ahead of new legislation, further shake-ups undoubtedly lie ahead — for the entire industry. A new Act to be passed later this year, is expected to extend the limits on holdings in deposit-taking institutions, which will open the way to major restructuring in all groups. ■

FINANCIAL SERVICES FM 11/5/90

One-stop shopping

Cape-based Guarantee Trust hopes to become the Pick 'n Pay of financial and administrative services by providing expertise to small and medium businesses through a nationwide network of franchises. (58)

MD Michael Johnson says his company offers services in accounting, financial reporting, taxation, computers, insurance, group employee benefits, wills and estate planning. Clients seeking investment advice and portfolio management are referred to African Finance.

Transvaal regional director Roger Voysey says some accounting firms already offer this range of services but "are usually very specialised or orientated toward the large corporate customer." The idea of franchising financial services is new in SA, he says.

There are 18 franchises now and plans for outlets in all major centres.

A parallel system called GT Black Enterprise is also planned — though no franchises have been sold — to tap an estimated 800 000 informal sector businesses. ■

F/M 11/5/90 58

BANK SECRECY F/M 11/5/90

Dirty linen

(58)

About 40 proposals for curbing money laundering by drug dealers are contained in a report released recently by the world's leading industrialised countries. The proposals include limitations on bank secrecy, closer international co-operation and better monitoring of movements of cash.

The report is the result of a nine-month investigation by a task force of finance ministries, Central Banks and enforcement agencies.

Initiated by the Group of Seven countries at their Paris summit last year, it was later expanded to a total of 15 countries and four international agencies.

Recommendations cover three broad areas:

First, banks and other types of depository institutions must report cash movements which they suspect might be drug-related. Second, banks must take better steps to identify their customers. Third, the report urges wider ratification of the 1988 Vienna Convention against drug trafficking, which commits signatory countries to make the laundering of money criminal and opens channels for mutual legal assistance.

Though 80 countries have signed the convention, only four have so far ratified it: China, the Bahamas, Nigeria and Senegal. It has to be ratified by 20 countries before it has any force.

One key aim of the convention is to lift the confidentiality constraint from banks in cases of suspected drug money laundering, thus providing the basis for monitoring and reporting. ■

PROTEA ASSURANCE FM 11/5/90

Changing odds (58)

Extending the parallel between short-term insurance and gambling (*Companies* April 5), Prosure provides an example of the odds shifting a little further in favour of policyholders. As a result, the company incurred a small (R1,2m) underwriting loss during 1989.

Seen against net short-term premiums of almost R151m, this hardly rates as policyholders hitting the jackpot. But it does underline the fact that the fortunes of the short-term insurance industry are materially affected by relatively small changes in the ratio of claims to premiums.

In Prosure's case, the deterioration in un-

FM 11/5/90 (58)

Activities: *Composite insurer conducting both short-term and life business.*
Control: *Sun Alliance Group Plc holds 79%.*
Chairman: *C L Walton; MD: A R Crank.*
Capital structure: *7,9m ords. Market capitalisation: R144m.*
Share market: *Price: 1 825c. Yields: 2,9% on dividend; 9,4% on earnings; PE ratio, 10,6; cover, 3,3. 12-month high, 1 850c; low, 900c. Trading volume last quarter, 29 000 shares.*

Year to Dec 31	'86	'87	'88	'89
Total assets (Rm)	189,3	213,3	263,5	354,2
Solvency margin (%)	97,0	91,2	110,7	138,3
Net premiums (Rm)	104,7	120,8	127,2	150,7
Underwriting profit (Rm)	(4,5)	3,1	3,0	(1,2)
Inv Income (Rm)	9,3	12,8	14,3	19,6
Pre-tax profit	4,8	15,9	17,2	18,3
Earnings (c)	64,5	139,8	149,3	172,4
Dividends (c)	23	36	46	53
Net worth (c)	1 291	1 401	1 791	2 651

derwriting from a surplus of R3m in 1988 to a R1,2m loss was fully covered by the growth in investment income, with the result that earnings and dividends still managed to grow marginally faster than the inflation rate. At the same time, however, the move from an underwriting surplus to a loss was sufficiently marked for chairman Cedric Walton to comment that the results "show that the market is presenting us with problems that require serious attention."

He concedes that Prosure was following industry trends in holding back on "justifiable rate increases that were obviously necessary" with a view to avoiding loss of market share. But in the wake of the 1989 results and, what is in a sense a short-term fix, the company has accepted the necessity of increasing rates even though this might result in some loss of business.

The longer-term solution — for Prosure and the industry as a whole — is to upgrade data processing facilities to allow more accurate risk assessment and hence, rate setting. In Prosure's case, Walton notes that a detailed study of future computing requirements is now under way, to be followed by an upgrading of equipment over the next few years.

While improved risk assesssment must obviously be beneficial to the industry, no amount of computer equipment will enable insurers to predict with any more certainty than is the case now, the incidence of abnormal claims conditions and will not, therefore, completely eliminate the swings in the fortunes of these companies. For example, the present phase of rate-cutting, which is now coming to an end, was materially reinforced by an abnormally low claims experience in 1988, whereas strong profits can normally be expected when rates have been set after a period of unusually high claims.

If one accepts that short-term insurers are never likely to achieve consistent growth in their underwriting results, it is equally important to recognise, firstly, that the insurer (like the casino operator) invariably wins in the long term, secondly, that through an accumulation of winnings over the long term these companies have amassed enorous as-

FM 11/5/90 (58)

set bases and, thirdly, that it is the investment income derived from these accumulated assets that mainly dictates dividends and, hence, the investment merits of these companies.

Gross investment income at R19,6m, up from R14,3m in 1988, is now approaching five times the annual cost of dividends, from which it can be concluded that the risk of dividends being cut as a result of short-term deterioration in underwriting profits is minimal.

This considerable safety-margin may be one reason why Prosure, on a 2,9% historic dividend yield, is one of the most expensive shares in the sector at the moment. The rating is justified, but holders should bear in mind that the downside risk inherent in the current price is considerable should market perceptions of the sector deteriorate. They should also note the potential price volatility due to limited trading. *Brian Thompson*

F/M 11/5/90 (58)

FINANCIAL MARKETS F/M 11/5/90

Moving goalposts (58)

Level playing fields should ideally be achieved in one clean legislative sweep. Regulation of function rather than institution is intended to leave participants with separate but equal opportunities. The practice is, however, turning out a little different.

As events overtake intentions, changes are made piecemeal because developments require immediate action. This is probably unavoidable, given the complexities of redrafting crucial legislation and the speed with which financial markets, locally and internationally, are changing. Nevertheless, it creates uncertainty among institutions and their shareholders about the particular mix of business that will prove most profitable.

The recent controversial decision (*Economy* April 27) to bring banks' repurchase agreements (repos) on to the balance sheet is the latest in a series of changes under way since the mid-Eighties. The problem it creates for banks is that, unlike non-banks, they will have to hold a certain ratio of cash and liquid asset reserves against them. So, for the moment, they are wide open to what seems unfair competition.

Reserve Bank Governor Chris Stals sees this as appropriate. Some weeks ago he told the annual conference of the Pensions Institute that there was a fundamental difference between non-banks, on one hand, and banks and building societies on the other. The last two have the privilege of holding a "licence" to manage the money supply of the public. "As such they must at all times hold the full confidence of the public."

This is why they must comply with prudential requirements.

There are two separate issues, says Banks & Building Societies Registrar Hennie van Greuning. One is whether they should be on-balance sheet. "And there is no reason why they should not be as they are funding mechanisms and, therefore, incorporate the same risks to banks as any other funding."

The other issue is the degree of risk they represent — and this depends on the underlying instrument."

Some in the market believe that by the time new legislation is finally in place cash and liquid asset requirements will have been adjusted to take into account the risk weighting of repos. At present, the level of cash and liquid asset reserves required is determined solely by term of the liability.

This is not necessarily the most effective way of providing for cash outflows. The Bank of England bases its requirements on the level of expected short-term cash outflows including repos.

Van Greuning . . . some risks

Reserving requirements are consequently far lower than SA's.

If SA banks were allowed to reserve on a similar basis, it could neutralise the impact of reserving against repos.

Alternatively, other participants in the market — assurers and securities dealers — may be similarly penalised by legislation which will control markets and their functions rather than institutions. How the sets of legislation will dovetail must still be determined ■

New banknotes: Jannie gets his gun out

B Day 11/5/90

GRETA STEYN

SA's money supply will go wild after a Cabinet decision to ditch the portrait of Jan van Riebeeck on banknotes in favour of a more African approach.

A statement released by Reserve Bank Governor Chris Stals said yesterday the "big five" animals would be the main motif on the new banknotes, the first of which is to appear late in 1992.

The green R10-note will have a rhino as motif, the brown R20 will feature a buffalo, the red R50 a lion, the blue R100 an elephant and the orange R200 a leopard.

The respective notes will feature agriculture, mining, manufacturing, tourism and transport and communication as secondary themes.

Inflation is one reason mentioned by Stals for a new range of banknotes. The demand for notes had put pressure on the productive capacity of the SA Banknote Company. "Domestic economic growth combined with the relatively high rate of inflation caused a substantial increase in the number of notes in circulation."

The R5-note, which like the R2 has a short lifespan, will also be replaced by a coin and the emphasis shifts to higher denominations (R100 and R200) to decrease the number of banknotes in circulation.

The designing phase of the project is now under way. The Reserve Bank envisages issuing the first banknote in the new series, the R50-note, in October 1992. This will be followed at intervals of about six months by the issuing of the R20, R10, R100 and R200 denominations respectively.

The main reason for issuing the new series was security, Stals said. The current series of banknotes was introduced in 1978, and subsequent developments in technology had made counterfeiting easier.

Call on govt to urge creditors to re-invest

Cape Times 12/5/90 (58)

By AUDREY D'ANGELO
Financial Editor

NOW that foreign governments acknowledge changes are taking place in SA, foreign creditors should be asked to aid the reform process by investing in new industries which would provide badly needed jobs.

Issy Goldberg

Suggesting this, the chairman of the Shareholders Association of SA, Issy Goldberg, said yesterday that these investments should be completely free of risk.

The government should guarantee dividends or interest that would give a higher rate of return than the investors could obtain elsewhere, regardless of whether or not the venture was profitable.

The new factories should be controlled and managed by a trust company, not the government. Each foreign creditor would have equity and board representation in proportion to the debt owed to him.

"SA owes $20bn inside and outside the net," said Goldberg. "It would be a wonderful thing if, instead of repaying this in foreign currency — and having to restrict our growth rate to do so — we could use even half this money to create new jobs.

"Now that such people as the President of France are acknowledging the progress being made, we can hope that overseas governments will withdraw their objections of loans to SA.

"The beauty of asking foreign creditors to invest in new industries is that we would not be asking them for new money, just to re-invest what they already have in SA."

Similar suggestions have already been put forward by South American countries with huge debts to US and European banks. "But we are a better credit risk," said Goldberg, "because we always repay our debts.

"What we are asking our creditors to do is to become partners in the reform process — without risk.

"All the political rights in the world are not going to help if people have no jobs and no homes.

"People who advocated sanctions and disinvestment, and refused to lend to SA, did so on the grounds that this would pressure the government into change.

"Now that changes are taking place we should ask them to prove their sincerity by using their money to help provide employment and better living conditions for the majority in SA.

"High interest has to be paid to these creditors in any case. It would be well worth paying a premium for investment in new industries.

"The creditors could advise on setting these up and running them, sure of a good return even if they do not make profits for a year or two while they are being established.

"The industries could be tailored to the creditors' requirements, making goods for them to export if they wish."

Old ball game at post-Ball FNB

Sowetan 15/5/90

By Julie Walker

FIRST National Bank managing director Barry Swart showed his cards to investment analysts this week — and won their unanimous approval.

Banks are often slated for their paltry disclosure and pathetic communications with investors. But Mr Swart gave the whys and wherefores with such authority that Investors lifted the JSE price of FNB shares by 275c — 11% — to R28.

The rise quickly redressed one of Mr Swart's comparisons — that FNB's price-earnings ratio lagged behind the other banks in spite of its superior performance and sparkling-clean off-balance sheet. The old Barclays always outpaced the index, but FNB has lagged behind.

Restored

Mr Swart says: "Too many people (at FNB) were marching to the beat of different drummers."

His secret has been to restore the culture which his predecessor Chris Ball tried so hard to change.

One of the biggest problems Mr Swart inherited in January 1989 was duplication — one example, the group had three treasuries.

BARRY SWART ... too many drummers

In many cases, divisions were closed, merged or rationalised to cut costs.

Non-interest costs were growing by 29% a year while non-interest revenue picked up only 9%. This widening gap laid siege to hopes that the group could be No 1 among banks.

Both these trends changed when Mr Swart took over. Staff numbers were reduced by 1 300 without affecting service or efficiency.

The bank itself contributed 59% to the much-improved interim profits to March. Wesbank chipped in 18%, First Corp (now a division, no longer a separate bank) 6%, associates — largely Southern Life — 10%, and others 7%.

FNB's return on assets (ROA) topped 1% in the 12 months to March 1990. It was 0,6 in 1985 and 0,9 in 1989. Return on equity picked up to 23,4% from 12,7% five years ago.

Dividend cover has been increased to three now that the foreign shareholder no longer requires handsome payouts. Cover was 1,8 times in 1985.

Mr Swart shows that a two-thirds retention of earnings is needed to maintain a capital-to-assets ratio of 5,5% at ROA of 1%.

Only the United Bank with 1,18% has a superior ROA. FNB's return on equity is SA's best.

Mr Swart is proud of these achievements, but not of the bad-debt position — "a quarter of a billion bucks is too much".

It represents 0,86% of total assets, and Mr Swart believes it should be no more than 0,4%. Another R125-million to the bottom line would please everyone.

Risk

He says the bank forgot how to lend. All staff members who lend are now attending courses on how to imbue a new credit ethic and to manage risk properly.

Mr Swart refers to securitisation as a possible route for raising capital in future. His example is the parcelling up of, say, R100-million of mortgage bonds and selling to a financial institution, retaining management.

He says the institutions need new avenues for their cash instead of central-business-district properties and the top 20 shares. Securitisation could provide one.

Asked if he thinks the bank can manage such scenarios and still give the buyer a good return, he says he did so in New York to good effect.

Millstone

Mr Swart is all in favour of Bank City, which is to be built in Johannesburg. Administration staff members are housed in 25 buildings, several of which are unsuitable. A lift was taken out of one to make space for computer cabling.

In Bank City, employees will occupy fewer square metres a person and duplicate support structures will be eliminated.

Mr Swart is happy to shed another millstone — FNB's lavish-spender image. Block A of Bank City is owned by the Old Mutual, and a sale and lease-back is likely for Block C.

The problems with the bank's much-maligned Hogan computer system are being chipped away.

Rudman's target investors were black people with a few thousand rands

monthly divi

But Mofo

READERS' HOTLINE

Helping you with your problems
PO Box 548 Kengray 2100

Watch for bogus agents

HOUSING fraud seems to be on the increase in the Johannesburg area again.

In the past few weeks, more than a dozen readers have complained to *City Press* that bogus estate agents have disappeared with deposits they have paid for houses in Soweto and other townships.

Taxi driver Elias Mbethe paid his life savings to bogus agent Emmanuel Lidimo. Lidimo told Mbethe he had a house for sale – and that he needed R20 000 in cash to give to the sellers.

Mbethe paid the R20 000 and then found out the house had been sold to someone else. The new owners had already taken occupation.

Johanna Mchunu also paid money to Lidimo's bogus estate agency, Lidimo Estates. Lidimo promised her a new house in Soweto and asked for a deposit in advance. She paid R5 700... then Lidimo disappeared from the offices he rented in Johannesburg.

City Press has established that Lidimo is being held in custody on unrelated charges of cheque fraud.

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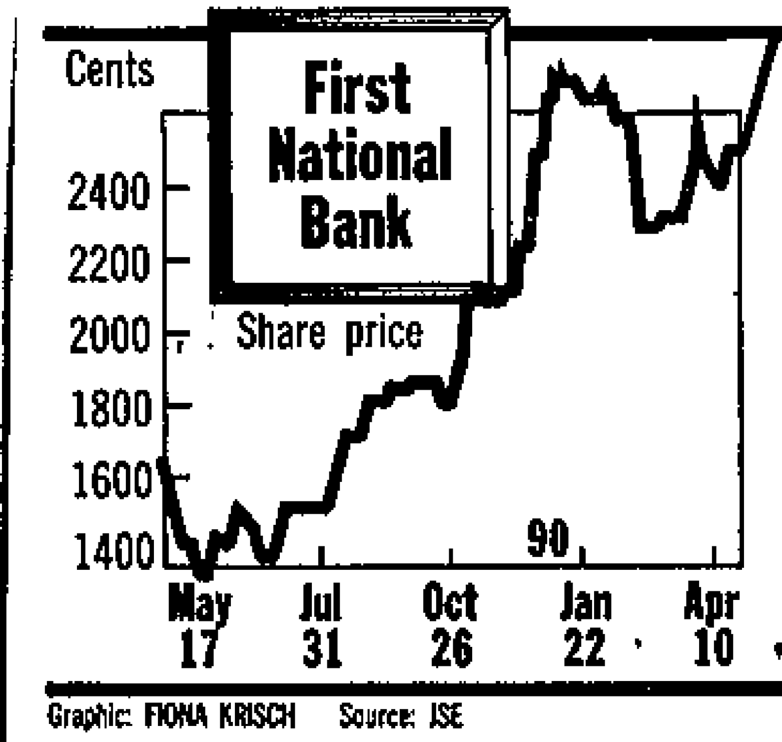
Speculation over 11% rise in First National share



GRETA STEYN

FIRST National Bank's share price notched up a remarkable 11% increase in one day on Friday to 2 800c — more than double the low of 1 350c reached almost a year ago when it was plagued with management problems, surging asset growth and computer problems.

While the dramatic move sparked some speculation that the group might be poised to take over a building society, the main impetus to the spurt appeared to be MD Barry Swart's presentation to the Investment Analysts Society this week.

He impressed analysts with a detailed and honest analysis of the group's past, present and future, and said it had been under-rated compared with major competitors and the rest of the sector.

Before Friday's jump, First National's p:e was 6% — compared with the Standard's 7,6% and UBS's 8,6%.

First National's performance was the most dramatic in a general reversal of recent softness in bank shares. In the week, Standard gained 150c to R26, Nedcor rose 25c to 1 025c and UBS climbed 30c to 610c.

Positive factors for First National's re-rating include a strong perception in the market that it is sitting on cash that it lends out at high rates to banks that are short.

Analysts said Swart's presentation showed the group had managed its assets and liabilities in such a way that its margins had improved.

Standard to back out of Safex deal

(58)

ROBERT GENTLE

STANDARD Bank has informed the SA Futures Exchange (Safex) it will not use the soon-to-be-opened R3,5m floor of the exchange because it is too expensive.

The move — disclosed at the weekend by Standard Bank division GM John Lloyd — comes despite a signed commitment to support the floor, and appears likely to rekindle the floor versus screen debate.

The concept of a dual floor-screen system was first mooted last year as a compromise between the JSE and the largely pro-screen institutions.

Lloyd called the move a reassessment of Standard's earlier view that it could afford to run both an in-house screen operation and a remote floor operation.

"We believe it will be too expensive, especially in terms of rental, staff and communications equipment. Anyway, present turnover levels do not warrant using the floor."

Standard believed the future lay in an automated screen trading system which would be established eventually. To this end, Standard remained fully committed to the futures market and wished it success.

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Safex CE Stuart Rees said Standard's letter signalling its intention to abandon the floor was under consideration by both Safex and the Bond Market Association.

The two groups are jointly responsible for the floor, which is nearing completion in the JSE annexe and will eventually house trading in both futures and gilts.

Feeling the pinch of economic vice

(58)

B/Day 14/5/90

GRETA STEYN and
GERALD REILLY

REPOSSESSIONS of new cars are rising dramatically, the number of liquidations are surging from last year and more people are battling to hold on to their homes as the economy sinks further into a downturn.

Liquidation figures for the first quarter indicate that stringent measures taken to cool the economy are biting. The number surged by 40,5% from the first three months of last year and was 13,6% up on the last quarter of 1989, according to Central Statistical Service (CSS).

Information Trust Corporation chairman Paul Edwards said the signals clearly indicated that the brakes were on. But the statistics should be seen as coming off last year's low base — the lowest since 1982. The reality was the economy was adjusting.

Further evidence that high interest rates and a slack economy are knocking consumers comes from the hire-purchase banks. Car repossessions have escalated to about 600 a month in at least one individual bank's case. A survey of HP banks yielded estimates of an increase in repossessions from 18 months ago, ranging between 15% and 50%.

Stannic MD Gutch Vickers put his bank's increase at about 15% "off an extremely low base 18 months ago. The really big problem was late in 1986. The situation will get a little bit worse before it gets better, as interest rates are expected to stay high for longer".

Wesbank senior GM Neville Nightingale said there had been a marked increase in repossessions.

"But the experience is to be expected, given the current point in the business cycle. We are still quite comfortable with the situation. Although the upward trend will continue for some time, we are nowhere near the disaster of four years ago."

On the property side, notices of sales in execution in the latest Government Gazette total about 130 — compared with about 80 in September 1988. UBS home loans manager Piet Kruger said the problem was bad in some regions while in others there was nothing to worry about.

The Allied's Geoff Bowker said: "I would not say we are over the hump yet, but for the first time in months a smaller number of homeowners had to bail out last month."

Although the downturn is hitting consumers and business alike, the economy is not likely to sink into a recession. CSS also released encouraging figures at the weekend — the number of insolvencies decreased by 19,6% in the three months to end-February compared with the previous three months.

Building societies and banks say the demand for home loans continues at a relatively high level.

FINANCE

Scarcity of investors is major market problem

RATES can hardly be expected to move in an all-but-stagnant money market. Occasional whispers of rumour might ruffle the surface slightly, but at depth there is little movement; the market is too tightly controlled. Or should one say regulated?

A major problem confronting the market is the scarcity of investors. With the really-wholesale call rates ranging between 18,25% and 19% (with the Big Five enjoying the finest rate and the other scaled upwards), institutions are still expecting bonus rates for the "risk" of locking into CDs (negotiable certificates of deposit) for 12 months, or even six months.

The banks, on the other hand, are reluctant issuers. It would seem that Treasury managers are still hesitant to take a firm view on the future trend of interest rates, possibly because of the headlock in which Standard found itself at the beginning of the year.

Even bankers appear to suffer from the sheep syndrome; they wait for a leader for the flock to follow. Or maybe they are too myopic to see that the leaders are already way ahead of the flock.

There is a consensus view that Bank rate might be eased by one percentage point from 18% to 17% towards the fourth quarter, reducing prime to 20% from 21%, yet

IN THE MONEY MARKETS

Harold Fridjhon

they hesitate to issue CDs in volume at the future prime rate.

They appear to overlook the difference they would gain from the lower cash reserve requirements between call money and 12 months deposits; it is worth one full percentage point in the bank's favour.

And meanwhile what is the Reserve Bank doing about the R1,5bn liquidity which will flow into the market tomorrow when the RSA 9,5% 1990 stock matures on the same day that government salaries are paid?

The market shortage — currently about R2,9bn — has been abnormally low this month and the rush of funds into banks might even eliminate it — which would not please the Governor.

I understand that some 13% 2005 stock has been tapped into the market, but he will need a bigger sponge than that to mop up the surplus liquidity.

African Bank coming right

Star 14/5/90 (58) (85)

By Jabulani Sikhakhane

After some disconcerting happenings in the past few years, African Bank shareholders can now afford a smile.

Although the bank is still undercapitalised, figures for the six months to March 1990 show the bank is now on a sounder footing.

If the current trend is maintained, directors forecast a dividend higherthan last year's 5c.

Net profit after tax doubled to R495 975 from R242 735 in the previous comparable period.

After paying R210 000 for preference dividends, the bank's retained income was eight times higher at R285 975 and this helped boost retained income at the end of the period from R108 845 million to R461 145 million.

The return on the bank's total assets was 1,2 percent higher than most other banking groups, while the bank's assets grew 22,1 percent to R182 million.

Directors attribute this perfomance to tight control over operating expenditure, sound management of the interest turn and the adoption of a more selective lending policy to improve the bad debt position.

The bank has also begun to implement the first phase of its five-year strategic plan. Two branches were opened in Durban and Tzaneen recently.

In line with the bank's policy to shift from the expensive wholesale funds to retail deposits, the growth in assets was largely funded from retail deposits.

Deposit spread

Acting chief executive Jack Theron said recently he would be more content with a spread of 40 percent wholesale funds and the rest in retail and savings funds.

Finance and treasury general manager Ishmail Mammoojee confirmed the growth in assets had been funded mainly from retail deposits.

The bank's ordinary share capital also grew over the period, but at a far lower rate than the comparable period to March 1989. It was up only R41 000, against the pervious period's R263 000.

This is disappointing in view of the improved 5c dividend paid last year.

Mr Mammojee suggests this is due to poor marketing of the AB's image.

To improve the bank's current capital structure, the bank is considering a number of options.

In the latest annual report bank chairman Samuel Motsuenyane bemoaned the fact that the current capital structure compelled the bank to pay a large proportion of its taxed profits to the holders of preference shares, a factor which operated harshly against ordinary shareholders.

A black-owned private enterprise had offered to take over all the 750 000 16 percent cumulative redeemable preference shares and have them converted into ordinaries at their redemption date in November.

However, this proposal was not acceptable to the bank as it would have distorted the bank's share spread.

At present 67,7 percent of the bank's ordinary shareholders own between one and 500 shares and 17 percent between 501 and 1 000, while preference shares account for 15,3 percent of the bank's share capital.

Star 14/5/90

Rent boycott group teargassed on East Rand

Teargas was fired — allegedly by policemen — into a crowd gathered yesterday at the Tokoza stadium on the East Rand where civic association leaders reaffirmed their commitment to a rent boycott in the township.

A police spokesman, Colonel Jac de Vries, said last night police knew nothing about this incident.

The teargas was fired from outside the stadium.

No reports of injury following the attack were received. The meeting continued.

Several thousand Tokoza residents gathered illegally for a report-back meeting on the rent boycott, and to hear about the latest developments on a commission of inquiry into alleged maladministration and corruption in the Tokoza Town Council.

Boycott continues

Tokoza Civic Association executive member Cassel Khanyile said:

"Tokoza residents want to know what has happened to the money — about R1,6 million — that has been misappropriated. The boycott continues until we get answers."

The approximately 4 000 people who gathered at the stadium were told that negotiations were under way for Tokoza to be able to buy electricity directly from Eskom, as opposed to the Alberton municipality.

The ANC's internal leader for the Vaal Triangle, Greg Malebo, said the ANC had become involved in talks about talks in response to President de Klerk's meeting of some of the organisation's demands.

"He (De Klerk) is struggling somewhere in the Rubicon. The ANC in turn has to do something and move the situation on to a moral high ground and we will continue to do so with or without the PAC," he said.

The Democratic Party's Dr Etienne le Roux from nearby Alberton received overwhelming applause when he told the gathering:

"I am here to tell you that even in Alberton there are non-racial democrats who are on your side. Let us build a new country we can all be proud of."

Tokoza Civic Association leaders warned at the meeting that the "talks about talks" between Government and the ANC could be jeopardised unless the Government ordered the Transvaal Provincial Administration to disband "illegitimate" town councils.

Speaking at the meeting, TCA executive member Sam Ntuli said community leaders wanted Government and local government officials to know talks would not continue unless the TPA-appointed administrators of the township resigned.

Government officials

"We are not prepared to talk to you (government officials) unless you tell the TPA and those people it supports to resign," Mr Ntuli said.

He called on residents to join and support the ANC, which he described as the political party of the TCA.

The crowd was told that a TCA delegation had been involved in talks with the newly appointed administrator of Tokoza, Gert Muller, who runs the township with a number of former Tokoza councillors after the recent collapse of the town council. — Sapa.

Volkskas policy pays off

Diagonal Street

ANN CROTTY

Strong growth in mortgage lending and in HP and leasing activity were the balance-side features of Volkskas' 26 percent hike in earnings per share 270c (214,2c) for the 12 months to end-March.

The increase in dividend payment was restricted to 15,4 percent (up from 78c to 90c a share) as the group pulled dividend cover up to three times (2,7 times) — a level at which management feels comfortable.

The financial 1990 year-end figures reflect improvement in two of the group's critical profitability ratios — return on equity (RoE) is up to 14,4 percent from 12,6 percent and return on assets (RoA) edged up to 0,73 percent from 0,7 percent.

Management has targeted 20 percent RoE and one percent RoA for end of financial 1991, so there is still considerable scope for more improvement.

With interest margins under pressure for much of the 12-month review period — particularly during the last three months of the financial year — most of the increased profitability came from tighter control of costs.

Improvement on this front was helped by the growth in the group's asset base — management was able to hold the proportionate increase in costs below the proportionate increase in the asset base.

By contrast, reduced interest margins had a negative effect on profit margins.

During financial 1990 operating income rose 23,5 percent to R292,8 million (R237,1 million). After providing R118,5 million for doubtful debt (22,7 percent up on the previous year's R96,6 million), the group showed a 24 percent advance in pre-tax profit to R174,3 million (R140,5 million).

Tax took R59 million (R50 million), which meant that taxed income was up 27,4 percent to R115,3 million (R90,5 million).

After allowing for associates and minorities, Volkskas' attributable income was 26,6 percent up at R115,2 million (R91 million).

The balance sheet shows that Volkskas has taken a contrary view to most of the other major banks in terms of growth in asset base. It has increased its assets by 30,9 percent to R20,5 billion (R15,6 billion).

This is significantly ahead of the 19 percent increase in money supply that has been provisionally reported for the year to end-March.

It is also well ahead of the 16 percent increase in total assets reported by Nedcor. And it is in sharp contrast to the actual decline reported by First National Bank.

Volkskas' enlarged asset base is in line with the group's decision to lift its share of the home loan market and of the HP and leasing market.

Chief executive Danie Cronje says the group's customer base was at risk because it had not been able to offer a full banking package.

Most of the additional business was done with the bank's existing client base as management adopted the policy of going aggressively for cross-product selling.

Of the approximate R3,3 billion increase in advances, about R1 billion went to HP and leasing (reflecting a 46 percent increase to R2,9 billion). Around R750 million was directed to home loans (up 96 percent to R1,5 billion) and R1,4 billion to cheque accounts.

The hike in HP and leasing activity has so far been achieved from the group's existing customer base.

But during financial 1991 management plans to take a more agressive stand in the "wheels" market and get involved directly with motor dealers.

On this front and in regard to mortgage activity, Mr Cronje is confident that the chase for market share will not have to be paid for by a later hike in bad-debt experience.

He says the group's control systems are being maintained in the granting of credit in these areas.

For financial 1991, Mr Cronje believes that the general fall in credit demand will be accompanied by an easing of interest rate margins as interest rates soften in the last quarter of calendar 1990.

B/Day 15/5/90 (58)

Analysts back property as an investment 'banker'

CHARLOTTE MATHEWS

AN INVESTMENT in property should be part of any portfolio because although the total return is not as high as yields on equity investment, risk and fluctuations are lower, according to analysts.

There are two property sectors on the JSE, property itself and property trusts.

Property share and property trust unit prices move according to market demand as do any other shares.

Property shares pay a dividend and property trust units pay debenture interest. Some companies, such as Amaprop, offer linked units of shares and debentures.

Frankel, Kruger, Vinderine property analyst and BOE Properties director Nikki Vontas said the investor should weigh up performance in both capital and income when evaluating a property investment.

"Income performance is definitely higher than equity income," he pointed out. "Property share prices are not affected only by anticipation of earnings to come, as are equity prices.

"Property shares also reflect anticipation of what will happen to rentals in the next 18 months."

Vontas showed that property shares did not crash at the same time as other JSE companies in October 1987, but took a series of small knocks over a longer period.

This was confirmed by Max Pollak & Freemantle analyst John Rayner.

"The property index is far less volatile than the stock market. It appears to move only after a strong movement in the equity market."

Average

Vontas said property investment should not be used to compete against equity but as an element of the diversification of risk in a balanced portfolio.

Rayner said property trusts had shown a total average return of 16,5% a year over the period January 1980 to November 1989 compared with 20,9% for the financial and industrial index and 15,1% for the all share index.

"These returns compare to the annual average inflation rate of 14,4% a year for the comparable period.

"The initial yield from properties is higher than that from equities so provides more certainty as regards income flow."

The three analysts canvassed emphasised that a property investment requires a long-term view.

"You won't get good capital growth by investing for six months," one said.

"But if you invest for two to three years, you will show a fairly good return."

She said an investor should choose property shares carefully.

"Go for those that are well managed with sound portfolios and offer satisfactory future growth.

"The whole sector will show fairly good growth this year because of lease reversions and the negotiation of more favourable terms and because properties are generally well tenanted and well let."

Vontas added it was the timing of the investment that was paramount for both property and equity.

"The property cycle is longer and does not coincide with the business and JSE cycles."

Volkskas turns to car financing

GRETA STEYN (58)

VOLKSKAS Industrial Bank (VIB) has retrenched 14 employees in a rationalisation move ahead of changing its main target market to car financing — away from being narrowly focused on corporate banking.

A spokesman for Volkskas Group said the new focus of the banking subsidiary had resulted in the Pretoria office of VIB being closed. As a result, 12 people had lost their jobs. In Bloemfontein two people had been retrenched. The retrenchments were "strictly in accordance with labour legislation and were done in consultation with the union".

VIB will remain in the HP and leasing business for corporates but intends to go for the man-in-the-street "wheels" market in a big way. In direct competition with Stannic, Wesbank and Santambank, the bank will now also have a presence at car dealers.

The VIB move underlines the competitive nature of corporate banking where margins are paper thin. It is the second bank to discover that a bank targeting industry alone is not viable. First National Bank Group closed First Industrial Bank and moved its operations into the corporate banking division last year.

Volkskas recently moved its head office to Johannesburg and said it wanted to go beyond being just "the Afrikaner's bank".

Volkskas earnings up 26%

BARRY SERGEANT

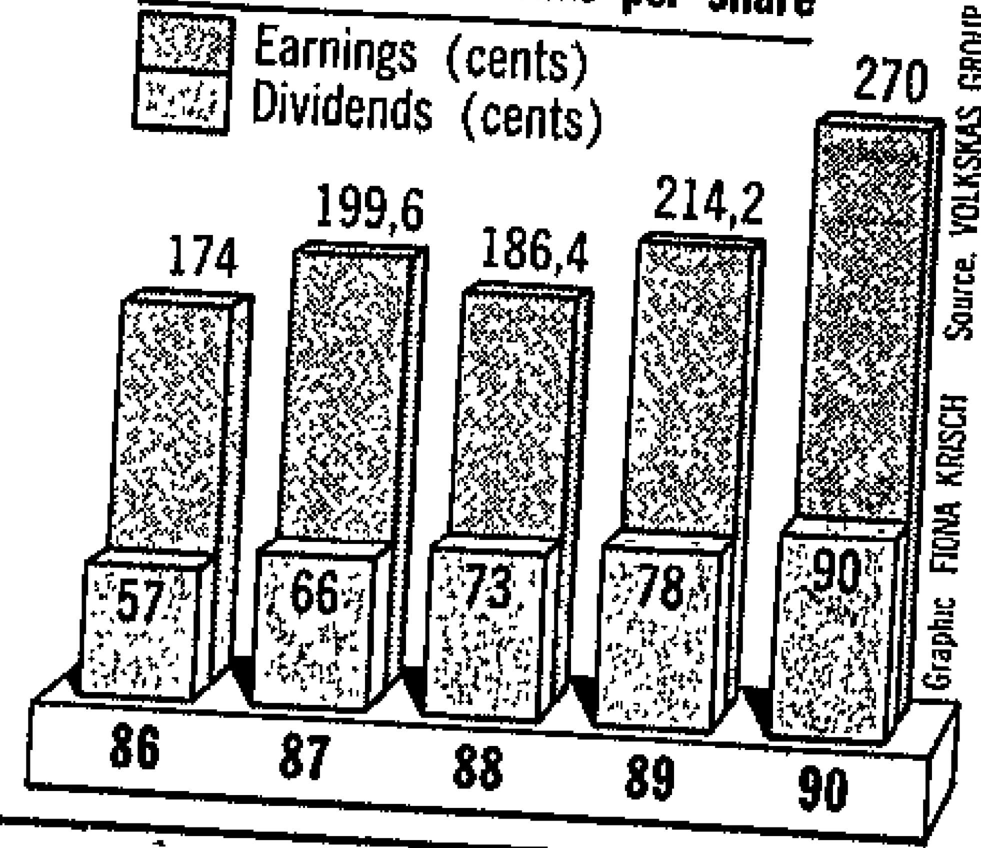
VOLKSKAS, which has moved to greater disclosure in its annual results for the year to end-March, has increased its earnings per share by 26,1% to 270c and its dividend by 15,4% to 90c.

The results were level with expectations, said David Southey of stockbrokers Edey Rogers & Co.

Analysts predict an upward rerating of the group's share price, despite a dilution of its capital base.

Annual figures include Volkskas's bad debt provisions and taxation for the first time. Said Ed Hern, Rudolph's Alan McConnochie: "The new disclosures help remove uncertainties and will help greatly

□ To Page 2



Volkskas

□ From Page 1

in understanding what the share is worth."

Assets were boosted 31%, well above recent figures for other "Big Five" banks. The effect was to dilute Volkskas's capital:asset ratio to 3,8% (4,3%), below the most recent figures for Nedcor, Stanbic, UBS Holdings and NBS Holdings.

Southey said Volkskas's "capital was starting to look a bit thin". Group MD Danie Cronjé agreed that the 31% total assets growth to R20,5bn was "excessive".

But Cronjé pointed out that during the year, Volkskas had been involved in major marketing drives "particularly in mortgage bonds (up 96% to R1,5bn) and instalment credit (up 46% to R2,8bn)".

He said proposed new banking legislation — expected to require better capital:assets ratios — would not present Volkskas any great problems in the short- to medium-term. Ordinary shareholders' funds were up — at a sub-inflation 12,4% — to R845m. The dilution in the capital:asset ratio was stemmed by dividend cover moving up to the targeted 3 (2,7) times.

Cronjé said in the short- to medium-term, Volkskas still had the full option of raising debentures, which might constitute 20% of capital.

Southey said the second-level of phasing-in capital adequacy requirements — initiated internationally by the Bank of International Settlements — would see the capital:asset ratio moving up to around 8%, including contingencies.

The share is currently trading at its large traditional discount to net asset value, a significant 39% yesterday.

Whereas previously Volkskas showed only operating income after taxation and bad debts, its latest income statement shows provisions for doubtful debts up 23% to R119m (R97m). Taxation of R59m (R50m) means its rate slips to 34% (36%).

Analysts said the latest results still indicated a sub-industry average return on assets, despite this measure rising a third to 0,64%. Return on average ordinary shareholders' funds increased to 14,4% (12,6%).

Cronjé said real growth was expected on the balance sheet and the income statement in the year ahead. Volkskas has taken a view that interest rates are likely to peak around the third quarter.

Anglovaal may take up stake in Crulife

LINDA ENSOR (58)

ANGLOVAAL, which holds 41,6% of AA Life Group, could be looking to expand its interests in the life insurance field by taking up a stake in Crusader Life.

A cautionary announcement issued today says that AA Life Assurance Association, the unlisted operating subsidiary of AA Life Group, is holding talks with Crusader Life, which could have an impact on their share prices.

The announcement says the proposals under discussion would not affect the activities of the two assurers, which would operate independently.

Crusader Life, which is listed on the JSE, is about 63% owned by the listed Crusader Life Holdings. B Day 15/5/90

A link-up between the two assurers would make sense on a number of fronts. AA Life does not have a medical insurance arm which is Crulife's field of expertise; both have direct marketing arms but Crulife, unlike AA Life, does not have its own field force; AA Life has its own investment arm and a pensions division whereas Crulife does not, and it also has a nationwide alive real-time computer network.

Anglovaal entered the financial services arena last February when it took up 41,6% of the shares in AA Life Group through a rights offer to raise R30m.

If a deal with Crusader is concluded, it could indicate a move in future into other aspects of the financial services industry, with banking a medium term possibility.

Volkskas lifts income 26,6%

Cape Times 15/5/90

Financial Editor

THE Volkskas group lifted attributable income for the year to March 31 by 26,6% to R115,2m from R91m in 1989. The final dividend is 65c (56c) a share, making a total of 90c (78c) — a rise of 15,4% — with an increased cover of three times earnings.

Pointing out that this was achieved in difficult conditions, the directors disclose that they have increased provision for doubtful debt by 22,7% to R118,5m (R96,6m).

In spite of this, advances made by the group in the past year rose by 30,8% to R13,9m and it is planning to widen the scope of its activities.

Operating income in the past year rose by 23,5% to R292,8m (R237,1m) and net income before tax to R174,3m (R140,5m). The tax bill rose to R59m (R50m).

Net income after tax was up by 27,4% to R115,3m (R90,5m) and income from associated companies by R5,5m (R3,5m).

Earnings per share were 26,1% higher at 270c (214,2c) on an increased number of 42,9m (42,4m) in issue.

The directors say these results were achieved "in spite of highly competitive trading conditions which resulted in reduced interest margins and depressed profit margins.

"Also the sustained high level of interest rates during a downward phase of the economy led to an increase in the provisions for doubtful debt. This also reduced profit margins."

But the increase in advances, combined with stricter control over costs "more than compensated for the negative effect of reduced interest margins and made the biggest contribution to the increase in net income."

Financial director Frans du Toit said the group did not expect the downturn worsen "but we don't think the situation will get better till towards the end of the year.

"We expect some relief on interest margins around September and prime will probably drop by 1% or 2% early in the new year."

In the intervening period, the bank expects a drop in demand for credit. But it still expects to achieve real growth in the current financial year.

Du Toit said Volkskas had not been heavily involved in off-balance sheet repurchase deals. Only R170m was outstanding at the end of March, rolled over from earlier deals.

In the past, Volkskas had concentrated on individual accounts but it was now expanding the corporate side of its business.

It had also increased the infrastructure of Volkskas Industrial Bank to enable it to expand into the motor vehicle hire-purchase market.

Until now, most of this type of lending had been through advances to cheque account customers. But Volkskas would now be offering finance at the showrooms of motor dealers.

"This is a long-term decision, taken six months ago. We started putting things in place two months ago.

"Decisions like this are not affected by the present state of the market. One cannot adopt a stop-go policy. We shall be established there when the market improves."

in the aftermath of the decisive battle.
● Pictures by Sean Woods.

Fake dollars scam: man held

STAR 15/5/90

By John Miller

A Randburg man was arrested yesterday after he had allegedly conned at least 50 job seekers into paying him R2 500 each and, in exchange, given them 1 000 counterfeit US dollars to use for employment opportunities in Mauritius.

A police spokesman said the man allegedly began manufacturing counterfeit dollars about nine months ago.

An advertisement was placed in a daily newspaper on March 9

It asked people interested in working in Mauritius — project managers, civil and electrical engineers, architects, accountants, computer programmers, personnel managers and vehicle and equipment maintenance experts — to send a CV to a given address.

Once the CVs were received, the suspect would telephone the job seeker and arrange a meeting at a Johannesburg hotel. He requested they bring R2 500.

He allegedly exchanged this money for $1 000 in counterfeit notes, to be used as a deposit.

Police have asked anyone who answered the advertisement to telephone Major Fred Kitching at (011) 838-8363 during office hours.

Five Senbank men defect

GRETA STEYN

FIVE former Senbank merchant bankers have joined Discount House of SA (DHSA) to set up a corporate and project finance division as the discount houses muscle in on turf traditionally belonging to the merchant banks.

DHSA chairman Colin Dunn confirmed yesterday the five who recently quit Senbank were joining the discount house group to start a new division headed by Mark Thompson. They would get an equity stake in the group. Bl Day. 16/5/90

Asked whether corporate finance was not overcrowded with brokers, auditors and merchant banks offering similar services, Dunn responded: "Our approach will be as 'deal makers' rather than bankers." But he added a tie-up with another bank was a distinct possibility, and stressed there were some areas of banking, especially retail, that DHSA had no intention of entering.

But another area where DHSA was competing with the merchant banks was on securitisation. Many of the big players in merchant banking are working on securitisation schemes with building societies. DHSA was involved in the securitisation of part of the UBS's mortgage book.

Once the new Banks Act, re-christened the Deposit-Taking Institutions Act, becomes law, the discount houses in their present form will disappear and they will become banks. They will have to comply with all the capital, cash and liquid asset requirements that banks have.

A move, strongly supported by Dunn, to replace the old-style discount houses with "securities trading houses" has so far not yielded results. But Dunn is persisting with efforts to convince the Reserve Bank that efficient and liquid markets need companies to trade only in securities.

"We would have liked to have had such a company in the group," Dunn said.

(58)

Standard 'not backing out'

Bdy 16/5/90 (58)

ROBERT GENTLE

STANDARD Bank said yesterday that there was no question of it having backed out of financial commitments in respect of the soon to be opened futures and bonds trading floor in the JSE Annexe.

The reaction followed a report in Business Day on Monday disclosing Standard's decision not to use the floor for trading of futures and bonds despite a signed commitment to do so.

Divisional GM John Lloyd said Standard was quite willing to settle any financial matters like rentals, telephones and other communication costs that may result.

This had been communicated to Safex (SA Futures Exchange) and the BMA (Bond Market Association), the two bodies jointly responsible for the operation of the R3,5m trading floor.

Lloyd said the only reason Standard no longer wanted to use the floor was because of the cost of maintaining both a screen-based in-house dealing system and a remote floor trading operation.

Santam underwriting surplus drops by 92%

LINDA ENSOR

SANTAM, the short-term insurer with a heavy exposure on its motor account, experienced a radical 92% reduction in its underwriting surplus in the six months to end-March — from R13,5m to R1,1m.

Liability for the Welkom tornado's devastation, which was fully provided for at interim stage, also had a detrimental affect on results.

The bottom-line results were salvaged to some extent by investment income which rose 26,4% to R34,5m (R27,3m). After-tax profit of R29,8m (R27,7m) — or earnings per share of 41,9c (39,6c) — was earned.

While this represented an increase of 5,8%, the dividend increased by 20% to 12c (10c) on a reduced cover of 3,5 (3,9) times.

MD Oosie Oosthuizen said the deterioration of underwriting profits was due to the unprofitability of motor insurance in the first six months of the year. In addition to a greater incidence of claims, their cost rose by about 40%.

B Day 16/5/90

Benefit

Oosthuizen said there had been no increase in premiums between the September year-end until April 1, when they were adjusted by an average 20%.

He said the benefit of this would only flow through during the second half of the financial year, which would negate the first six months' bad results.

If necessary, further premium adjustments would be made.

Oosthuizen said it had been thought prudent to provide fully for the maximum liability for Welkom after taking catastrophe reinsurance into account.

Gross premium income increased to R410,9m (R366,2m) and net premium income (after reinsurance) by 10% to R360,8m (R327,6m). Insurance funds at end-March, including contingency reserves, stood at R412m (R337m).

Old Mutual aims to capitalise on upturn in equities with new fund

b10m 16/5/90 (58)

LIZ ROUSE

OLD Mutual is launching a fully invested industrial fund aimed at taking maximum advantage of the expected upturn in equities late next year and into 1992.

The new unit trust, to be launched on Monday, will start off at a price of 200c. The minimum initial investment is R1 000 and the minimum monthly deposit is R100.

Announcing the launch in Johannesburg yesterday, Old Mutual assistant GM: unit trusts, Bastiaan van der Westhuizen, said the new unit trust was aimed at the investor who preferred to have an undiluted stake in industrials.

The fund will consist of 25-30 blue chip industrials, which are expected to provide the best long-term returns to investors. Investment strategy is to aim at the lower end of high-risk investments.

The portfolio includes frontrunners such as Richemont, Remgro, Barlows, Pick 'n Pay, Amic and SA Brews.

The sectoral investment spread will be small, consisting of industrials at 75% to 95% of total assets, financials 0% to 15% and liquid assets 5% to 10%.

Van der Westhuizen said it was no coincidence that Old Mutual had positioned its latest fund in the industrial sector. Industrials account for 33% of the overall market capitalisation — R135bn out of the JSE's total market capitalisation of R410bn at the end of April 1990 — and have consistently outpaced inflation.

The only other industrial unit trust is Sanlam's industrial fund.

Fund manager Adrian Allardice said he was optimistic on the longer-term outlook for industrials.

Price-to-earnings charts shown at the presentation prove that SA industrials are greatly underpriced compared with major markets. The JSE average industrial p:e was 9 at the end of April, compared with Japan's 56, the US's 15, West Germany's 17 and the UK's 10.

Allardice expected interest rates to remain at current levels until the fourth quarter, with a gradual easing in 1991. Corporate earnings growth was expected to flatten in the short term but the downturn was not expected to be as severe as in the past due to improved management of the ecomomy.

The current account surplus would provide some support for the market, counterbalancing negative factors, said Allardice.

Van der Westhuizen said while small investors' stake in JSE trading had slumped dramatically, the unit trust industry told the true story: the small investor was using unit trusts to enter the JSE.

This trend was reflected in the increasing number of Old Mutual's unit holders, now totalling 250 000 — up from 180 000 two years ago.

SMA sees drop in interest rates by third quarter

Own Correspondent

CAPE TOWN — Syfrets Managed Assets (SMA) believes interest rates must start coming down by the third quarter of this year — earlier than forecast by some other financial institutions — to avoid a risk of recession. Bday 16/5/90

Analyst Elmien de Kock explained yesterday there were clear signs the economy had already slowed down sufficiently for either monetary or fiscal policy to be relaxed.

This could not happen until after the large repayment of foreign debt due next month.

But the authorities would "definitely be running a risk of plunging the economy into recession if they do not act in the third quarter".

De Kock said the continued decline in gross domestic product (GDP) by 1,4% in real terms in the first quarter of this year was not cause for alarm.

Together with the declines in monthly manufacturing production figures, cash in circulation and bank credit, it merely provided confirmation of the slowdown in the economy.

"It is important to note that gross domestic expenditure (GDE) has been declining since the second quarter of 1989, resulting in a total real decline of 0,8% for the year."

The main reason GDP had not reflected slowdown signs earlier was the strong net increase in exports.

What was of greater importance was the tactics the Reserve Bank would choose to adopt, "as the respective economic variables are signalling that there is undoubtedly room for a relaxation in either monetary or fiscal policy", she said.

"Considering that the production price index (PPI) rose at an annual rate of only 9,9% during the past three months, it is clear there are definite signs of a levelling off in the inflation rate. (58)

"Once the heavy debt repayment commitments due in May and June are out of the way it may be easier for the Reserve Bank to act on fundamentals. At this stage the over-riding variable still remains the level of the gold and foreign exchange reserves — which are too low."

Standard sees life after the squeeze

B/Day 16/5/90 GRETA STEYN (58)

THE Standard Bank group, widely touted as one of the most exposed in the recent bank credit spree that apparently left it strapped for cash, sees no threat to its bottom line.

Standard Bank of SA MD Mike Vosloo says there is life after the squeeze. "We've had a comparatively tough time but have already made all the adjustments required in the current climate. This pressure has not changed our profit projections for the year."

He says that by managing the mix of liabilities, banks can try to become relatively immune to changes in market rates.

In the short term, however, in the middle of the squeeze, the picture sometimes looks dim.

To exploit its strong capital base after raising new capital in 1985 and 1986, Standard went on a drive for asset growth that reached top gear just as the Reserve Bank started its squeeze on credit.

Part of the problem is heavy reliance on expensive wholesale funds. Under tight liquidity, market participants who control the supply of cash are in a position of power. The institutions with their huge cashflows are in the pound seats, more specifically at month ends when the crunch is on. These wholesale cash deposits are far more expensive than rates currently paid in the retail market. Smaller savers at present do not find banks an attractive enough investment haven, leaving banks more vulnerable to the institutions.

Preference

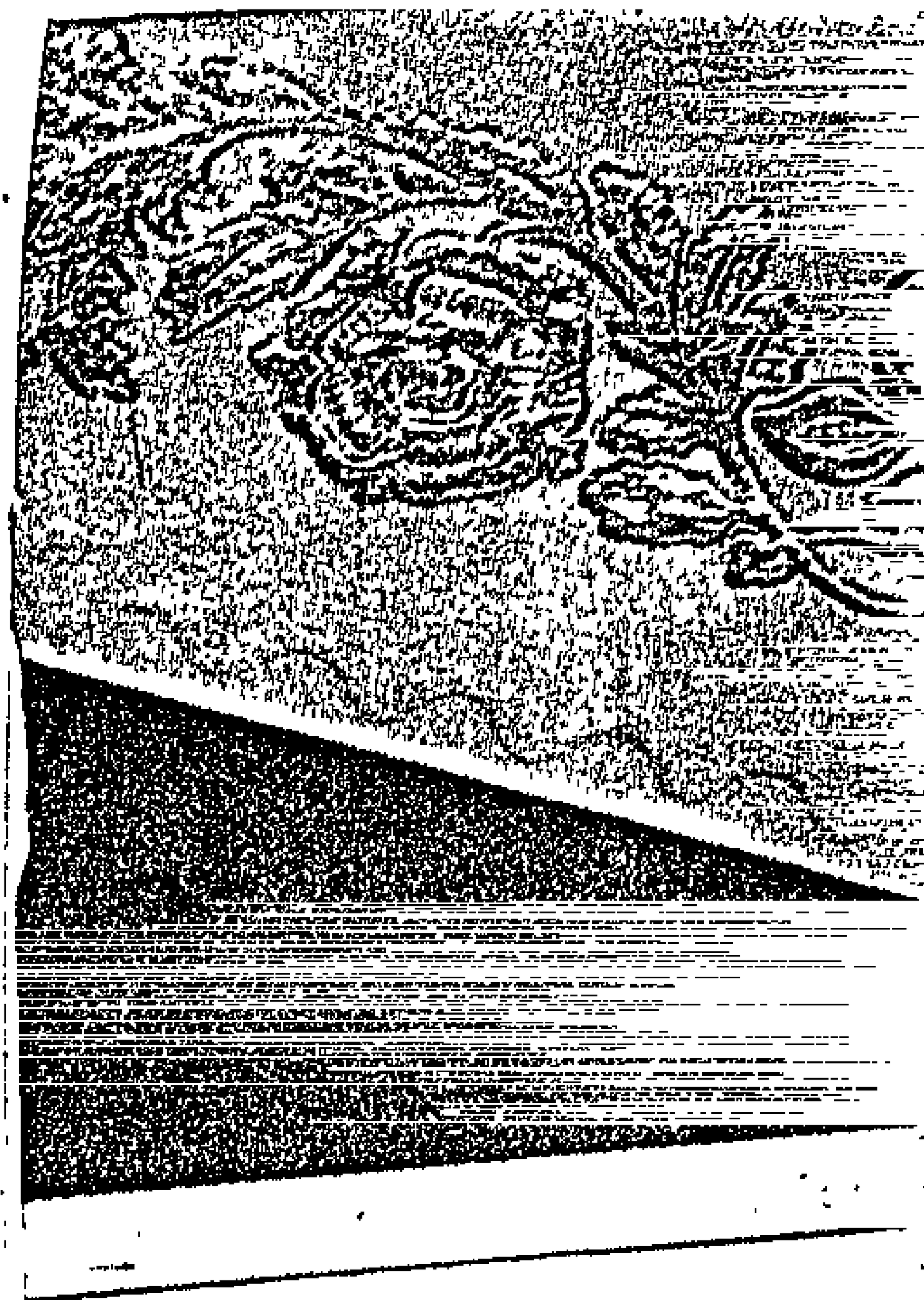
"In the early '80s, we were still funding nearly 80% of this bank's total asset base out of the retail market and now it's under 40%. It's a huge shift," says Vosloo. Although the endowment effect of positive current account balances is substantial during periods of high interest rates, their percentage of total funding is not big enough fully to neturalise the effects of expensive wholesale cash. In the Standard, and most other banks' case, asset growth outstripped growth in retail deposits.

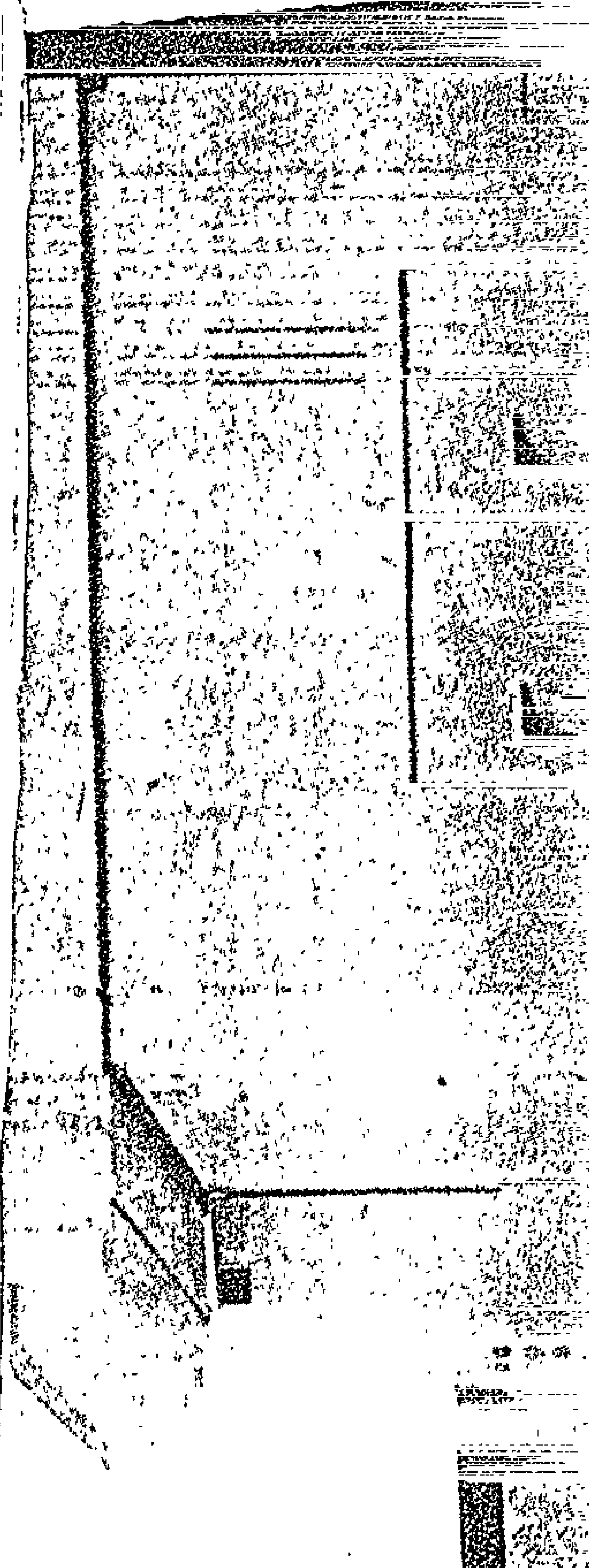
"Retail deposits were not growing rapidly because people were not getting a real return on their deposits compared with life assurance products. A major shift in investment preference took place."

Today no major bank funds more than 50% of its total assets out of the genuine retail market.

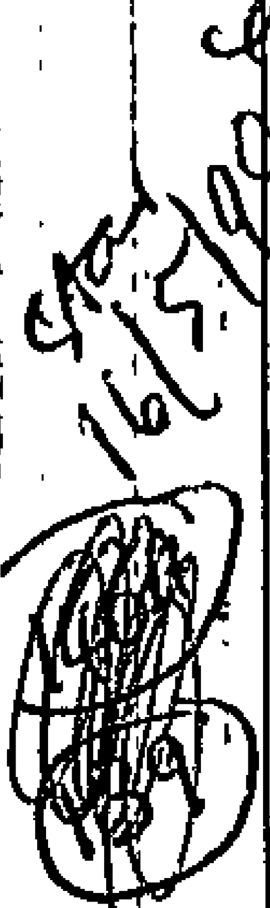
A monetary policy that seeks to curtail credit by putting pressure on banks' margins necessarily favours those players in the market that have the cash. The concentration fo power in a few suppliers' hands will force the marginal rate for the entire market higher, Vosloo notes. He acknowledges the Standard wanted to avoid high marginal costs raising the average cost of funding in the money market and elected to rather get cash at the Reserve Bank's discount window. The effect of this was to assist in keeping the marginal cost of cash down in the market.

There is no doubt the continued liquidity tightness has favoured the life officies at the expense of the banks. But the long Christmas enjoyed by the institutions will be over soon. The market is already more liquid as credit demand has abated and the balance of payments is healthy. Once the cash crunch is over, rates in the wholesale market could come crashing down as fast as they went screaming higher.





broad consultation would be necessary on any ...



Concern over security levy

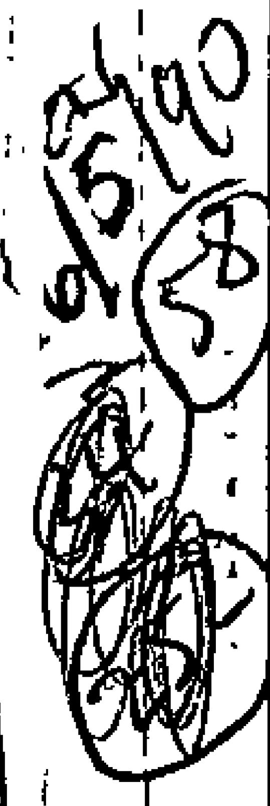
Labour Reporter

Shared concern over new regulations for the security industry has sparked a ground-breaking encounter between organised security employers and the sector's largest union.

At the same time, the managing director of Securitas, Jean-Louis Jaquet, has told the Star of the "tremendous insecurity" caused by the regulations, which require workers to pay a hefty levy to the Security Officers Board.

Yesterday, the Transport and General Workers' Union (TGWU) also met the board to voice its concern. Arguing that the R70 annual fee is exorbitant in a low-wage sector, it plans nationwide protest action on June 1 — a working day .

SA National Security Employers Association (Sansea) chairman Jimmy Nuns said Sansea and the union had agreed at talks yesterday that the immediate goal should be suspension of the regulations until all interested parties were consulted.



Man in court over counterfeit dollars

By Celeste Louw

A Randburg man, who allegedly conned job seekers by forging US dollars which he offered in exchange for rands, appeared briefly before a Johannesburg Regional Court magistrate yesterday.

Donald Julian Walker (63), of Windsor West, allegedly placed an advertisement in newspapers offering employment in Mauritius. At least 50 were allegedly conned when he replaced R2 500, paid by people interested in the job, with 1 000 forged dollars.

No formal charges were put to Mr Walker and he was not asked to plead. He will remain in custody until his next appearance in court on June 29.

(58)

First priority is to make R3-bn group leaner, says Federale Volks' new MD

By Stan Kennedy

The first priority for Peet van der Walt, recently appointed managing director and deputy chief executive of Federale Volksbeleggings, will be to "make the group leaner and to drive the bottom line harder".

The major problem of the group, which has a turnover of more than R3 billion and is involved in insurance broking, catering, parking, car rental, cinemas, restaurants and sports shops, is that its portfolio is too widely diversified.

If only one sector is hit by an economic downturn, the effect on the group can be excessivley adverse.

The strategy on how to narrow the focus has still to be discussed with the shareholders. Meanwhile its results, due out on May 22, are not inspiring and a lower dividend of around 60c is expected to be paid, compared with 85c last year.

Mr van der Walt (51) has been with Federale for 26 years. He is a B Comm graduate of Stellenbosch University, having finalised his accounting through Unisa and qualified as a chartered accountant. He was two years in practice before joining the group as an accountant in 1964.

He quickly rose to become chief financial executive. Flung into the deep end, he gained considerable experience controlling the group's finances.

Peet van der Walt

He learned a lot about amalgamations, mergers, acquisitions and high finance and it was all very exciting to him. In 1974, he was put in a line position and given responsibility for the services division which, at the time, consisted of Avis Rent-a-Car, Fedics and PFV.

"That was an interesting challenge. I think many CAs would like to do that today, to move away from finance into a line position. After all, accounting is really a service industry itself."

Accountants are generally perceived to be neat and diligent and Mr van der Walt is the epitome of the profession's reputation. He has an unswerving need to be meticulous in his office where everything has a place and there is a place for everything. Disorderliness, to him has to be licked into shape.

"Accountancy teaches you to be disciplined. I am worried if my briefcase is too full, if my desk is full of papers and there are outstanding phone calls. I like to get them all out of my system and have them done.

"Because I need and like time to think and create opportunities, I clear the decks as quickly as possible."

He is tidy about everything; his office, his thoughts, his conversation and even his appearance, suggesting he is a man who is in absolute control of his affairs.

His mind is disposed to doing things twice over, making sure there are no mistakes, no loose ends or no other alternatives that can be exploited.

"I have to act as a sounding board for the operating companies, who focus on something specific they want to do. I see their ideas in a wider sense and look for the risks and further opportunities.

Reviewing things again is once more applied when it comes to making decisions. If possible, he avoids making quick decisions, but in the consumer market they are often necessary.

He says: "It is a highly competitive market. We are in five service industries and we are market leader in all of them. The entry barrier is not high in some sectors and if you are not wide awake a small but efficient operation can make problems for you.

"I prefer to think things through carefully. Resolving a major problem consumes most of my waking hours, even when I am driving, on the golf course or at the weekend.

"Once I have made a decision, I am at peace with myself. I may fleetingly think about it again and perhaps tell myself it was not exactly right, but I don't ponder on it.

"Hindsight, they say, is the most exact science. You can always tell yourself you shouldn't have done it that way but you have made the decison and you have to stick by it."

Like a missile going straight to its target, his train of thought is never broken. As he talks, other relevant things come to his mind that need attention. The quality of products and services must be improved, the assets must be managed more carefully and productivity must be boosted.

"In every service industry, people are importamt and one has to work with and through them and try to lead them, while guiding them them in their careers.

"Wherever I go, I observe how our companies treat their customers and clients. It is something I am very hard on and I cannot tolerate it when they are not dealing properly or sympathetically with them.

"While I will have to spend more time in the office, I would prefer to get out into the world where the money is made. I can detect things I don't see from head office. I can sit here and think and think but I don't get to know what is happening in the real world."

Corbank, CIB to be restructured

GRETA STEYN

A MAJOR restructuring after the takeover of Corbank by Cape Investment Bank (CIB) has seen the departure of Corbank founder Laurie Korsten from an executive position to pursue his personal interests.

Former MD Bill Pienaar has also relinquished his executive position but will stay on as a consultant.

Korsten, who declined the position of group chairman, will remain a director.

CIB and Corbank remain separate subsidiaries within the group, renamed Corporate Investment Bank Group (CIBG). Joining Corbank as the new CE is Errol Grolman who, like group MD Andy Swartz, is an Investec old boy.

Grolman, who has been consulting since resigning from Investec about 18 months ago, was a founder of Investec and is a former CE of the merchant bank where Swartz built a name as a top market man. Swartz described Grolman as "one of the industry's most talented executives".

Meanwhile, the Corbank dealing operation has come back to life after trading losses caused the bank to close up shop six months ago. The takeover by CIB in February was followed by quiet poaching of some prominent people in the markets including Peter Lane (from First National) and Andre Pretorius (from UAL).

Other management changes include the appointment of Sjoerd Lohle as MD of CIB and Jan Pickard (Jnr) as executive chairman of the group.

Business boost for African Life

ZILLA EFRAT

AFRICAN Life achieved a 34% rise in new individual life recurring premium business in the year to end-March.

African Life, a subsidiary of Southern Life — which will be reporting its results next week — has plans to list on the JSE within the next two years.

It has traditionally offered low premium life policies and has succeeded in capturing a large part of the black market.

In the period under review, total new business income from all sources — including direct mail, group business and single premiums — rose by 34% to R22,5m (R16,8m).

MD Bill Jack says: "The increase in new business is gratifying, considering the economic and political circumstances in the latter part of the year."

Net premium income improved 42% to R49,2m (R35,1m) and after tax investment income jumped 67% to R11,2m (R6,7m).

The company's total income for the year increased 46% to R61,1m (R41,8m), and realised and unrealised investment surpluses amounted to R18,6m.

African Life's recurring premium new business has risen on average 50% a year over the past four years, maintaining its position as one of SA's fastest growing life companies.

Jack says African Life's strategy to widen its shareholder register is progressing well.

During the year, it increased its shareholders substantially with the offer of shares to policyholders, centres of influence and business associates.

Attributable profits were R5,1m (R2m). The final dividend of 4,7c increases the total distribution for the year by 25% to 7,9c a share.

Jack says African Life is well placed to meet the challenges of the coming year and is confident it will achieve targets set.

Agencies aid United growth

BDay 17/5/90 (58)

NEIL YORKE SMITH

INVESTMENTS in the estate agency business would help United to grow and increase market share, senior GM marketing Tienie van der Berg said yesterday.

"Our strategic investments in the estate agency industry will generate 'raw material' necessary for controlled growth.

"For mortgage lenders, raw material is loan applications, which we expect to generate from our relationships with agents," he said.

In August, United acquired a third of Multi Listing Services (MLS) — a computerised home buying and selling group — for R5m.

This was followed in March by a 25,2% investment in listed estate agency group Aida.

"Aida is very well managed and has enormous growth potential while MLS has a valuable base of affiliated agents," Van der Berg said.

United would look at further similar investments but, contrary to speculation, nothing was currently on the cards.

"Given the competitive financial services environment the deals make sense."

Both product and rate parity made it vital for institutions to compete on the quality of service provided, he said.

United is to install computer systems in MLS and Aida which will provide instant bond service.

Appeal

Coming on line in "about six months", the systems would increase speed and efficiency of the house buying process, he said.

"This will appeal to buyers, sellers, agents and the institution concerned which hopes to win the mortgage business."

Mainly strategically focussed, the investments also offered good current and forecast after tax returns, he said.

These returns would easily match United's stringent investment criteria.

"We opted for minority stakes as, despite synergies between agencies and mortage lenders, we decided we were not in the estate agency business."

While growing the mortgage book United was not risking an excessive increase in bad debts, Van der Berg said.

"Current lending principles will not be compromised so the proportion of bad debts should remain in line with expectations."

A TEST CASE WILL DECIDE IF BEING GAY IS AN INSURANCE RISK

JOHN PERLMAN reports on a test case with major implications for gay rights

IS a person who is gay obliged to declare this when applying for life insurance? That looks set to become the subject of a test case which could affect the future access of gays to life insurance and the honouring of policies already taken out by gay people.

The estate of the late Alan Graham Walpole, who died of heart failure in 1988, intends taking AA-Life to court after the insurers repudiated liability for the deceased's life insurance on the grounds that Walpole had not told them he was gay.

AA-Life managing director Dr Brian Benfield said the claim had been repudiated because Walpole had not disclosed "some of his habits and medical history" when he applied for life insurance in July 1983, of which his homosexuality was one aspect.

But the insurers letter to the estate informing them of repudiation made no mention of other factors: "According to medical records in our possession, Mr Walpole was an acknowledged homosexual. Had these facts been disclosed to us at the time of signing the application, it would have materially affected our underwriting decision and accordingly we repudiated liability for this claim."

With the onset of Aids, insurers have taken steps to reduce their risks, but have denied taking measures which specifically debar gay people. In October 1988, companies belonging to the Life Officers Association decided that applicants for cover above R200 000 would be required to take a test for the human immunodeficiency virus (HIV) which causes Aids. Those who refused would not be covered for death as a result of Aids.

An industry representative said companies could ask for an HIV test for applicants seeking cover below R200 000.

"They might if they got an application from an unmarried male fashion designer," he said. He said the industry began serious discussion about Aids in 1987 and questions about homosexuality would have been unusual in 1983, the year Walpole took out his policy.

Benfield, however, said AA-Life had introduced a form of Aids testing as far back as 1983. "Our attention to this was heightened by the concerns of our reassurers in Europe and by the fact that we were the first company to sell insurance by direct marketing.

Testing was "initially in the form of questions which would get closer to the sexual habits of the applicant. While heterosexuals do get Aids, statistics around the world show that homosexuals are still most at risk."

Benfield said homosexuality had been "of concern to the industry" before Aids. "Homosexuals are perceived as being at greater risk because they tend to be exposed to greater emotional problems. It is believed that non-heterosexuals die more rapidly. Since way before Aids we have been reluctant to accept homosexual applicants. Since Aids we have been even more reluctant."

Benfield said that at the time of Walpole's application, AA-Life would have, "asked general questions about his habits. The structure of the questions would have revealed his latent homosexuality".

BUSINESS DAY, Thursday, May 17 1990

Bond repayments similar to 1986 levels — United

CHARLOTTE MATHEWS

NOMINAL mortgage repayments have reached an all-time high as a result of house price increases over the past few years and relatively high mortgage rates, according to the latest United Quarterly Housing Review.

Monthly mortgage payments have increased by about 14% over the previous year.

But, the review pointed out, if salary and inflation were taken into account, current bond repayments were at about their 1986 levels and not even close to the peak of 1984/85.

House prices in relation to salary levels have been on a decreasing trend for the past six years.

According to United, the average price of a medium-sized house rose to R96 000 in the first three months of 1990, which is only 1% above the previous quarter or an annualised 3,7%. The increase is however 8% higher than the first quarter of 1989.

Larger houses in this period cost on average about R135 000 while smaller houses cost around R81 000.

New house prices rose by 16,7% in the first quarter of 1990 compared to the first quarter of 1989, mainly as a result of the 20% rise in the cost of building materials.

Prices of existing houses lagged behind new houses. In the first quarter of 1990 they rose by 7,5% by comparison with the previous year.

The United forecast that the prime overdraft rate and mortgage rate were unlikely to decline by more than one percentage point to 20% late this year because of government's strict monetary policy.

The decline in economic activity was likely to depress the residential property market.

African Life's income improves

African Life Assurance has achieved a 40 percent increase in new individual life recurring premium business for the year to end-March.

Total new business from all sources including direct mail, group business and single premiums amounted to R22,5 million — a 34 percent increase. Recurring premium income at R49,2 million was up 42 percent.

The company's total income for the year increased 46 percent to R61,1 million.

A final dividend of 4,7c has been declared, pushing the total for the year to 7,9c.

MD Bill Jack said the increase in new business was gratifying considering the economic and political circumstances. — Sapa.

BANKING FM 18/5/90 (58)

Taking the gap

At the annual dinner of the Institute of Bankers last week, Finance Minister Barend du Plessis raised an issue as important to bankers as to the authorities. On the subject of *gap analysis* — a technique "critical to success in banking" — he spoke of bankers' efforts to analyse the Banks Act and Income Tax Act for gaps.

If businessmen, including bankers, divert energies from more productive activities into finding ways to subvert the system, there is something wrong with the system. And either the authorities will have to reinforce their defences or eliminate incentives to undermine them.

Du Plessis indicated he was going some way to doing both. He will "strengthen the principle of intermediation" and, at the same time, consider lowering the cost "when the time is appropriate."

The cost of keeping prudential reserves makes funding a more expensive exercise for registered deposit-taking institutions than for others who raise funds in the market. Du Plessis has promised to address the problems

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created for banks when "various unregulated instruments, contracts and transactions erode the exclusive right of deposit-taking institutions to fulfil their intermediary function." Under the new Deposit-taking Institutions Act only registered institutions will be able to take deposits as defined in the Act.

Underlying new legislation relating to the financial services industry is an attempt to supervise function — in this case accepting and employing deposits — rather than institution. This will eliminate existing discrepancies in the regulation of banks and building societies and extend to discount houses which will no longer be recognised as separate institutions.

The move is intended to put banks on an equal footing with other institutions which raise funds, though it is not yet clear how they will stand in relation to life assurers who require no statutory liquidity reserves because of their constant inflow of contractual savings. It will also curtail the activities of other (unregistered) participants in the grey market by requiring money brokers to deposit funds involved with a registered institution.

As a disincentive to further *statutory gap analysis*, Du Plessis said "a reassessment of the basis of computation and percentages to be used in the calculation of statutory liquid assets may be appropriate when circumstances permit." ■

FM 18/5/90 (58)

VOLKSKAS FM 18/5/90

Opening up

(58)

Group MD Danie Cronje is gradually putting his personal stamp on a long-dormant Volkskas. The headquarters shift from Pretoria to Johannesburg has helped by giving the bank access to a greater pool of financially skilled people. It also underscores the group's awareness that banks can survive only on their competitive abilities rather than a narrow sectarian appeal.

That is something which probably affects Volkskas more than any of the other major banks, for it has enjoyed years of Afrikaner political hegemony which, analysts believe, resulted in government and semi-government business dropping into its lap. Times are changing, and those same analysts warn that business may not be so easy to hold as blacks move into local and central government.

Perhaps it is carping to complain yet again that reporting is less open than that of some competitors but this too is changing. This year, for the first time, the group has disclosed its bad debt provisions and tax payments. And, presumably, there will a gradual shift towards banking glasnost in any run-up to further capital-raising.

This past year Volkskas had to run to avoid standing still as narrowing banking margins squeezed profits. So while advances rose by 30,8%, the operating profit's increase was more pedestrian, at 23,5%. The bad-debt provision was raised by only 22,7% which, Cronje says, reflects Volkskas's lending conservatism — the bad-debt provision carried in the balance sheet is relatively greater than the industry's average.

In recent months, competitors have been bragging that they have won municipal accounts away from Volkskas and Cronje concedes some accounts might have been lost. Seemingly, though, they have been replaced by greater penetration of the corporate market. For many years, safe in its Pretoria redoubt, management tended to ignore the trading potential that existed in the bank's customer base. Now it is increasingly aware of cross-marketing opportunities. Last year, Cronje says, mortgage lending increased by 96% to about R1,5bn while instalment credit lending was 46% higher at R2,9bn.

Credit cooling

This year will be more difficult, Cronje believes. Demand for credit is cooling. But while this is likely to lead to some interest rate softening in the latter part of calendar 1990, it could be accompanied by improvement in banking margins.

Along with other banks, Volkskas is steadily raising its dividend cover to provide the capital needed to comply with the increasingly stringent capital:assets requirements of the Banks Act. Though Cronje believes the past year's 3 times cover is appropriate, analysts reckon further increases are in prospect if they defer the crunch of calling on shareholders for additional funds.

Rembrandt, with 30% of Volkskas's equity, is unlikely to carp at providing further funds once the bank proves it is no longer the sector's stodgiest performer. Though whether UBS Holdings, which also has 30%, will feel the same is another matter. It, presumably, would want to retain funds for its own use and could push for a full-scale merger if or when more capital is called for. *Jim Jones*

FM 18/5/90 (58)

FUTURES FM 18/5/90 (58)

From the floor

Why has Standard Bank suddenly got cold feet about dealing on the futures trading floor? Is it likely to be followed by other commercial banks? Though most have been keen to become clearing members of the SA Futures Exchange, until now they have shown little interest in futures dealing.

Between July and April, according to Rand Merchant Bank figures, commercial banks did a mere 1% of the market's turnover. The largest slice was done by merchant banks at 41,6%, futures brokers did 28,5%, discount houses 14,6%, JSE brokers 7,5% and institutions 6,8%.

In September the SA Futures Exchange canvassed members to determine usage of the Safex/Bond Market Association floor. Costs per member were worked out on the basis of the number committed for three years — the more participants using the floor the cheaper the rent.

Standard's John Lloyd says: "We are concerned about the costs of maintaining both an open outcry floor and a highly sophisticated dealing room. Besides rental, the floor would entail employing at least two traders and one or more back-up staff, together with installation of a Reuters service and other communications infrastructure."

Though Standard will no longer require a booth, it has told Safex it accepts financial responsibility for its orginal decision, which may mean some settlement "in respect of the rental. We are awaiting a response from Safex and the BMA." However, there will be a saving on other overheads.

Standard is concerned "that the new Deposit-taking Institutions Act may have a negative influence on liquidity in securities markets and, thus, on derivatives as well.

"Also, there are more and more indications around the world of a shift towards automated trading systems," says Lloyd. "This is more our style and we would support that philosophy when it arrives."

Safex CEO Stuart Rees, says booth and office rentals and floor levy have increased since September. However, Safex has halved the member's capital contribution so, overall, the cost of a floor presence is little changed. Members are being notified.

What about other clearing banks? There is some feeling the floor was foisted on them, though not all committed themselves to it. Neither Volkskas nor Nedbank signed up.

First National Bank's Ken Russell says: "Now the floor is there we'll maintain a presence. We hope it will generate its own business."

Can commercial banks be expected to show more enthusiasm for futures? Volkskas's Malcolm Chapman believes futures products based on a wider range of interest rate instruments in addition to the BA future now available would be more attractive to commercial banks.

☐ Futures dealing will continue on screen until the Safex/BMA floor opens "possibly as soon as June 4," says Rees. Safex is to be licensed on August 10 in terms of the Financial Markets Control Act. ■

HELDERBERG FM 18/5/90

Calmer waters

"The Helderberg retirement village ship has been bought safely into harbour. However, there is much work still to be done."

Those were the words of lawyer Max Hales after he and the Board of Executors' Rob Walters were last week confirmed as judicial managers of the beleaguered village on the return date for the provisional order made by the Supreme Court.

"The task now," says Hales, "is to garner about R7m from the 284 villagers. They have to dig deep into their pockets but will be securing their investment. That will clear our mortgage liabilities and trade debts."

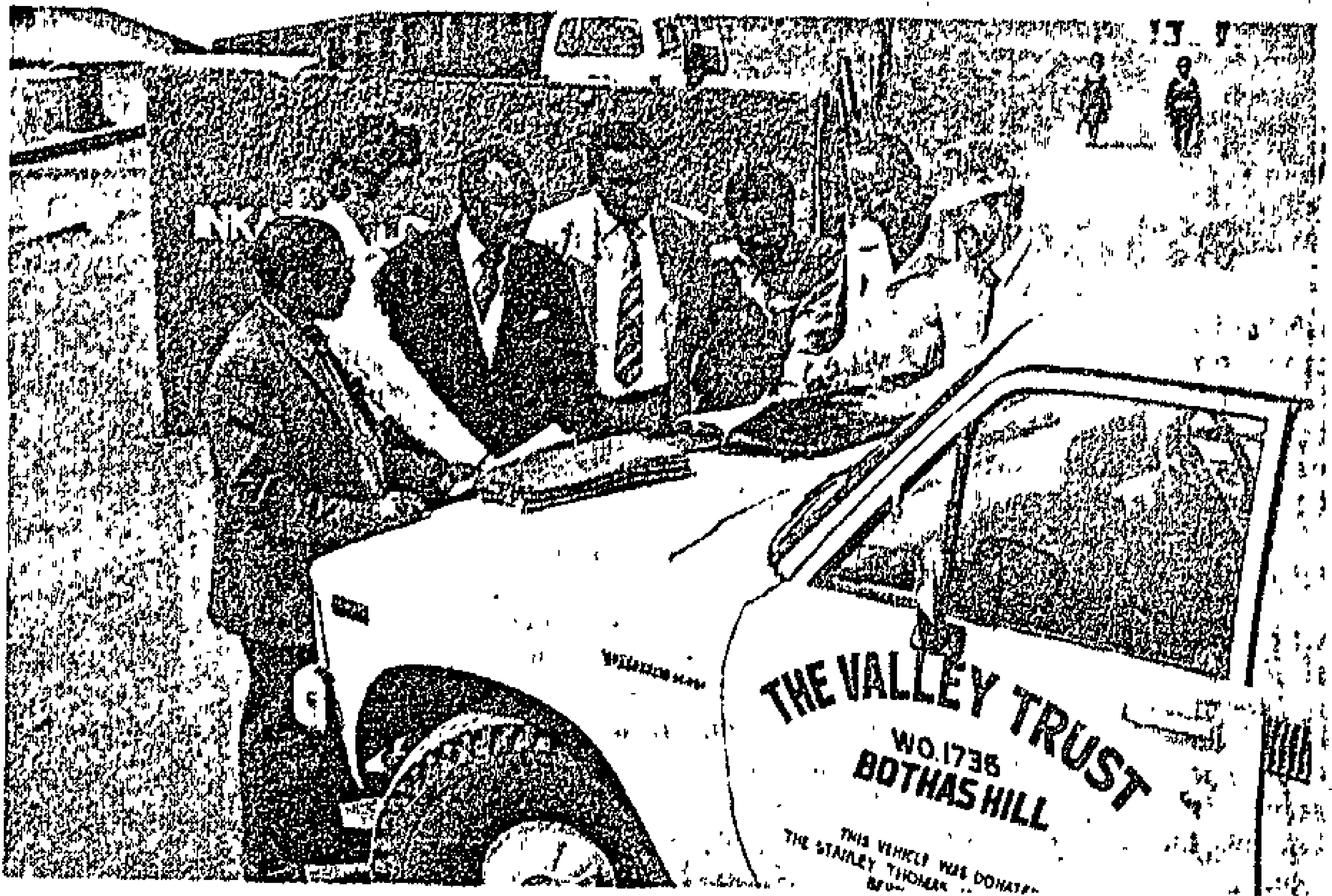
He adds that a R5m back-up facility has been negotiated with Allied (R12m was offered but residents preferred to put up their own money to settle obvious debts). The Allied money could bankroll completion of the village's central facilities which include a clubhouse and frail-care centre.

"It will also provide us with a contingency fund if we have to fight the liquidators of Shemara Holdings, the village developer, which has been placed under final liquidation." He adds that a "fairly robust attitude" will be adopted to claims from Shemara's liquidators. He claims Shemara owes the village R5,8m.

One option which is still open to the village is for it to be taken over by an outside investor (*Property* April 20). There was a joint bid made by the Board of Executors and DCF Properties, however BoE withdrew. It remains to be seen whether the DCF bid still stands. ■

Business Day
SURVEY

*The new South Africa will not be born wealthy. It will have all the problems of the old — poor growth, unemployment, poverty, inadequate medical facilities and lack of education and skills. In spite of political progress the private sector will have to bear the brunt of social and economic upliftment. **ALAN FINE AND ADELE BALETA** report.*



Members of Qadi/Nyuswa Development & Services Board and Valley Trust staff discuss the route of a 12km water pipeline in the Valley of a Thousand Hills.

BDay 18/5/90

CSR an outdated term, says FNB

MANAGER of FNB's R8m social responsibility budget Allen Miller says he has set his sights on turning expenditure towards projects with developmental goals.

His priorities are the creation of a more stable society, which will be a better environment in which to conduct the bank's business.

"The term CSR is outdated. It implies a need to placate communities, to buy time, to buy off a future black government — in other words, guilt money.

Uplift

"For FNB, it is not guilt money. We are attempting to uplift communities and to create a more stable society."

As with most CSR progammes, Miller channels 50% to 60% of his budget to education. But the focus is changing.

"Historically, the tendency has been to support tertiary education institutions. Today we are trying to divert larger proportions to technikons, which have been the poor cousins where corporate spending is concerned. We want to try help remedy the vacuum of technical skills," he says.

ALLEN MILLER

Even FNB's attitude towards its university bursary support programme is changing. "It, too, is increasingly development-based, with a greater empahasis on agricultural and medical degrees, for example."

In line with the developmental emphasis, he says his department examines project proposals to ensure they will have a long-term spin-off for the communities at which they are directed.

FNB, like most major corporations, attempts to draw a clear line between expenditure designed to benefit the bank and spending on community upliftment.

"It is not the intention of our social responsibility programme to support educational programmes to directly benefit our business, although a small proportion does work out that way. Generally, we try to divorce ourselves from the direct needs of the bank, we aim to benefit the community," he says.

This approach is not without its critics. Those naturally opposed to CSR spending, want to know what return the bank is getting on its investment.

"You can't use CSR as a marketing tool. You will sometimes get acknowledgment, but you do not go looking for it," says Miller.

On the other hand, he says: "We also do not do this for the purpose of warming our hearts. We are bankers by profession, not social workers."

While he says he is not influenced by memories of the so-called Chris Ball affair, it is also necessary to steer clear of projects with "political" agendas.

Because FNB is a broad-based business, it tries to avoid supporting sectional interests and projects which could be confrontational.

Is it not true that R8m is little more than a drop in the ocean given the extent of SA's ills?

"Yes," says Miller, "the R8m is a drop in the ocean. But we are investing it as wisely as possible. In the end you have to ask questions like: how many degrees did you make possible, how many people did you feed, did you make a difference?"

He uses FNB participation in the Valley Trust — along with the Urban Foundation and Operation Hunger a major recipient of FNB CSR funds — as an example.

Community

The Valley Trust is a community school in Natal designed to help the community become self-sufficient.

Says Miller: "The community has been largely untouched by the unrest — we like to think at least part of the reason for this is that this project has helped transform it into a stable community."

Building societies move on AIDS

LINDA ENSOR

THE larger building societies offering term assurance as security for their mortgage bonds have substantially increased their reserves to take account of the impact of AIDS. B/Day 18/5/90

Term assurance policies are entirely risk policies providing cover for the bond in the event of death or disability and they usually carry a guaranteed premium. They do not have either a "with profit" or an investment element, so they have no leverage to adjust the benefit or the premiums in the event of higher mortality rates.

Donald Fabian, a partner with consulting actuaries J A Carston & Partners, said the companies they advised had established necessary "substantial reserves" to meet the possible effect of AIDs as they generally transacted only term assurance.

Doug Keir, an actuary with Swiss-Re SA, and chairman of the AIDS subcommittee of the SA Actuarial Society, said while term assurance is an important aspect of the building societies' business, it did not represent a large part of the SA market.

For other life assurers, the problem of additional reserves to cater for AIDS was not so acute as they were in the savings market and could accordingly increase their premiums in line with the risk.

With universal life policies or "with profit" policies, either the premium or the benefits could be adjusted.

Keir said the AIDS subcommittee was

☐ To Page 2

AIDS

B/Day 18/5/90

☐ From Page 1

presently developing an AIDS model for SA which would allow actuaries in the life assurance market to assess the impact of AIDS on reserves and therefore the premiums required.

An indication of the problem that AIDS presented to life assurers in a situation of high infection was the stance adopted by Old Mutual in Malawi where 25-35% of the entire adult population was estimated to be HIV positive.

Corporate actuary Graham Prentice said that as a result of the Malawian government's prohibition on AIDS testing by life companies for policies where the sum assured is below R100 000, Old Mutual was only actively involved in pure savings policies where the risk had been totally removed.

Only the policyholder's contributions plus interest was paid out in the event of death or disability.

Cape Times 18/5/90

Home owners 'intimidated'

BUILDING society sources said yesterday that home owners in Khayelitsha were being intimidated into not repaying their home loans.

But at the same time, building society executives emphasised they would not be withdrawing from the black homes market because of problems in some areas.

They were reacting to a disclosure by the SA Housing Trust this week that a committee purporting to represent 700 home owners in Khayelitsha had threatened that bond repayments would be stopped unless "unreasonable" demands were met.

The Housing Trust's managing director, Mr Wally Conradie, warned the development endangered a project to build 8 000 homes in Khayelitsha.

Building society sources said yesterday home owners in Khayelitsha told their employers they had "been told" not to pay off their bonds anymore.

However, industry sources said they would not release details because it could put homeowners at risk and also ongoing negotiations.

The general manager of The Perm in the Western Cape, Mr Peter Southworth, said yesterday The Perm had a "fairly high overall" presence in Khayelitsha. He said people expected

The Allied's general manager of regions, Mr Geoff Barker, said the Allied set the same criteria for black bond applicants as other race groups, but that black applicants had to be interviewed three times longer because the private sector had not responded to pleas that they educate black employees on home ownership.

'Good citizen' approach is outmoded

JAN KUHN

CORPORATE social responsibilities have reached a crossroad where patronising hand-outs to employees no longer have a place in South African society.

TrustBank strategic planning and communication senior GM Jan Kühn says in a new, dynamic environment where interaction between the corporation and society is imperative, the "good citizen" approach has becoming outmoded.

Corporations have to discover new ways of developing interaction with the community.

"In this sense, social responsibility has reached the crossroads," he says

The process that began in the '80s, when important changes in the business environment interacted with social changes, is likely to continue into the '90s.

Encourages

Deregulation of the economy and international policy co-operation encourages internationalisation of business. The big corporation, in particular, extends its business relations on a global basis in more elaborate ways than before.

This in turn, says Kühn, exposes business to a more diversified social and cultural environment.

"The internationalisation of business makes it more visible in the public eye while enhancing the exposure to social pressure," he says.

The open society communicates its demands more explicitly and expects the corporate sector to participate in shaping social developments. Business executives are likely to play a greater role in public and social aspects.

In SA, the corporate sector has become involved in society's efforts to encourage the evolutionary process toward a post-apartheid SA.

Kühn says in many instances business enterprises are the target of consumer boycotts, while in others business is expected to morally and financially support community action.

The participation of senior management in protest marches in support of human liberties has become a feature of South African companies.

"This direct interaction between the corporate sector and society is a typical element of the new, open society.

"It is within this framework we identify the legitimacy of the firm because the corporate challenge is to integrate its social and economic functions in a meaningful way through interaction with society.

"Big business' legitimate position in the open society will depend on a successful integration of these functions," Kühn says.

TrustBank, realising its corporate social responsibility, has channelled a percentage of its profits back to the community for the upliftment of South Africans.

Concern about the development of SA's human potential means TrustBank places considerable emphasis on education and training. Attention is focused on housing, health, environment and conservation, art and culture and economic development.

Funds are contributed annually to universities, colleges and technikons in the form of bursaries and donations. Projects such as new lecture halls also received sponsorship.

At school level, TrustBank recently sponsored a manual on future planning for matric pupils.

Part of the bank's Community Development Programme involves the support of job creation organisations such as the Foundation for Entrepreneurship Development, the African Council of Hawkers and Informal Businesses and Triple Trust.

The bank is also associated with organisations such as the National African Federated Chamber of Commerce and the Black Management Forum.

Donated

Last year, TrustBank donated R1m to the SA Council of the Aged with its Golden Heart Golf Competition and another million will be donated this year.

In the field of arts and culture, the bank sponsors several productions by the various performing arts councils. The institution has also helped with the development of the TrustBank Arena at the Windybrow Theatre complex in Johannesburg.

"TrustBank accepts responsibility to be involved and to care for society and contribute to creating a stable SA where everyone can share in its prosperity," Kühn says.

DBSA's issue well received

Star 18/5/90

By Jabulani Sikhakhane

The Development Bank of Southern Africa's entry into the capital market has been successful with the first issue of R175 million of DBSA stock attracting major insurance companies, pension funds and other financial institutions.

The DBSA announced that the cash value of the issue, which also attracted individual investors, was R178 million and the yield maturity 16,4 percent.

A spokesman for Senbank, merchant bankers for the issue, said the issue was a success, considering market conditions.

DBSA general manager, Andre la Grange said: "With the deserved priority with which economic development issues are currently being addressed in a variety of forums, it is especially satisfying to note the private sector's participation in such development programmes through investment in DBSA stock."

The Development Bank plans to raise a further R125 million in the financial markets before March next year.

The Bank is hoping to build up its borrowing in the capital markets to between R300 million and R500 million a year within the next five years.

Southern Life to run NUM fund

In a move which should substantially improve the retirement provisions for mineworkers, the newly established Mineworkers Provident Fund has asked Southern Life to administer the fund.

The agreement was signed this week by Southern Life chairman Neil Chapman and the general secretary of the National Union of Mineworkers (NUM), Cyril Ramaphosa, in his capacity as chairman of the Trustees of the Fund (see picture).

The fund, which has over 220 000 members, is one of the largest provident funds in the country. Membership is compulsory for NUM members, but the fund is open to other mineworkers as well.

Southern Life executive director Adrian Arnot says the fund recognises important realities such as job mobility and was a step towards the goal of retirement benefit preservation. "The move reflects the growing trend among employees to participate more effectively in retirement planning and is also a sign that industry-based employee benefit funds are likely to increase," Mr Arnot adds.

Star 18/5/90

Banking and insurance shares active

CT 18/5/90 58

By Ann Crotty

The banking and insurance sectors featured prominently yesterday, with Standard Bank group (SBIC) gaining 300c on the day to close at R30 and Commercial Union (Cusaf) rising 450c to a close of R22.

The rise in SBIC (and in Volkskas earlier in the week) comes amid market speculation about an imminent reorganisation within the banking industry. But SBIC sources are emphatic that SBIC is no part of any reorganisation that might be on the cards and furthermore that they know of no such reorganisation.

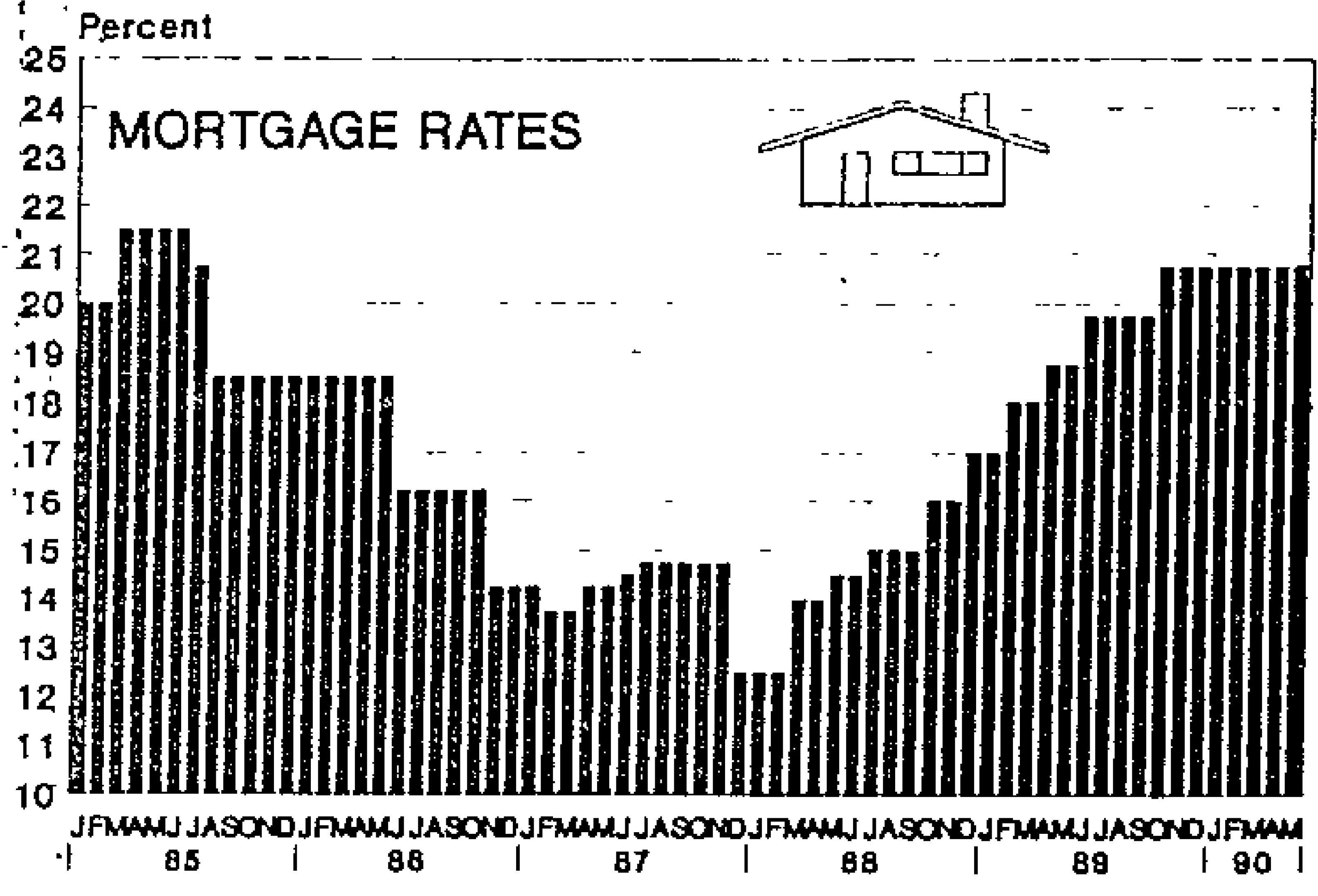
The rise in the share price is being attributed to a realisation that the markdown in the share price after the Reserve Bank's statement on repurchase agreements had been overdone.

Volkskas was equally adamant that it was not involved in any reorganisation.

Cusaf's price rise was precipitated by a R2 million book-over of 100 000 shares at R20 (250c ahead of the ruling market price). Just before the market closed a further 4 000 shares traded at R22.

Cusaf, which is seldom traded, is held by three major shareholders — Commercial Union UK, GFSA and, UBS Holdings — none of whom is believed to have been on the selling side.

There's only one way for rates to go — down



DEREK TOMMEY

HARD-PRESSED businessmen, troubled house owners and any anyone else who is being financially squeezed by South Africa's gravity-defying high interest rates: take heart. Interest rates have peaked and their next move will be downwards.

Several bankers interviewed this week were unanimous that interest rates were ready to fall. In fact, but for Reserve Bank intervention they would have fallen already, they say.

However, there was no unanimity about when the decline will start — except that it will be sooner than previously expected.

Mr Jimmy Mackenzie, senior general manager at First National Bank, said there were signs that the economy was turning down quickly. He had thought that rates would start to fall in November. But he was now convinced that they would come off sooner than that.

He did not want to be too precise but believed that there could be a full one percent cut in the bank's prime interest rate early in the fourth quarter.

Mr Don Hunter, managing director of the Allied Building Society, said it was an open question when the authorities would act to let rates decline. But he believed that they should start coming off in the third quarter.

Mr Richard Laubcher, managing director of Nedbank, said he would not be surprised to see interest rates start coming off towards the end of the present quarter or early in July.

However, the bankers pointed to a further drop in the gold price, which might increase pressure on the foreign exchange reserves which could delay Reserve Bank action to lower interest rates.

Any increase in overseas rates would also put upward pressure on rates here.

A major factor which could influence Reserve Bank thinking is the trend of the inflation rate. Economists believe that the Reserve Bank would like to hold interest rates at their present levels until the the year-on-year inflation rate, which was 14,9 percent in March, drops to around 13,5 percent.

But at the same time, the Reserve Bank cannot run the risk of "over-kill" and end up with a major recession.

SATURDAY MAY 19 1990

Small investors climbing back

W/ARGUS 19/5/90 (58)

By TOM HOOD
Business Editor

THE small investor is climbing back into the share market, grabbing the chance of tax-free dividends offered in this year's Budget.

Investment publisher McGregor estimated that the private investor's stake in the Johannesburg Stock Exchange slumped from 9,9 percent in 1983 to only 1,3 percent in October 1989.

But the freeing of dividends from income tax by Finance Minister Barend du Plessis dramatically changed the picture.

Stockbrokers and unit trust managers this week reported heavy buying by small investors as they visualised improved returns from the stock market.

Small investors were conspicuous in frenzied buying that boosted the price of De Beers to a record R110 this week.

However, brokers warned that in spite of euphoria in Johannesburg, De Beers was also a high-risk investment.

Being traded world-wide, the share is regarded as a commodity stock and a crash in the world diamond market could hammer the price.

A rise in the financial rand through improved political perceptions of South Africa could also lower the price.

A Cape Town stockbrokers' analyst, Mr Peter Trengrove-Jones, recalled world demand for diamonds collapsing in 1982 and De Beers dropping from R12 to R4 a share.

The dividend was reduced and the price stayed under R10 for a long time, gradually rose to R80, fell back to R25 and reached R60 last year.

Considering the prospects, the price could be regarded as "reasonable", he believed.

"Unparallelled interest" among small investors in unit trusts was reported this week by Mr Bastiaan van der Westhuizen, assistant general manager of Old Mutual unit trusts.

"While the small investor's stake in JSE trading is perceived to have slumped dramatically the unit trust industry tells the true story," he said.

"The small investor is using unit trusts to enter the JSE. This is reflected in the increasing number of Old Mutual unit holders which now totals 250 000, up from 180 000 two years ago."

Black investors are also climbing into the share market via unit trusts and account for a quarter of old Mutual's unit trust account holders, giving them a stake in the South African economy, added Mr van der Westhuizen.

Sales of unit trusts hit a record R638 million in the March quarter — up 74 percent on the December quarter — with more than 600 000 South Africans invested in them.

Investors also took advantage of high prices to sell and the Association of Unit Trusts reports repurchases of R274 million, a rise of 33 percent.

Two unit trusts were announced this week by Old Mutual and IGI Insurance and several others are on the way, with The Board of Executors, Fedlife and Bank Holding Corporation working on plans.

Warning that unit trusts are essentially long-term investments, a study by the Graduate School of Management at the University of Pretoria points out that the annual rates of return for South Africa's major equity funds receded to about 30 to 40 percent in the March quarter after ranging between 37 and 57 percent in the December quarter.

"The 12-year rates of return for these funds ranged from 20 to 30 percent and it is unrealistic to expect unit trusts to perform so much better than the trend for long-term performance figures every year," says senior lecturer Hugo Lambrechts.

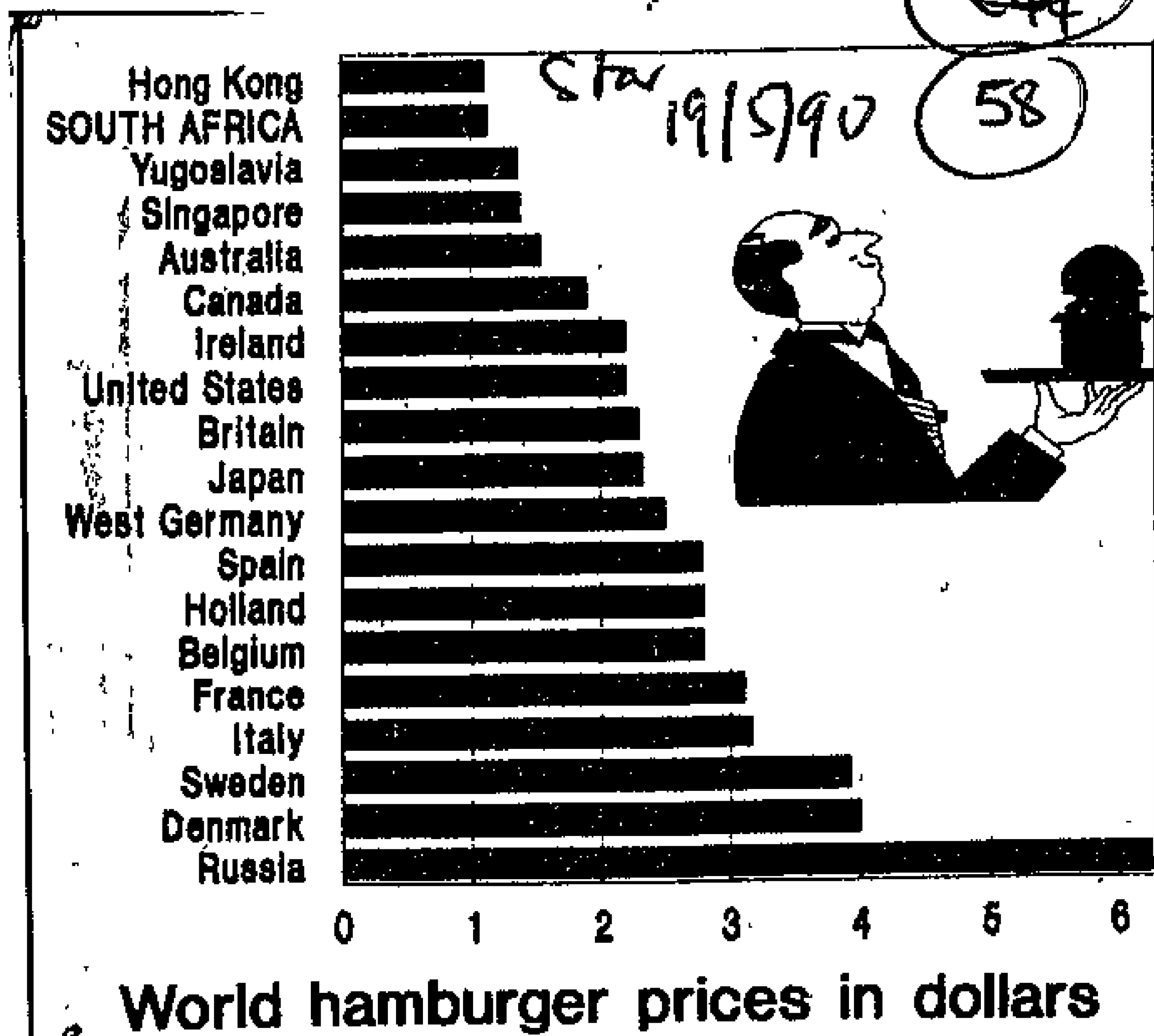
What price a hamburger?

DEREK TOMMEY

SOUTH AFRICA has one of the most undervalued currencies in the world — if the hamburger exchange standard is anything to go by.

What's the hamburger exchange standard, you may ask?

It's exactly what it says — a comparison of the purchasing power of the currencies of different countries based on the cost of hamburgers in those countries.



World hamburger prices in dollars

Every year the British journal The Economist uses the price of hamburgers as the basis for working out the purchasing power parity of various currencies.

It is not just any hamburger that is used in the survey. It's the price of a McDonald's Big Mac.

The Bic Mac is not available in South Africa, but after consultation with Americans living in this country who are familar with the Big Mac, it was determined that the South African equivalent would be about R3.

With this valuable statistic and The Economist's findings, it was possible to draw a few conclusions.

The most obvious was that at current exchange rates South African hamburgers are among the cheapest in the world.

In dollar terms the cost of the South African equivalent of a Big Mac is $1,13. Only in Hong Kong, where a Big Mac sells for $1,10, can you buy it cheaper.

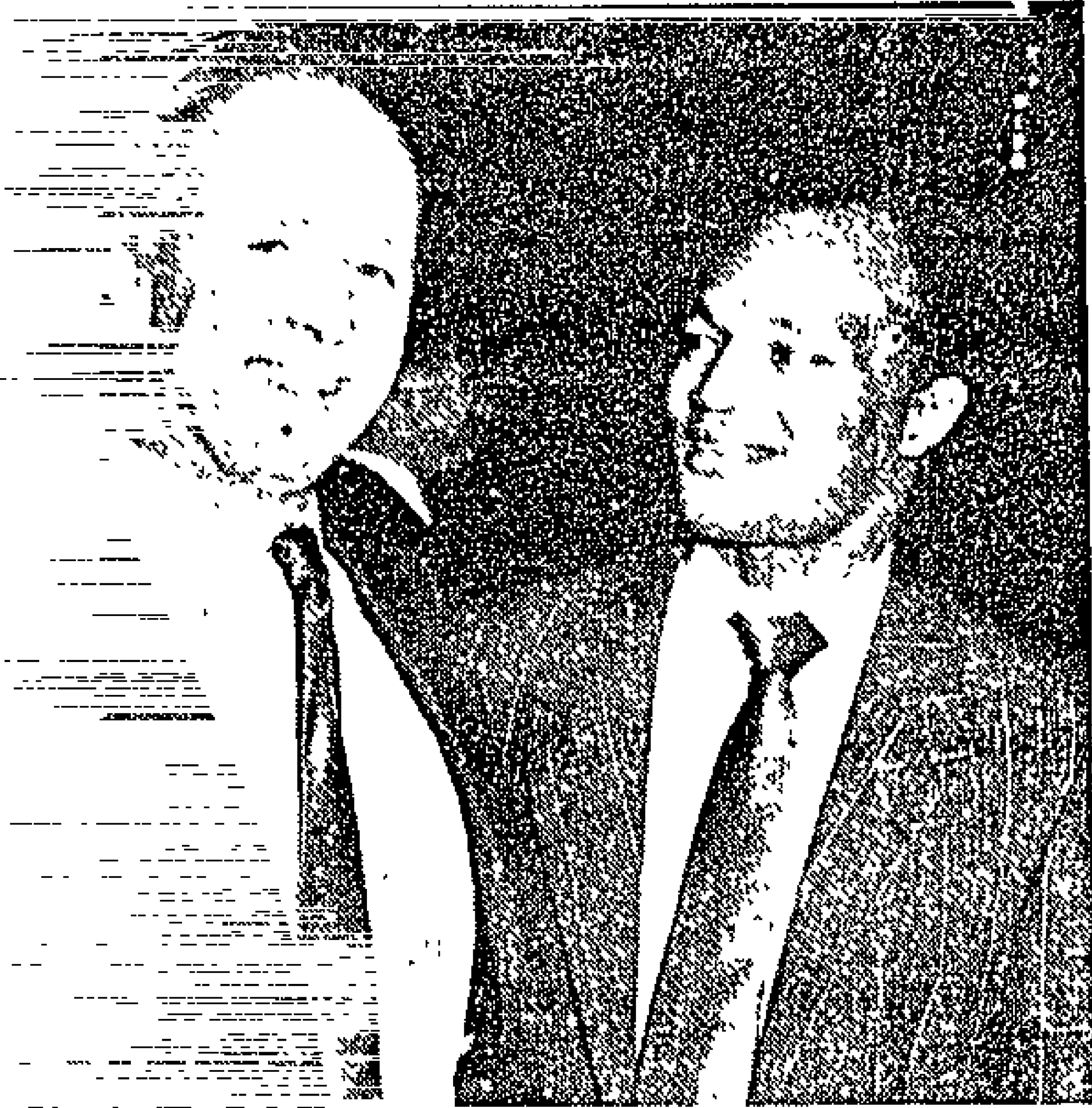
Yugoslavia is the next cheapest, followed by Singapore and then Australia.

But if you are ever in Moscow and want a hamburger you had better brace yourself for a shock. At the current rouble-dollar exchange rate Muscovites are paying the equivalent of $6,25.

Economists read more into these figures than just noting which country offers the cheapest Big Mac. They also get a good idea which currencies are over-valued and which are under-valued.

Basing what could be a highly significant statistic on the price of a hamburger might seen a little reckless. But economists such as Professor Ronald McKinnon of Stanford University have found a fairly high level of correlation between the hamburger standard and more sophisticated ways of determining purchasing parity.

From this conclusion one can argue that the hamburger standard indicates that in a universal currency many commodities in South Africa are much cheaper than they are in most other parts of the world.



...rantee Trust chairman Jeff van Rooyen (left) ... managing director Michael Johnson.

Financial aid for the small black business

By PATRICK MAFAFO

Citizen 20/9/90

ONE of the biggest impediments to the growth of black business, besides capital, is lack of skill.

It has been noted that while the black entrepreneur might have the makings of a great businessman, he falls short in areas which demand a high level of financial expertise.

To fill this gap a joint venture company, with offices nationally, has been formed to provide financial services to black business.

Chaired by Jeff Van Rooyen, Guarantee Trust (GT) has introduced an innovative franchising concept to southern Africa.

The company provides a comprehensive range of financial and administrative services to small and medium-sized businesses.

It also provides pension, medical aid and insurance benefits to individual businesses for their employees.

Emerging companies which do not have a full-time financial director, but which have a financial function and require overall control and direction, will find GT's services indispensable, says Van Rooyen.

"We provide computerised accounting, bookkeeping and all related financial management services required in these businesses."

Van Rooyen says prospective franchisees must have accounting qualifications such as B Compt, CA, CIS, CMA or IAT.

"A franchisee can elect to pay R7 500 and settle the balance over five years. The full franchise fee is R25 000."

Besides gaining access to group facilities, expertise and pooled research, the prospective franchisee will also benefit from GT's advertising power, bulk buying abilities, access to an overseas company, trust services and money desk facilities.

Included in the franchise fee is marketing training and orientation.

Van Rooyen is a chartered accountant and founder president of the Association of Black Accountants of Southern Africa (Abasa). His scheme is backed by Abasa executives, including current president Israel Skosana and founder member Willie Ramoshaba.

SUNDAY TIMES, Business Times, May 20, 1990 5

Assurers look for R14m claimants

By Don Robertson

A TOTAL of R14-million in unclaimed money is sitting in the books of assurance companies.

The figure increases annually and hundreds of assurance clerks are fully employed trying to track down dependants.

In most cases, the money is placed in a contingency fund, earning interest, if and until a dependant is tracked down.

There is, however, a prescription or final reclaiming period, after which the money can be added to the general life fund of the assurance company.

Most of the unclaimed money results from non-premium paying policies — for example, when a policyholder has made the policy paid-up.

This often happens after retirement when the holder no longer pays monthly premiums. If the client moves and his dependants have forgotten about his entitlement, a claim is not made.

Southern Life, one of the big four assurance companies, has built up a contingency fund of R3,6-million for unclaimed policies. Old Mutual has nearly R5-million on its books.

Sanlam has about R2-million and Liberty a paltry R25 000.

Sanlam, like the rest, employs clerks to check records and establish cases where the person can no longer be alive. Population registers, magistrates, the Registrar of Births and Deaths and the voters' roll are checked in an effort to find dependants.

Saambou tucks away R6,7m loss

THE good news for shareholders is that Saambou increased taxed profit 37% to R25,2-million in the year to March.

The bad news is that the building society suffered an "extraordinary" loss of R6,7-million in capital market transactions that went awry. Taking this into account, attributable profit of R18,5-million (1989:R18,4-million) made virtually no progress.

Managing director Christi Kuun says: "We took the loss below the line even though it was tax deductible because we believe it was abnormal and are sure it won't happen again."

History

The loss arose because of off-balance sheet transactions that have been stopped.

Mr Kuun says: "We are certainly not trying to hide it away, or saying we don't remember it. We announced it at the time and it was widely publicised."

Mr Kuun reckons taking the loss below the line gives a better idea of how the group is performing. He says because of its history as a building society rather than a bank, Saambou reports genuine earnings. There are no transfers to or from hidden reserves.

CHRISTI KUUN ... it won't happen again

He is confident that Saambou can increase earnings and dividends faster than inflation rises, even though it lost big brother Volkskas after the bank jumped into bed with United. Volkskas still has 10% of Saambou and Sanlam has a similar stake.

By David Carte

Management's stake in a trust is insignificant.

Mr Kuun says: "We have been criticised because our assurance activities yielded greater profits than the building society. The building society has increased its share of profit from 31% to 55% of the total. The assurance company's contribution fell from 42% to 25%. About 11% came from banking and 9% from property development."

Mr Kuun says new-business strain inhibited assurance profits last year.

"Legislative changes permitted us to introduce a range of products last year. Because of commissions, there were no profits on the new business. But profits will start flowing this year."

Another fillip this year could come from contraction of the staff by 7% to 2 600. Saambou has not replaced departing staff.

Mr Kuun reports an improved bad-debt experience. Properties in possession are down from R10,1-million to R6,9-million. With arrears down as well, he does not expect any deterioration.

Saambou is at a disadvantage in information technology to its larger rivals in that it has a smaller volume of business to support it. But the group has done computer-sharing deals with the University of Pretoria and an unnamed party.

Afrikaans

It claims to be as advanced as its rivals, though it does not yet offer cheque accounts. The group recently spent R6-million upgrading its mainframe.

Like Volkskas and Sanlam, Saambou has traditionally been an Afrikaans institution. Like them, it is trying to be multicultural — with success, says Mr Kuun. Its marketing effort cuts across all groups.

With semi-autonomous regional head offices in Cape Town, Bloemfontein and Johannesburg, the group is less centralised in Pretoria today.

Earnings a share were 29,6c (21,6c) before the extraordinary loss and 21,7c afterwards.

A final dividend of 6c makes 11,5c for the year. The share price at 121c is 5,6 times the lower earnings figure and the dividend yield is 9,5%.

Flexible trust

58

20/5/90

S/ Times

By Julie Walker

SANLAM unit trusts have joined forces with TrustBank and formed TransTrustplan — what a mouthful.

TransTrustplan is a scheme whereby investors deposit a lump sum in a demand account at TrustBank. From this account, money is phased monthly into unit trusts of the investor's choice.

The account earns high interest in the short term, and in the long run the unit trust investments earn tax-free dividends plus interest and capital growth.

by JULIE WALKER

Allied puts the cat among pigeons

S/Times 20/5/90

TROUBLE brewed at the Allied this week after a proposal to reintroduce a 13th cheque system for all junior management.

The reason is that the usually welcomed 13th cheque does not mean more money for staff. Allied will adjust — dock — the monthly salaries of staff to provide for a 50% pro rata 13th cheque payable in December. No interest will be paid to the staff on the amount retained.

The net effect is that the Allied retains the use of employees' remuneration until December. People you can talk to about banking will — or should — know that this represents a poor deal, hardly the kind of product that group customers would go for.

PIGGY

Imagine it. "Give your money to the Allied, and we'll give it back in six months without paying you a cent of interest."

That hardly makes for alluring patter.

Saving in a piggy bank would give more satisfaction — at least the money is in hand.

Written notice of the change was given to staff members because "management wishes to align the Allied remuneration package with the market place by introducing a 13th cheque as parts of the annual salary for grades C1 to C3".

Allied Group chief executive Kevin de Villiers defends the new system, saying it will bring about uniformity. Everyone will be happy in December when the 13th cheque is paid

Mr De Villiers says that only a small amount of interest would have been involved. He dismisses the notion that a principle is at stake His objective is eventually to make the bonus payments on merit.

SKIES

The group's advertising features staff members praising their employer to the skies.

Staff members, who asked not to be identified because they wanted "to tell Kevin" themselves who had spoken to the newspaper, expressed their dissatisfaction at the fait accompli.

"They gave us a pay rise last month and took it away again this month when we've all budgeted on the new amount."

There are many cries of unfair practice

Mr De Villiers asks how else the 13th cheque could have been reintroduced Whatever the legality of the move, it can hardly be worth the ill-will it has stirred at a group much prone to staff dissension.

No 5 for the Old Mutual

S/Times 20/5/90 (58)

BLACK investors make up a quarter of Old Mutual's 250 000 holders of unit trusts.

This is disclosed as the insurer launches yet another fund — made up of specialist industrial equities — hard on the heels of the new gold and last year's income funds.

This brings the group's tally to five — the same number as arch-rival Sanlam. Sanlam has the only other industrial fund, although it has a few mining counters.

The Old Mutual's products suit the season. Last year, interest rates were rising, so an income fund was launched. In January this year, the gold price was running, so forward with the gold fund. Now gold is dead or dormant, and along comes an industrial fund.

The fund's manager, Adrian Allardice, says the JSE is not overpriced in the long term and weakness in the market is welcomed as a buying opportunity.

The market moves on expectations, and the current slowdown in economic activity is reflected in weaker share prices.

Mr Allardice says corporate earnings growth will flatten in the short term, but the downturn is not expected to be as severe as in the past.

TANDEM

Previous downswings have been in tandem with a large current-account deficit, whereas a surplus exists now.

The trust will comprise blue chips and growth stocks. To be quoted from tomorrow, the opening price to investors will be about R2. Monthly subscriptions are from R100, or a lump sum of R1 000 can be put in.

The fund will need to invest in at least 20 shares because not more than 5% of its assets can be placed in a single share, nor may one investment account for more than 5% of the assets.

Investors can switch their investments in the Old Mutual unit trust network at low cost.

Figures show that the larger general equity funds have done best in the past 10 years, the Old Mutual Investors Fund leading the pack.

ADRIAN ALLARDICE ... eyes on the blue chips

Banking freelancers run into tough times

FIVE Senbank merchant bankers who walked out this week have been obliged by a dead corporate finance market to seek shelter in the Discount House of SA instead of venturing out on their own.

The five follow several highly qualified specialist merchant bankers who have left established institutions to enter an increasingly fragmented business.

One of the pioneers of freelance merchant banking was Peter Curle, who left Altech in 1987 to set up a mini-merchant bank.

At least 15 top men in the past three years have opted out of the security of big banks, hoping to emulate the examples of Rand Merchant Bank and Investec.

Risk

Discount House of SA (DHSA) chairman Colin Dunn says the firm is evolving into a specialised financial services group.

The first step was the establishment of the Discount House risk management or fund management division. The Deposit Taking Institutions Act will require DHSA to maintain statutory reserves, putting it on a par with other merchant banks.

Mr Dunn says: "Because of the new reserve requirement, our business of investing in short term assets has become largely redundant and we are branching out into fee-earning business.

"The risk management division is concerned with financial products, especially securitisation. The Senbank five will operate in discount house financial services."

Sources close to DHSA speculate that, like Duros, it will move into investment banking, taking stakes in promising businesses. Investment banks tend to have a higher risk-reward profile.

Section 38 of the Companies Act prohibits companies from financing the

By Dirk Tiemann

purchase of their own shares. But the absence of such a law helped to activate a lively mergers and acquisitions climate in the UK and US. Most SA companies are controlled outright, inhibiting mergers and takeovers.

Another banker who stepped out of Senbank into the cold is Charles Turner, today managing director of DMB Securities. Mr Turner says independent corporate finance houses are battling in a competitive market, aggravated by the economic downturn and the squeeze on bank margins.

Market conditions have deteriorated since 1987 when Duros launched itself into a "bubbling market". Standard and First Corp might differ, but he claims that UAL, RMB and DMB are the only active corporate finance houses

Mr Turner says the market is depressed. He thinks survival mergers will be more common than growth ones. Corporate finance is an intensely competitive niche market, characterised by innovation, service and total independence.

Kitty

Mr Turner says the independents are not a major threat to bigger merchant banks, but they will take the smaller, riskier deals away from them.

Mr Turner believes that DMB securities is well set, having a good cash kitty and investments.

The independents are left mostly with the crumbs from the big merchant banks. But Mr Turner says the crumbs have been good for Duros. He believes tough times require diversification, especially when one operates at the bottom end of the market.

Ex-Duros partner Reg Sherrell, now with Rand Merchant Bank, agrees that times are harder for the independents than in 1987. The business they take away from the big houses is insignificant in money terms, but

PETER CURLE ... high-quality deals pay

it could be as much as 40% of the activity.

Colfin general manager Dennis Zietsman says profits increased last year mainly because of the many reverse listings undertaken, but are down since January this year. He says 50% of the money is made from listings and 20% from debt swop arrangements. The balance comes from mergers and acquisitions.

Mr Zietsman says the fees charged by the independents, although as high as those of any merchant bank, are flexible because of lower overheads.

Mr Zietsman estimates the independents take R10-million out of merchant bank profits each year.

Quality

Mr Curle says many blue chips now use specialist finance houses for their corporate finance. The houses financing Development Capital Market (DCM) companies will suffer in the economic downturn.

Curle Securities has done well because of a few high-quality deals, like the listing of Cargo Carriers and restructuring of Bolton.

Quaestor IV's Ridge Riley says higher interest rates have led to restructuring and refunding. He claims his mini-bank is busier now than in the 1987 listings boom.

SA in line for freebie top spot

SOUTH AFRICA could become a favourite destination for foreign businessmen after sanctions are lifted, says international incentive marketing expert Christopher Bonn.

By Charmain Naidoo

He estimates that incentive freebie trips for businessmen could be worth R50-million a year.

Mr Bonn, principal of the Jersey School of Motivation, is in SA to prepare for the development of such a market and to speak to the Tourism Board.

He will also hold seminars for travel agents to show how to market SA and how to host specialised international business groups.

Mr Bonn believes that SA has been neglected as an incentive destination because of sanctions.

"Once restrictions are lifted, the climate, beauty and hotel infrastructure in SA will make it a world leader in this market.

"Marketing this country as an incentive destination will involve reshaping the tourist industry in preparation for an upsurge in demand for trading relationships."

"British industry and commerce spend £262-million a year on incentive travel packages, and the figure runs into billions of dollars in the US, so the sky is the limit for SA.

"The average visitor would stay for 10 days on a budget of £2 500 and belong to a party of about 100.

"We should have no difficulty in sending 50 such parties a year."

He believes that one of the spin-offs will be breaking of the seasonal tourist mould.

Bridges

"It will also provide a way of building bridges burnt through sanctions.

"This is a wonderful means of communicating with the corporate sector worldwide. It accelerates the dissemination of information and real-life as opposed to distorted media impressions," Mr Bonn says

Outlining the difference between incentive travel and ordinary tourism, Mr Bonn says: "Tourism packages generally run on a minimum management structure worldwide.

"There are low profit margins because of competition and the exchange rate is often an improtant consideration.

"Incentive travel is exactly the opposite It requires lots of senior management involvement

"Price is not a dominating factor because the equation is not what is saved, but how much much more profit is generated by motivation."

Saambou hit by major loss

ROBERT GENTLE

THE Saambou banking group posted a 37% increase in taxed profits to R25,2m for the year ending March, but this did not filter through to the bottom line because of a R6,7m extraordinary loss. (58)

The loss, the result of capital market transactions that went awry, was recovered within nine months without the need to dip into reserves.

However, it meant Saambou marked time on the earnings and dividends fronts. B/Day 21/5/90

Attributable income after the extraordinary item totalled R18,5m against last year's R18,4m.

Earnings a share before the extraordinary capital loss were 29,6c (21,6c) and 21,7c afterwards.

Saambou, whose subsidiaries include Saambou National Building Society and Saambou Bank, declared a final dividend of 6c, taking the total dividend for the year to 11,5c — the same as last year.

Group MD Christie Kunn says Saambou has achieved its objectives of recovering the extraordinary loss and expanding the business.

Saambou National Building Society was the major contributor to group profits, benefiting from rising interest rates during the financial year.

Group assets grew by 17,5% to R3,70bn (R3,15bn), in line with objectives.

Premium income for fire knocked

LINDA ENSOR (58)

THE short-term insurance industry's gross premium income for fire and related perils decreased by 2% in 1989 compared with 1988 — a development the executive director of the SA Insurance Association (SAIA), Rodney Schneeberger, says is the most "serious" in recent years.

"This is a potentially disastrous situation if the trend continues, which it cannot be permitted to do," he said.

The figures, released last week, show that premiums on the fire account declined to R694,5m (R709m). The fire account, which includes storm and catastrophe damage and fraud and burglaries, represents just under 50% of the total short-term market.

Schneeberger says remedial action has been taken and the market has already begun to firm.

There were no catastrophes in 1989 but the first four months of 1990 saw a number of large industrial fire claims, one of which Schneeberger estimates at about R80m. Damages from the Welkom disaster are estimated to run into hundreds of millions of rands.

A new trend, Schneeberger says, is the sharp increase in claims arising from fraud, robbery and burglary. The rate of motor thefts and accidents is increasing again and the average cost of motor claims is well over R4 000 as a result of demands for increases in wages and the cost of spare parts.

He attributes the drop in the fire account in 1989 to the "unbridled competition and indiscriminate rate-cutting ... over the last 18 months. Obviously from an industry point of view it is totally unreasonable to have a reduced income in a climate such as prevails in the country today where the inflation rate is in the region of 15%."

Another contributing factor was the move towards a greater degree of self-insurance. In addition, the number and cost of claims in all classes of business increased.

Smaller players in banking can also make their mark

NEIL YORKE SMITH (58)

BANK watchers stress SA is overbanked, yet smaller players continue to make good profits.

One example is Prima Bank, which last year earned R750 000 off a capital base of R2m. A similar return on capital is expected this financial year, says founder and MD Johan Bellingan.

"That's a return on capital in excess of 35%. How many larger organisations can get anywhere near that?"

Bellingan reckons specialist niche players will always appeal to clients seeking efficient, hands-on financial services. BDM 21/5/90

Smaller banks usually offer a few specialised services. These may include money and capital market operations, corporate and project finance and derivative operations, including futures and options.

"We simply aren't in the same market as the bigger banks and we don't want to be," says Bellingan.

Besides advantages of speed and efficiency, Bellingan believes clients appreciate the personal service they get.

"Often we get involved with small, rapidly growing businesses. We grow with them, something which offers huge benefits."

He is confident demand for specialist banking services will remain strong despite rationalisation in some parts of the industry.

"Growth opportunities will arise internally as we develop increasingly sophisticated instruments, as well as from areas like securitisation," he says.

"To survive in this business you've got to come up with a scheme every week."

Scheme afoot to unstaple De Beers units

Cape Times 21/5/90 (58)

Own Correspondent

JOHANNESBURG. — Syfrets said yesterday it was working with Finansbank and stockbroking firm George Huysamer on a financial scheme that would enable the unstapling of De Beers's local element from its off-shore Centenary element.

De Beers has been trading as a stapled unit since last month when the diamond giant announced it was hiving off its foreign interests into a Swiss-based off-shore arm, Centenary.

Syfrets director John Cragg, commenting from Cape Town on a weekend press report, said the scheme had been under study for about three weeks.

"We should know by the middle of this week whether or not it will fly," he said.

A representative from one of the other companies involved in the deal said that its success depended on approval from the JSE and De Beers shareholders.

"We do not need De Beers' approval as such, though we would like to do it with their blessing," he said.

The deal, according to available information, involves De Beers shareholders pooling their shares in a trust operated by Syfrets, which will then issue separate shares reflecting De Beers on- and off-shore interests.

De Beers press spokesman Neville Huxham said: "At the time of the Centenary announcement and on all subsequent occasions, Julian Ogilvie Thompson has made it quite clear De Beers has no intention of delinking its shares."

BUSINESS DAY, Monday, May 21 1990

R2bn shortage implies bank bashing

IN THE MONEY MARKETS

Harold Fridjhon

THE Reserve Bank's persistence in maintaining the money market shortage above the R2bn level suggests present policy is more psychological than monetary. It seems to be aimed at punishing the banks rather than at regulating interest rates through open market operations.

Last week when cash poured into the private banking sector from a maturing government stock on the same day that state salaries were paid, the estimated inflow would have expunged the market shortage.

The Bank correctly acted promptly to siphon off some of the cash overflow; for the market to switch over-night from deficit to surplus was, in terms of monetary policy, most undesirable. But surely not to the extent of R2bn.

To control, or to regulate interest rates so that they conform with Bank rate, a shortage of, say, R100m is theoretically sufficient, because rates are set by the marginal cost of money. And shrewd open-market dealing by the Bank can ensure there will always be the necessity for this marginal borrowing.

To force the banks to go beyond the marginal level of borrowing suggests the banks are being penalised for plying their business. Perhaps the big stick might have been necessary when Reserve Bank Governor Chris Stals and Finance Minister Barend du Plessis first acted to retard the growth in money supply and curb inflation in order to whip borrowers and lenders into line.

But now, with two quarters of slowdown behind us, with bank lending clearly diminishing as demand subsides, and with exports running ahead of imports, the big stick can be put aside, leaving natural economic laws to adjust rates — with a little help from careful open market trading by the central bank.

To persist with the apparent policy of maintaining a large money market shortage implies that the Reserve Bank is bank bashing, a charge which Stals will strongly refute. But what other interpretation can be given to the Bank's stratagem last week of doing large dollar swaps with the banks to drain rands out of the market, just to keep the straitjacket straps tight? The Bank also sold some assets into the market.

The net result was that the market shortage remained in a narrow band with a low of R2,3bn and a high of R2,6bn as the banknote issue reduced by R500m. The shortage should rise this week as GST payments transfer funds to the Treasury and the note issue builds up ahead of the two holidays. Some dollar swaps will mature this week and should ease the position by the month-end.

Trade in money market assets remains dull. Activity, such as it is, is still focused on raising, or retaining, the call money deposited by the large financial institutions. Call rates eased marginally last week to a range of 18,25-19%, with the majors paying the lower rates and the other banks and building societies paying according to their market ratings.

And a similar scale of differentiation also applies to the issuing of negotiable certificates of deposit (CDs). Earlier in the week, the institutions were prying around the market, interested in CDs at the shorter end, four, five and six months with the rates marginally finer than they were in the previous week. But the overall demand was limited.

□□□

MOVEMENTS in yields on the bond market were sluggish as traders appeared to be cautious and hesitant. Over the week, the Eskom 168 barely moved in a five points range.

It's still cheaper to buy the government's premier stock, the 13% 2005, than to invest in Eskom's loan 168. And the tiny Development Bank was issued at 16,4% yield to maturity compared with 15,94% on the should-be premier bond.

Issues & Investments

Industrial &

Audacious plan afoot to delink De Beers shares

By Magnus Heystek, Finance Editor

South African financial institutions will this week decide whether to accept the audacious plan put forward by Syfrets Asset Management, Finansbank and stockbroker George Huysamer to create an informal market for delinked De Beers shares.

On Saturday it was disclosed that the consortium last week made confidential presentations to most of SA's large insurance companies and pensions funds.

For the deal to work the consortium needs a commitment of at least 7,5 percent of the weighted average number of De Beers' shares in issue, namely about 26 million shares.

Spokesmen at two of SA's largest insurance companies have confirmed that the plan was presented to them, saying that they are busy evaluating the scheme which, if it got off the ground, is bound have a major impact on the share price of De Beers.

As far as can be ascertained, the consortium is trying to convince the large shareholders of the desirability of following scheme (if the large shareholders commit themselves publicly, the smaller ones will follow suit):

- The De Beers shares are lodged in a trust company, Syfrets, one of SA's largest and most respected trust companies.
- In exchange for their De Beers holdings participants receive an equal number of shares in a new company (Newco), which has two types of shares: Newco A and Newco B.

Newco A represents the Centenary part of De Beers, which is set for a Swiss listing on June 11, while Newco B represents the local operations of De Beers after the split.

Five-for-one basis

In addition to this split between the overseas and local operations, the Newco A and B shares will also be split on a five-for-one basis. The rationale behind this is to make the shares cheaper and more tradeable.

The plan is for Newco to be listed on the Johannesburg Stock Exchange as well as on an international bourse at a later stage.

This move will effectively delink De Beers, which the company is unwilling to do at this stage.

When the company in March this year announced its decision to list its overseas operations, it said that it had no intention of destapling De Beers and De Beers Centenary AG.

But chairman Julian Ogilvie Thompson is qouted as saying that they are powerless to prevent any outside party from doing so.

According to my information, De Beers has been informed of the latest development, but the company is not prepared to comment.

This bold move by the consortium, if it succeeds, will give investors the choice of investing in the part of De Beers they prefer.

De Beers has already indicated that about 80 percent of its annual earnings emanates from its international interests, with the rest coming from South Africa.

In theory, the aggregate share prices of Newco A and B will be equivalent to the share price of De Beers.

Should the De Beers share price lag, it will prove to be an incentive for investors and speculators to buy De Beers and exchange them for Newco A and B shares.

George Huysamer last week was not prepared to comment any further on the details of the proposal, saying he was only acting on the instructions of his principals, Finansbank and Syfrets Asset Management.

But he did indicate that any move that effectively unbundled the international interests of De Beers from its local interests would prove to be highly beneficial to the share price.

Nobody at Finansbank and Syfrets was prepared to comment on the deal, saying it was highly confidential and sensitive.

Bankorp considers shakeup

GRETA STEYN

BANKORP subsidiary TrustBank is winding down trading in long-dated capital market stock in a move to avoid risk in a market it regards as volatile and uncertain.

In a separate development, Bankorp is looking at ways to rationalise its group structure to eliminate duplication and create a more streamlined organisation. However, no final decisions have been made and rumours that Bankorp subsidiaries Santambank, Senbank and TrustBank are to be merged could not be confirmed.

But TrustBank spokesman Jan Kuhn yesterday confirmed rumours that have been rife in the gilts market for days, that the bank was to get out of the long bond market. He said the bank had had a strategic re-think after its options losses last year but that had not been the main reason for the change in strategy.

"We came to the conclusion that the potential rewards from an exposure in the market do not justify the risk, especially in view of the unpredictable nature of current market conditions."

He said the dealing team would now focus on the money market and would not deal in stocks with an expiry date of more than three years. Dealing in futures and options would be as hedging instruments — there would be no speculative positions in derivatives.

It was reported earlier this year that the bank suffered a major loss in the gilts market — estimated at an unconfirmed R30m by some market sources — in December last year as a result of writing uncovered call options.

Another factor that had influenced the bank's decision was government's relaxation on institutional holdings of prescribed assets. Institutional investors were moving away from the capital market, which also made dealings in the long-dated bonds less attractive.

58

Strong NRB results are cause for optimism

NEIL YORKE SMITH

NATAL-based New Republic Bank (NRB) has produced impressive results for the year ended March 31.

Attributable income more than doubled to R2,6m, and earnings a share rose by 44% to 47,5c.

NRB has five branches in Natal and two in the Transvaal. Its services include normal deposit facilities as well as commercial and industrial bond finance, leasing, instalment loans and bill discounting.

Standard Bank Investment Corp and listed trade finance group Merhold have substantial interests in NRB.

CE Mahmood Mia said NRB's performance had exceeded expectations, especially given fierce competition and tight economic conditions.

He attributed the performance to good operating expenditure management and the controlled growth of the NRB's client base.

Good management was reflected in an improved return on total assets, which reached 1,1% (0,8%) and the 21,3% (16,5%) return on average shareholders equity.

A final dividend of 8c a share was declared, taking the total dividend for the year to 15c (12,5c).

Due to higher interest rates and inflation the value of arrear accounts deteriorated from 0,23% to 0,27%. Because of anticipated difficult trading conditions during the next 24 months NRB increased its provision for bad and doubtful debts to R2m, or 0,8% of the average lending book, Mia said.

Kriel warns on black housing

Political Staff

BUILDING societies and the private sector would simply stop building new houses in black townships if the residents stopped bond repayments, the Minister of Planning and Provincial Affairs, Mr Hernus Kriel, warned yesterday.

A disturbing situation had begun to develop with housing committees in townships and squatter communities making unrealistic demands on housing authorities and the private sector, he said.

Mr Kriel, speaking at the start of his Vote, said one committee had demanded that every second house should be demolished as they were too close to each other and the residents rehoused at the expense of the developer.

It had demanded a maximum monthly repayment of R50 over 30 years, and that existing houses either have two rooms added at the cost of the developer, or be reduced in price by 60%.

Mr Kriel said the committee had stated that until these demands had been finalised, all residents would suspend their monthly repayments.

"An attitude like this poses a very dangerous situation," he said.

"I want to call on black leaders to stop these actions. Nobody but nobody can benefit from such an attitude."

As urbanisation gathered pace, living space for about 11 million new arrivals would have to be found during the next ten years — "a daunting picture, but by being frightened we cannot address the problem", Mr Kriel said.

"We shall have to manage this phenomenon in an orderly manner. And this is the challenge which the government has accepted."

Since 1986, more than 70 000 hectares of land had been demarcated as development areas and thousands more hectares were under consideration and planning.

It was estimated that all this land could accommodate eight to nine million people, not enough to overcome the backlogs.

"There are too few persons who realise the urgency of this problem and too many who put their own interests first."

The private sector's contribution towards housing black people was estimated at R2 billion in 1989/90 and R3 billion in 1990/1, but it was imperative that it was not just involved in middle-class and elite groups.

The state was subsidising about 34 000 first-time buyers at a cost of R40 million, Mr Kriel said.

Unlinking of units: De Beers appeals to JSE

Cape Times 22/5/90 (58)

By BARRY SERGEANT

JOHANNESBURG. — De Beers has approached the JSE to register its disapproval of proposed schemes to "unlink" the De Beers-Centenary AG units, De Beers spokesman Neville Huxham said last night.

Huxham said: "De Beers approached the JSE because unlinking the units would be directly contrary to the company's stated intention."

Syfrets Managed Assets (SMA), merchant bank Finansbank and stockbroker George Huysamer are promoting the scheme to "unlink" the stapled De Beers-Centenary AG shares, which are due to be listed on the JSE on June 11.

SMA executive Ian Hamilton said last night he was studying the move and would let other institutions approached with the idea, "and the market in general", evaluate the De Beers action.

De Beers said in March it would be listing Centenary AG in Switzerland and a stapled De Beers/Centenary AG unit would be listed on the JSE.

It will be SA's biggest listing, with the market value of De Beers/Centenary AG worth R40bn based on yesterday's De Beers closing share price of R106,75.

Hamilton dismissed accusations that the SMA scheme was a gimmick. "Nobody stands to lose from the idea, least of all De Beers."

Finansbank's Willie Ross said yesterday the idea of the unlinking scheme was to make De Beers/Centenary AG stock more marketable. "We have proposed that the scheme would need commitments from SA institutions of about R3bn of De Beers equity. It is then proposed that there be a 10:1 split, five shares for every one Centenary AG share, and five shares for every De Beers SA share."

He said a trust or holding company (working name Newco) would list two companies on the JSE, one representing the split Centenary AG shares and the other the split De Beers SA shares. These would then trade alongside De Beers/Centenary AG.

The stapled units would continue to be held by Newco.

Ross said it was possible an American depository receipt (ADR) would be formed overseas for De Beers SA, Centenary AG and De Beers/Centenary AG.

A leading De Beers analyst said yesterday the SMA/Finansbank/Huysamer scheme could in effect be "dangerous to some investors".

He said Centenary had no net cash and could not yet operate the international diamond business as a separate entity.

"It needs the full power of the De Beers SA balance sheet behind it for for several years in order to enable it to build up cash offshore."

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ON BAIL ... Mr Nicolaas Griesel

Forex probe: R½m bail

By RONNIE MORRIS

TWO city businessmen, arrested on fraud charges in their offices yesterday morning, were each granted R500 000 bail by a Cape Town magistrate yesterday evening.

Mr Nicolaas Griesel, 35, of Nederburg Street, Welgemoed, and a British citizen, Mr Allan Desmond Latham, 43, of Theomar Court, Constantia, both smartly dressed in suits, appeared relaxed while talking to their legal representatives before court proceedings started at 5.18pm.

In Johannesburg, a prominent banker, Mr Adriaan Prakke, 35, appeared in the Regional Court on fraud charges and was also granted R500 00 bail.

The national chief of the Commercial Crime Unit, General Nollie Hulme, said the charges related to foreign-exchange dealings involving at least R350 million. A Reserve Bank spokesman said the exact amount of the alleged fraud could not be determined until the investigation was completed.

Mr Griesel and Mr Latham appeared before Mr Deon Oosthuizen and were not asked to plead.

The bail conditions agreed to were:

- That they surrender their passports to police.
- That they report daily to police.
- That they refrain from "directly or indirectly" contacting 178 people.

LEAVES COURT ... Mr Allan Latham gets into a c after he was released on bail. Pictures: OBED ZIL

Police said he had been stabbed several

SA pays homelands R1,5-bn

South Africa paid over almost R1,5 billion to the TBVC states during the 1989/90 financial year in terms of the Customs Union Agreement, the Minister of Finance, Barend du Plessis, said in Parliament on Monday.

Star 22/5/90

In a written reply to a question from Mr Harry Schwarz (DP Yeoville), he said the individual amounts were: Transkei R548,92 million; Bophuthatswana R623,35 million; Venda R90,39 million; and Ciskei R221,78 million.

The amounts paid over to Botswana, Lesotho and Swaziland were R467,55 million, R263,64 million and R186,83 million respectively.

The balance accruing to South Africa was R4,878 billion. — Sapa.

R350-m forex fraud: 3 top men arrested

Staff Reporter

Three top Johannesburg and Cape Town businessmen, including former Repfin Finance managing director Adriaan Prakke (35), were arrested yesterday in connection with a R350-million foreign exchange fraud.

SAP Commercial Branch chief Major-General Nollie Hulme said the actual amount involved could be greater than R350 million and investigations were continuing. Further arrests were not expected.

The fraud, one of the biggest of its kind in South Africa, was uncovered after about five weeks of investigations by the Cape Town Commercial Branch, the Reserve Bank and the Cape Attorney-General's office.

Mr Prakke was arrested in his Braamfontein offices yesterday. Detectives detained Nicolaas Griesel (35), of Welgemoed, and British citizen Allan Latham (43), of Constantia, Cape Town, simultaneously.

Mr Prakke appeared in the Johannesburg Magistrate's Court yesterday and was released on bail of R500 000. He had to surrender his passport. Mr Griesel and Mr Latham also had to pay bail of R500 000 after appearing in the Cape Town Magistrate's Court.

All three men appeared in their personal capacities. Mr Griesel and Mr Latham are employed by Zenith Industrial Consultants.

Mr Prakke, who must report daily to the Fairland police station, was ordered not to contact the more than 170 witnesses in the case.

The three suspects will all appear in the Cape Town Magistrate's Court on November 26.

Mr Prakke resigned as Repfin managing director yesterday.

Repfin chairman Christoffel Erasmus said today that an internal investigation showed the company itself was not implicated in the alleged fraud but the board of directors had approved Mr Prakke's resignation.

"The investigations seem to be concentrated on complex conversions between commercial rands and financial rands by bank clients in the flow of funds to purchase industrial plant and equipment."

Star 22/5/90 (58)

Housing critical to reform

The critical need for improved educational, health services and housing could put a damper on the excitement generated by the constitutional reform process, says Mr John Grotsius, executive director, National Association of Home Builders (NAHB).

Speaking at the recent NAHB conference in Pretoria, he said high interest rates have been a major cause of the low level of activity in the home-building industry.

"This has resulted in a dissipation of the industry's resources and an acceleration of the tempo at which the housing backlog is growing," he said.

"At this crucial stage, the home-building industry must make a meaningful improvement in its level of activity and develop a sound housing policy which will ensure an industry less susceptible to economic fluctuations.

"For the industry to move into a modest growth phase, the cost of money for housing has to be reduced by at least four percentage points in order for monthly bond repayments to go down by 20 percent or more."

Star 23/5/90 (58)

The Star Finance

Downturn gathering momentum — Sanlam

By Sven Lünsche

The slowdown could continue well into the middle of 1991 as the current downturn in general economic activity is gathering momentum, writes Sanlam in its latest Economic Survey.

The economists estimate that real gross domestic product (GDP) will rise by only 0,5 percent this year.

They add that the forecast of a positive GDP growth rate is closely tied up with the expectation that the foreign trade sector — in particular owing to the decline in imports — will contribute positively to the growth.

"We expect that real gross domestic spending will decline by about three percent in 1990, which will not be as bad as the drop of almost eight percent in the previous downturn in 1985," Sanlam writes.

However, the report states that most economic indicators that are sensitive to the business cycle have only recently confirmed the lower rate of growth in economic activity.

These indicators include unemployment figures, retail and car sales, and manufacturing and mining production volumes (see graphs).

Unemployment

On unemployment Sanlam reports that the past year's rapid economic growth rate has led to a marked decline in unemployment this year.

The number of registered unemployed Whites, Coloureds and Asians had, for instance, dropped from more than 82 000 in August 1986, to less than 43 000 by the end of 1989.

However, the report warns that "it remains alarming that — according to official figures — almost three-quarters of a million blacks, or less than 10 percent of the economically active black population, are still unemployed."

Retail sales had dropped markedly since the latter half of 1988, although spending had stayed relatively high, but real spending on most consumption categories was "declining noticeably".

The high level of interest rates was also making credit financing very expensive, Sanlam writes.

Car sales

Sales of new passenger cars were down by an annual 20 percent in April and were expected to drop further due to "continued high financing costs and high prices of new vehicles."

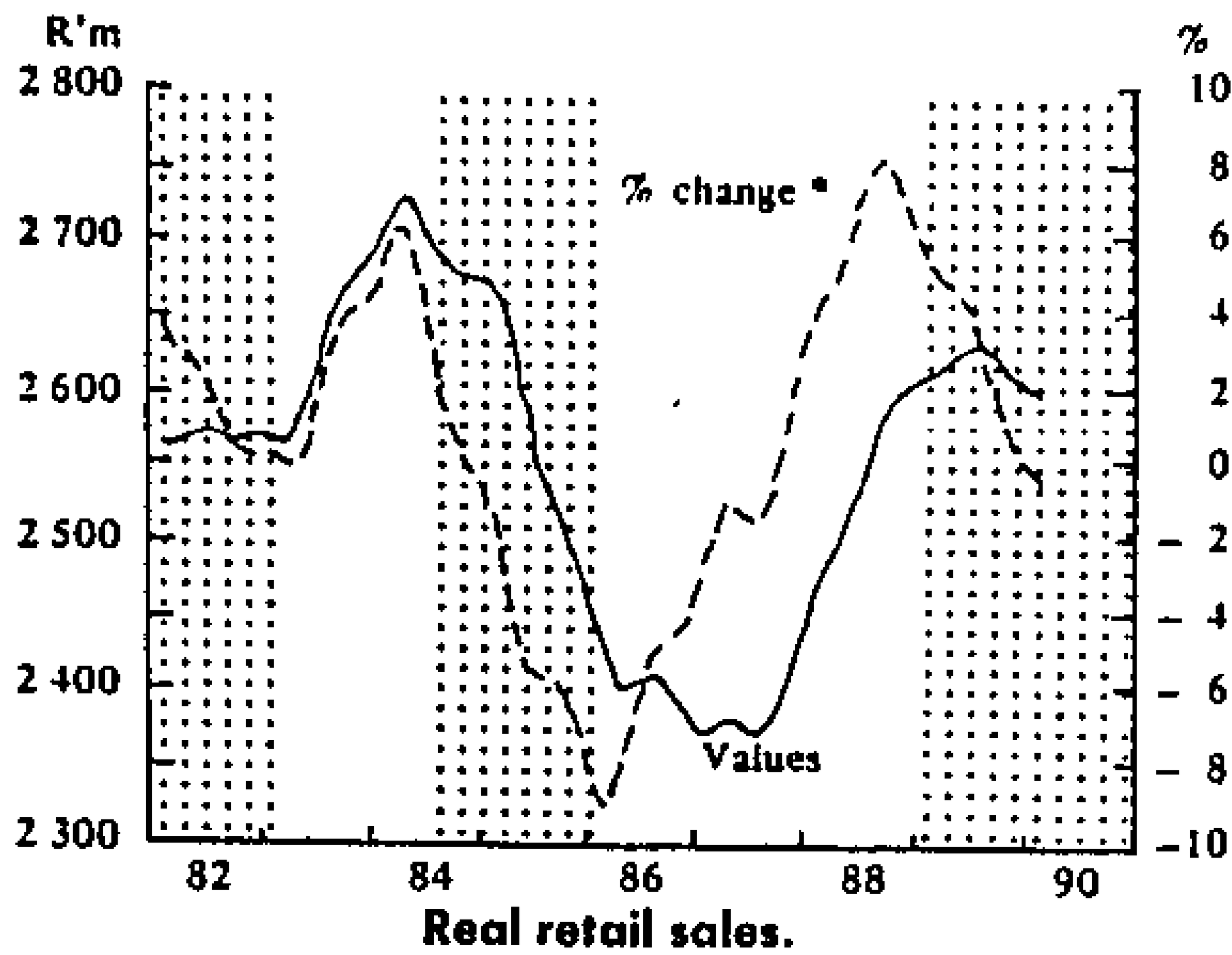
Factory output had also declined in volume recently, led by a decrease in investment activity of businesses and the relatively poor conditions in the transport sector.

Last year's strong export performance, which led to a fairly constant utilisation of production capacity of about 84,5 percent, countered the falling trend during the year, but Sanlam expects business conditions in the industrial sector to deteriorate further in the year ahead.

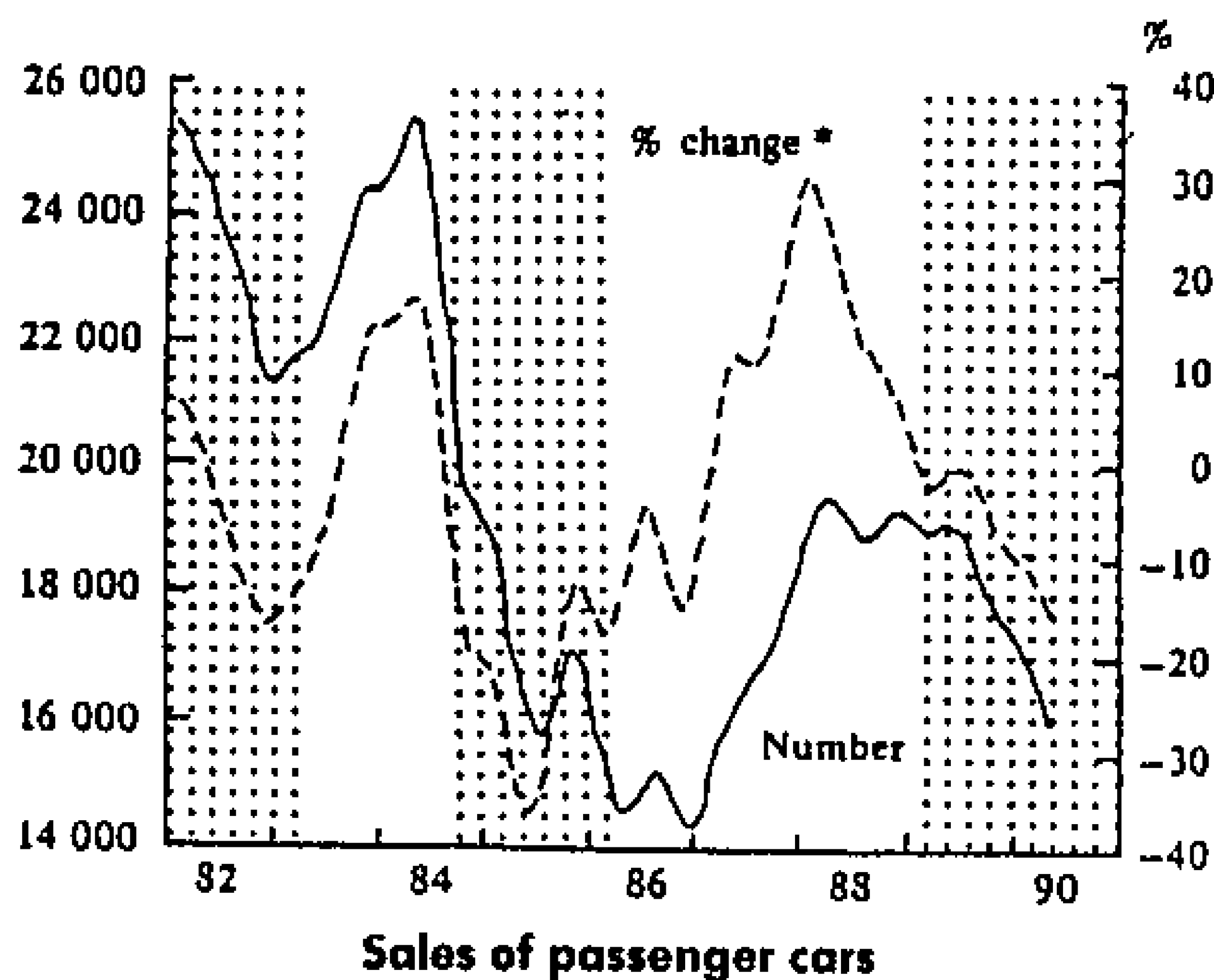
This coincides with recent statistics by the Industrial Development Corporation which showed that, while production volumes in the fourth quarter of last year were unchanged on the preceding three months, they were down by two percent when compared with the fourth quarter of 1989.

The building industry is also expected to suffer from the downturn, as the continued high bond rates, rising building costs, the expected curtailment of public sector investment and low capital spending by the private sector takes its toll.

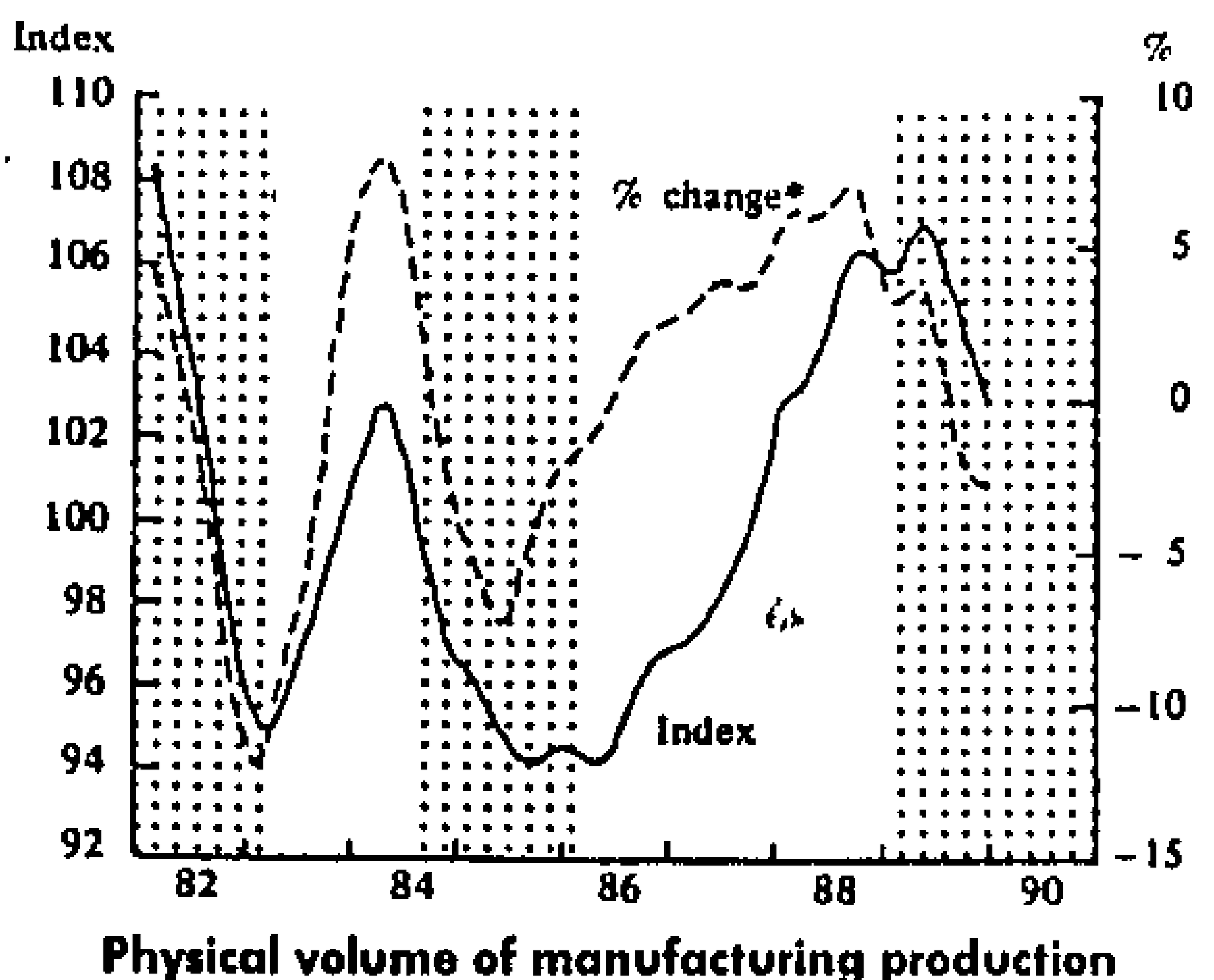
This trend can already be observed in the decline in the value of completed building plans, Sanlam says.



Real retail sales.



Sales of passenger cars



Physical volume of manufacturing production

● Monthly in comparison with the same month a year ago. Shaded areas indicate downturns.

LOA predicts 'ongoing inflation' in the new SA

LINDA ENSOR

BLOEMFONTEIN — One could expect inflation to continue in the new SA, Life Offices' Association chairman Dorian Wharton-Hood told the Institute of Life and Pension Advisors (ILPA) annual convention yesterday.

He said the provision of social services, schools and hospitals would imply ongoing inflation.

"I think it would be a great tragedy if anything were to happen to permanently disadvantage the life assurance industry as a potential vehicle through which real returns can be obtained."

Wharton-Hood said the stock market was likely to be extremely volatile in the future and it would be highly unlikely that the yield on equities in the '90s would be at anywhere near the levels achieved in the '80s.

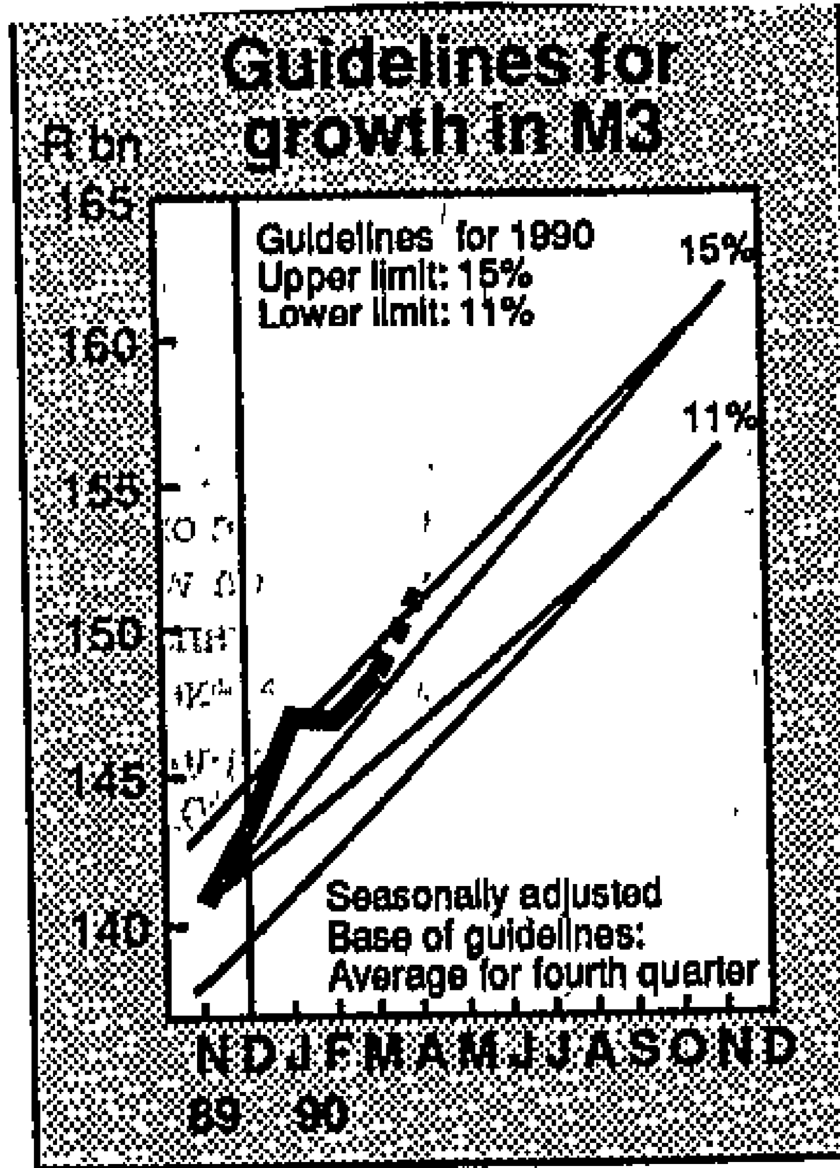
He said government had hammered the life industry from tax point of view because of the perception that it was an enormous "fat cat" industry.

"The reality is very different. Any tax repaid is tax paid on behalf of our policy holders."

In another speech, AA Life group benefits deputy GM Joe Gates called for an overhaul of the laws covering short- and long-term insurance.

Speaking on planning considerations relating to incapacitated and terminally ill people, Gates said: "The current distinction between short- and long-term insurance should be replaced by legislation which acknowledges two distinct areas of interest — insurances relating to 'property' and insurances relating to 'persons'.

"Until that happens, most, if not all financial planning consultants are unneccessary handicapped in providing efficient, effective and comprehensive solutions to consumers' needs," he said.



M3 growth 'no cause for alarm'

GRETA STEYN

RESERVE Bank Governor Chris Stals yesterday cautioned against making too much of the surge in money supply growth in April, saying it was the result of statistical noise.

Figures released yesterday showed M3 grew by a preliminary 22,71% in April (year-on-year) — sharply up from March's 19,96% and February's 21,17%. The rise surprised the markets with interest rate futures jumping about 30 points. The August futures contract on bankers' acceptances closed at 18% from 17,70% earlier in the day, indicating the market's bearish expectation on interest rates.

Stals said, however, the high year-on-year rise in M3 was not unexpected and was not cause for alarm. It was the result of a statistical aberration. Last year's unexplained shrinkage in the money supply in April (from R126bn in March to R123,8bn in April) meant growth over the year was off a high base and would necessarily be high.

M3, which includes all cash in circulation and all deposits (including savings) with banks, building societies and the Post Office, stood at R151,14bn (seasonally adjusted) in April, a high 1,9% increase from March.

The Bank has set a guideline for growth of 11%-15% (seasonally adjusted) for the year as a whole.

Bill aims to soften building society rules

B Day 23/5/90

CAPE TOWN — A Bill which will make it easier for mutual building societies to comply with statutory minimum share capital requirements was published here today.

The Mutual Building Societies Amendment Bill proposes that all shares in a society be recognised as share capital. (58)

At present, the Act requires that mutual societies maintain unimpaired reserves of at least 4% and indefinite share capital of at least 5% of their liabilites.

Other provisions of the Bill would:

- Alter the provision in the Act obliging societies to pay out their contributions in respect of subscription shares in equal montlhy instalments; and
- Bring provisions on the minimum liquid assets and reserve balances into line with those applicable to deposit-taking institutions. — Sapa.

Southern expects good performance to continue

B1D9M 23/5/90 (58)

LIZ ROUSE

SOUTHERN Life Association, whose total assets grew by 31% to more than R14bn in the year to March, has once again achieved quality results.

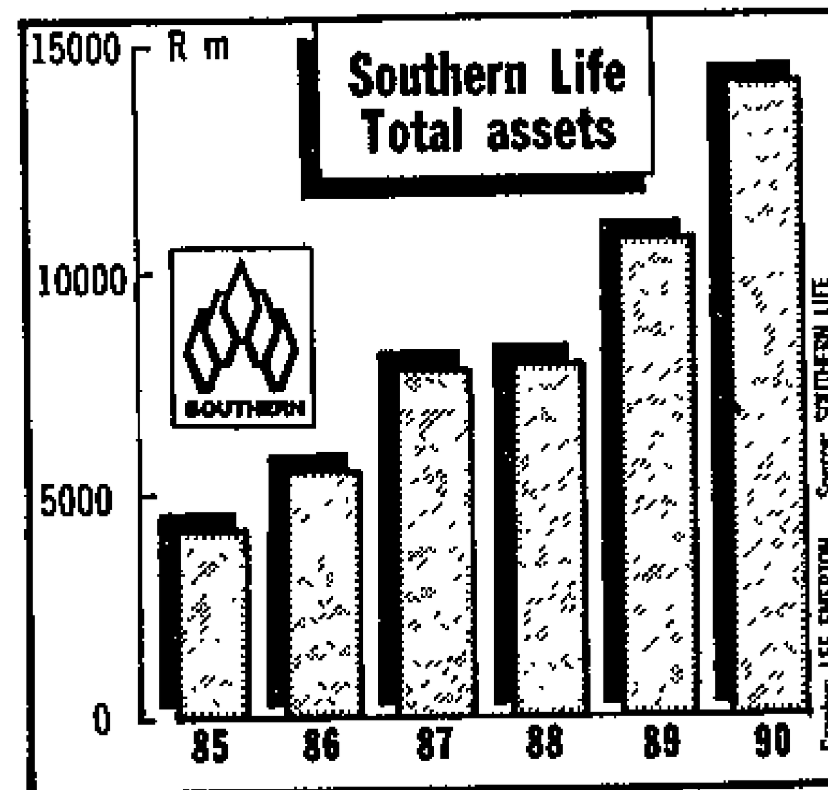
Disclosed attributable earnings rose by 21% to R115m from R95m in 1989, with a total distribution of R77m for the year. The final dividend has been raised by 23% to 27c (22c), lifting total distribution by 21% to 45,5c (37,6c).

Since the formation of the new Southern in 1984, earnings have increased by an annual compound growth rate of 23,6%, said chairman Neal Chapman in announcing the life group's results yesterday.

He said the group was well positioned for the year ahead and shareholders could expect earnings and dividends to continue to grow.

Total income increased by 16% to nearly R2,5bn (R2,1bn), with net premium income up 15% to R1,6bn (R1,4bn) and net investment income up 19% to R879m (R739m).

The rise in investment income shows that Southern once again scored on its investments. The continuing improvement in JSE prices was reflected in equity holdings and realised and unrealised investment surpluses amounted to R2,24bn.



The group's new business production for the year totaled R735m, with single premiums accounting for R444m and recurring premium business R291m. Chapman said single premium business was flat and would remain so until interest rates eased.

During the year the regulated prescribed asset requirements were withdrawn and replaced by the prudent investment regulations. Southern acted to take advantage of the new circumstances.

However, while Southern welcomed this change, Chapman said that the new regulations had not gone far enough and remained too restrictive. He felt that the 65% cap on equity investments was too low and that 75%-80% would be more in line with international standards.

Southern's exposure to property investments at 14% was below the guideline of 20%. The group's investment in government and other fixed asset stock was reduced to just under R1,6bn from R2,1bn, whereas equity investments showed a substantial increase to R2,85bn.

Chapman said the inflow of funds in the form of off-balance sheet portfolios was about R600m. He expected the flow of funds towards the Southern to increase, given the outstanding performance of its investment portfolios — an important measure of achievement — during calendar 1989.

The Managegrowth portfolio for pension funds yielded a return of 40,6% for the calendar year 1989.

The Southern's top 10 quoted equity holdings, which account for more than 60% of the portfolio by market value, are De Beers, Anglos, Gencor, First National Bank, Richemont, Rembrandt, Vaal Reefs, Iscor, Amgold and Barlows.

Commenting on the Southern's involvement in Namibia, Chapman said it was the company's intention to maintain and expand business in the territory. A separate operation would be created there.

BDay 23/5/90

Metropolitan total income up to R381m

ROBERT GENTLE

(58)

METROPOLITAN Life, the Sankorp assurer which does the major part of its business in the black market, has raised total income by 25% to R381m (R304m) for the half-year to March.

This included premium income, which increased 22% to R250m (R205m), and investment income, which rose 32% to R131m (R99,5m).

Metropolitan MD Willem Pretorius called the performance satisfactory, given the poor economic conditions during the period under review.

This translated into a 24% rise in interim earnings a share to 20,5c (16,5c) and a 23% rise in the interim dividend a share to 13,5c (11c) — leaving the dividend cover essentially unchanged at 1,5 times.

The results also show a strenghtening in Metropolitan Life's balance sheet. Total assets at book value increased from R1,59bn to R1,93bn, the bulk of it — 92% — accounted for by investment assets.

Pretorius said barring any unforeseen setbacks during the remainder of the financial year, Metropolitan's earnings and dividends for the full year should be higher than those of the previous year.

Metropolitan's share price continued to hover around the 650c mark yesterday, seemingly unaffected by the announcement.

The company's future prospects appear good, not least of all because of its active presence (about 62% of total business) in the growing black assurance market.

New AA Life unit trust fund mounts to R6m

LIZ ROUSE

SINCE its launch a month and a half ago, Allegro, the AA Life equity growth fund, has grown to almost R6m and about 1 900 unit holders.

Although the entry point is R25 a month, the average amount invested on a monthly basis has been more than double this. The option is a lump sum investment, and Allegro's lump sum contributions have also shown a high average of R2 838.

Some of Allegro's success can be attributed to AA Life's marketing strategies, says AA Life's investment division assistant GM Stephen Japp.

Potential unit trust holders can make their choice by making one toll-free phone call. Direct mail advertising has also made this unit trust highly accessible to the public.

Japp also points out advantages to the investor regarding a new unit trust fund. Firstly, the fund manager is able to make a clean stock selection.

In addition, new funds encourage a strong cash flow. This enables the fund manager to consolidate selection and capitalise on good ideas.

Timing also contributed to Allegro's success. It was launched shortly before Finance Minister Barend du Plessis annouced the lifting of income tax on dividends.

Japp says novel types of funds are being looked at — funds which differ from general equity and specialist funds. Allegro differs in the flavour of the portfolio from that of major competitors.

Metropolitan Life income up 22%

Cape Times 23/5/90 (58) (1989)

Financial Staff

METROPOLITAN LIFE lifted premium income for the six months to March by 22% to R250,6m and investment income by 32% to R130,9m (R99,5m). Total income was 25% higher.

Attributable profits increased by 24%. Earnings at share level rose to 20,50c (16,50c). The interim dividend is 13,50c (11c) a share.

Total assets at book value increased to about R2 bn.

MD Willem Pretorius said these meaningful increases in total premium and investment income, in spite of poor economic conditions, reflected a satisfactory performance in the first half.

He expected earnings for the full year, and the final dividend, to be higher than last year barring any unforeseen circumstances.

Fedvolks share earnings plunge 35%

Cape Times 23/5/90 (58)

Own Correspondent

JOHANNESBURG. — Poor performances from some subsidiaries, coupled with the economic downturn and high finance charges, sent earnings a share at industrial holding giant Federale Volksbeleggings (Fedvolk) plunging 35% in the year to March.

Earnings of 56,6c (86,9c) a share, on a 13% rise in the weighted average shares in issue, follow directors' revised forecast in March of about 60c a share.

However, newly appointed MD Peet van der Walt says Fedvolk has re-assessed its portfolio and introduced remedial plans to return the Sankorp-held group to profit growth.

While he will not disclose full details, he says Fedvolks will have to reduce its sensitivity to economic cycles and narrow its focus.

Fedvolk has declared an unchanged dividend of 21c a share, covered 2,7 (4,1) times, as the group views the earnings drop as a temporary setback.

Attributable profits fell 26% to R95,3m (R129,5m) after substantial losses were made by tractor producer Fedmech and white goods manufacturer Tek.

The service division, which includes Price Forbes, Avis, Fedics and Interpark, improved its earnings by 14% to R29,9m (26,3m).

The food division, Fedfoods, showed a slow 4% growth in earnings to R35,4m (R34m), but the pharmaceutical division, SA Druggists, saw its eranings fall 1% to R27,7m (R28m).

The domestic and consumer division made a R2m loss after profits of R23,5m the previous year.

Teljoy showed almost static growth, while crockery manufacturer Continental China, set back by production problems and industrial action, turned in poor results.

The motor component and agricultural equipment division, which includes Gabriel, Raylite and Champion, saw its earnings plummet 28% to R14,5m (R20,2m) solely because of losses made by Fedmech.

An extraordinary item of R85,7m comprises extraordinary losses incurred during the year and a provision for the cost of further portfolio rationalisation after taking into account existing reserves and provisions.

Turnover rose 13% to R3,8bn (R3,4bn), but the drop in consumer spending, particularly in the second half, is seen in the 9% fall in operating profits to R291m (R321m) on operating margins of 7,6% (9,5%).

Increased interest rates and overstocking in some divisions saw the interest bill soar 89% to R130,7m (R69,2m) and interest cover fall to 2,2 (4,6) times.

On a higher tax rate at 43,5% (37,8%), and after outside shareholders took a lower stake at R15,9m (R40,4m), attributable earnings were down 26%.

Van der Walt says Fedvolk plans to bring gearing, up at 65% (43%), down to a target of below 50% by the end of the current year.

He says the major portion of the group's portfolio comprises excellent branded products and services which should produce reasonable profit growth even in an unfavourable economic climate.

With the economic climate for the current year set to be be exceptionally difficult, earnings in the first half will be lower than of the previous year. Nevertheless, a growth in earnings for the full year is expected.

De Beers, consortium in talks on delinking

Star 23/5/90

By Magnus Heystek, Finance Editor

A meeting was held yesterday between De Beers and the consortium of local financial institutions which has proposed a bold plan to delink the shares of De Beers and its Swiss counterpart, Centenary AG.

The development follows on the announcement that De Beers has lodged a formal complaint about the matter at the JSE.

Yesterday the financial world was still buzzing with excitement about the ingenious scheme, which would effectively delink the stapled unit, something De Beers itself is shying away from at this stage.

A veil of secrecy was drawn over yesterday's meeting, with nobody prepared to comment on the matter, which has aroused considerable interest and controversy worldwide. Although nothing is known about the discussion, it is not the first time the two sides have met.

On Monday De Beers took the unusual step of making a formal approach to the JSE committee in order to record its dissatisfaction with the proposed scheme by consortium Syfrets Asset Management/Finansbank/George Huysamer to effectively delink the De Beers/Centenary AG units.

This has dampened euphoria over the stock.

On the JSE yesterday morning it opened at R103, down from the previous day's closing of R106,75. But it soon firmed to trade at around R104.

The scheme was first revealed in The Saturday Star after considerable speculation in the markets following a massive increase in turnover in De Beers shares last week.

More than R125 million worth of shares changed hands, pushing the price up to a record high of R110.

Some brokers and analysts are confident that the scheme will work and should prove to be a boon to what is called the "undervalued assets" of De Beers' international assets.

Others see it as "hair-brained and unrealistic".

Officially, De Beers has said that "delinking the units would be contrary to the company's stated intention".

Unofficially, analysts are saying that De Beers intends delinking the shares on its own accord in about four years' time.

One analyst, who has asked not to be identified, says De Beers has apparently given an undertaking to the Swiss authorities not to delink the shares for four years.

One reason has to do with capital gains tax, and the other is that Centenary AG has at present no cash on its balance sheet.

It will take about four years for Centenary AG to build up sufficient cash reserves to support any downturn in the international diamond market.

The key to the scheme now lies with institutions. They have until this afternoon to decide whether to lodge their De Beers shares with Syfrets, for which they would receive delinked shares in a new company to be formed.

For the scheme to have any chance of surviving, the consortium needs the commitment of at least 26 million shares, otherwise the market capitalisation would be too small to attract institutional and international attention.

No one at any institution is prepared to comment on the deal. Several say they have been presented with the proposed scheme of arrangement, but none have yet made a decision.

Despite the euphoria generated by the scheme, analysts are still bullish about De Beers' prospects once Centenary AG is listed on the Swiss stock exchange in about two week's time.

The diamond market is still very firm and prices at recent sights have been excellent, says diamond analysts John Taylor at James Capel in London.

East Rand RSC reports increased revenue for 1990

The revenue from the East Rand Regional Service Council levy and the regional establishment levy is estimated at R118,2 million for the 1990/91 budget as against an estimated revenue of R88 million for the 1989/90 budget.

The ERRSC is expected to receive an estimated income of R98,8 million during the current financial year.

An ERRSC monthly meeting was told on Monday that the increased revenue was due mainly to salary increases and turnover, on which the levies were based, and the success in tracing unregistered levy payers.

The number of registered levy payers was 36 556 in March this year, as opposed to 32 110 in March last year.

The meeting was also told that provision had been made for 10 percent increase in the levy rates.

The council resolved to maintain the 20 percent rebate applicable to farming enterprise. — East Rand Bureau.

Fedvolk needs way out of woods

Some shareholders probably thought that Federale Volksbeleggings (Fedvolks) would do its utmost to pip the 60c earnings per share that was being forecast in the market.

But the Fedvolks team obviously reckons that after so much bad news over the years their shareholders are tough enough, not only to take a 35 percent drop in earnings, but to cope with an extraordinary write-off of R85,7 million.

The strategy for presenting the financial 1990 figures seems to have been to bite the bullet and take as many knocks as possible. Then the turnaround — if it comes — will be off a conservative accounting base and look all the more impressive.

The financial '90 figures are significantly worse than the market had been expecting.

Talk of restructuring may help support the share price, although there may have been too much of that in the past.

But this time round there seems to be a greater sense of urgency — no doubt reflecting the wearing thin of the patience of controlling shareholder, Sanlam. (Sanlam has had to look on at a dismal earnings performance throughout much of the eighties.)

Diagonal Street

ANN CROTTY

In financial '90 group turnover was up 13 percent, pre-interest profit was down four percent, finance charges were up 89 percent, pre-tax profit dropped 27 percent, the tax rate was up and taxed profit was down 34 percent.

After a drop in outside interests, attributable profit fell 26 percent, which was aggravated by an increase in the weighted number of shares in issue. EPS was down 35 percent to 56,6c (86,9c).

(The increase in interest-bearing debt was partly due to leased assets being brought onto the balance sheet).

As if all of that wasn't bad enough, management — headed by new MD Peet van der Walt — decided to take an extraordinary loss of R85,7 million.

This sum comprises losses incurred over the year relating to rationalisation costs involved in trimming poorly performing operations and closing down nonperforming activities.

Some of the write-off relates to costs that are expected to be incurred in this year's rationalisation moves.

This suggests that right now management has a fairly clear idea of how it is going to clean up its diffuse portfolio.

Mr van der Walt won't reveal anything, but does say that something significant will be announced within the next few months.

Fedmech and Tek are the major problem areas. Given that Fedvolks is now looking at a buyers' market, the best it can hope for is a dilution of holdings in both operations.

To this end some sort of Fedmech joint venture deal with another party (which could get Fedmech off the Fedvolks balance sheet) may be on the cards.

For Tek, closing down poor production lines and cutting stock levels could encourage Sankorp (which holds 48 percent of Tek) to lift its holding above 50 percent and so enable Fedvolks to take it off its balance sheet.

Whatever happens, first half of financial '91 is expected to show a drop in earnings, although Mr van der Walt is striving for a real increase in earnings for the full year.

R350-m forex fraud: probe widens

By Michael Chester and Craig Kotze

Police are investigating several financial schemes following the disclosure yesterday of an alleged R350 million foreign exchange fraud.

And a chain of new business ventures, financed by inflows of foreign investment cash, may also come under scrutiny by the Reserve Bank and CID detectives as more clues are unearthed about possible breaches of exchange control laws.

The Reserve Bank suspects that profits from infringements of forex rules may be running into tens of millions of rands in the swopping of financial rands into commercial rands in the flow of investment finance from overseas.

New funds

The profits may have been scooped from the big discounts offered overseas investors bringing in new funds in financial rands, in turn converted into commercial rands to buy plant and equipment.

Insiders believe complex financial packages behind a number of recent major industrial ventures and expansions — worked out in scams planned by specialist advisers — may have broken exchange control regulations.

Investigations widened after the arrests yesterday of the managing director of a Johannesburg banking operation and two employees of a Cape Town consultancy firm.

Adriaan Prakke . . . former MD of Repfin out on R500 000 bail.

They are Adriaan Prakke (35), who resigned yesterday as MD of Repfin Finance, and Nicolaas Griesel (35) and British citizen Allan Desmond Latham (43), both of Zenith Industrial Consultancy.

Further arrests were not expected, said SAP Commercial Branch chief Major-General Nollie Hulme.

The amount involved could be greater than R350 million and investigations were continuing, said General Hulme. The alleged fraud — one of the biggest of its kind in South Africa — was uncovered after about five weeks of investigations by the Cape Town Commercial Branch, the Reserve Bank and the Cape Attorney-General's Office.

Mr Prakke was arrested in his Braamfontein offices on Monday, and detectives detained Mr Griesel of Welgemoed and Mr Latham (43) of Constantia, Cape Town, simultaneously.

Alleged fraud

Mr Prakke appeared in the Johannesburg Magistrate's Court on Monday, was released on bail of R500 000 and had to surrender his passport. Mr Griesel and Mr Latham also had to pay bail of R500 000 after appearing in the Cape Town Magistrate's Court.

All three appeared in their personal capacities.

They will appear in the Cape Town Magistrate's Court on November 26.

Repfin chairman Christoffel Erasmus said today that an internal investigation showed that the company itself was not implicated in the alleged fraud. The board of directors had approved Mr Prakke's resignation as managing director.

"We have pulled out all the stops to give assistance to the Reserve Bank in its investigation," Mr Erasmus said.

M3 growth 'a technical adjustment'

(58) Star 23/5/90

By Sven Lünsche

Provisional estimates by the Reserve Bank show that the broad money supply measure M3 soared by 22,71 percent in April after declining steadily over the previous months.

However, Reserve Bank Governor Dr Chris Stals was quick to add that the sudden increase was merely a reflection of a technical adjustment.

Dr Stals told Sapa yesterday that the figure was a reflection of abnormally low growth in the money supply in April last year cause by a large number of public holidays during that month.

He said that if the growth in April was compared to the fourth quarter of last year, the figure was 17,6 percent.

This growth rate is still outside of the Reserve Bank's target range of 11 to 15 percent for M3 between the fourth quarter's of 1989 and 1990.

However, the money supply figures, released yesterday by the Bank, indicate that growth in M3 is slowing in line with the downturn in economic activity.

The M3 growth rate in March fell by a revised 19,96 percent to R149,956 billion, compared with increases of 21,17 percent in February and 23,47 percent in January.

The figures excluded Namibia for the first time.

The more narrowly defined M1 grew by 18,07 percent in March (February: 19,83 percent) and M2 by 23,12 percent (26,61 percent).

Southern Life fully justifies its share market re-rating

Star 23/5/90 (58)

By Derek Tommey

Southern Life's shares have been one of the best performers on the JSE in the past 12 months, moving up more than 60 percent to hover around 1 200c.

Figures issued today indicate that this re-rating is fully justified. In the 12 months to March it has raised its net taxed surplus by more than 20 percent for the fifth consecutive year.

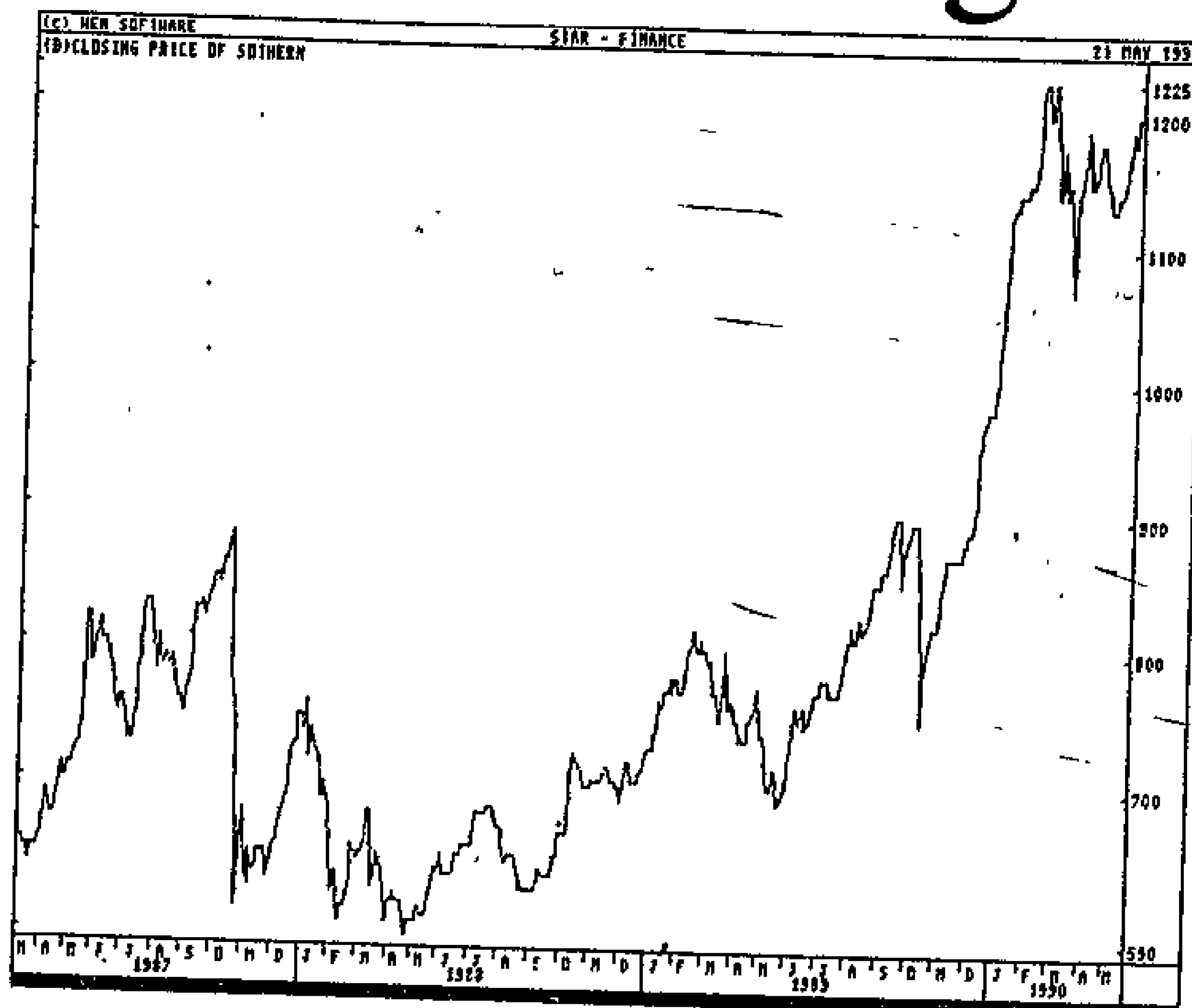
It is a consistently good profit performance like this that makes a company's shares attractive to financial institutions and other long-term investors.

Southern's disclosed earnings in the year to March rose 21 percent from R95,9 million to R115,2 million and brought the annual average profit increase since the formation of the new Southern in 1984 to 23,6 percent, says chairman Neal Chapman.

The net taxed surplus increased 22,9 percent from 56,3c to 68,3c a share, and the final dividend has been lifted 22,7 percent to 27,0c a share, making a total of 45,5c for the year — a rise of 21,0 percent on the previous year.

Net premium income, which had shown a pedestrian 12,7 percent rise in the six months to September, spurted 17 percent in the second half to rise 15 percent to R1,60 billion for the year.

Group recurring premium income rose 22 percent to exceed R1 billion, while new business produced R735 million, with single premiums accounting for R44 million and recurring premium business for R291 million.



Southern Life share price movement

Net investment revenue, after spurting 37,2 percent in the first six months, rose a mere 4,9 percent in the second half, presumably reflecting the switch out of non-growth government stock into equities.

Overall, net investment income rose 19 percent to R2,48 billion.

Mr Chapman says the group took advantage of the new investment regulations and reduced its investment in government and other fixed interest stock from R2,09 billion to R1,57 billion.

By contrast, the value of equity investments rose R2,85 billion.

He welcomes the change in investment regulations, but feels they have not gone far enough. He would like to see the maximum percentage of funds that can be invested in equities raised from the present 65 percent to 75 to 80 percent.

Southern continued to concentrate its equity portfolio. Its top 10 quoted companies — De Beers, Anglos, Gencor, First National Bank, Richemont, Rembrandt, Vaal Reefs, Iscor, Amgold and Barlows — accounted for more than 60 percent of its portfolio by market value.

Mr Chapman says Southern is well-positioned for the year ahead and that shareholders can expect earnings and dividends to continue growing.

Slowdown acting against SA Eagle

Diagonal Street
LYNNE PEACH

SA Eagle, listed for more than 20 years, suffered a decline in earnings last year and prospects for the current year are not very encouraging, according to stockbrokers.

They point out that the short-term insurance industry remains highly competitive, which restricts rate increases.

At the same time, the cost of claims will be pushed up by inflation and possibly also by an increase in the crime rate brought on by the economic slowdown and resultant joblessness.

In the latest annual report, chairman Fred Haslett points out that it is unrealistic to expect annual increases in the underwriting surplus because short-term insurers base their prices on past experiences.

These can be dramatically affected by factors beyond their control, he says.

Growth of assets

Instead, he suggests that short-term insurers be judged according to the steady growth of assets and the return to shareholders over a long period.

SA Eagle, whose major shareholders are Eagle Star Insurance and Anglo American corporation, conducts all classes of short-term insurance business in SA and neighbouring territories.

Managing director Peter Martin says that competition for business was fierce last year.

This was especially true on the industrial and commercial account.

And this, together with the group's decision not to retain business at any cost, impacted on premium growth.

In the year to December 1989, the value of gross premiums written increased by 12 percent from R581,3 million to R652,5 million.

A similar rise in re-insurance premiums from R130,4 million to R146,4 million resulted in net premiums also rising 12 percent from R450,9 million to R506,1 million.

The increase in unearned premium provision amounted to R19 million, compared with R28,7 million in the previous year.

This decrease allowed net premiums earned to climb 15 percent from R422,2 million to R487,1 million.

After deducting claims, commission and other underwriting expenses, underwriting profit showed a decrease of 46 percent from R38 million in 1988 to R20,6 million.

Investment income showed an increase of 19 percent from R44,3 million to R52,5 million because of further investment in equities, which produced tax-free dividends and because of the high rate of interest paid on cash deposits.

Expenses not chargeable to underwriting doubled from R1,5 million to R3,3 million.

The outcome was a 14 percent decrease in pre-tax profit from R80,7 million to R69,8 million.

A decline in the effective tax rate from 38 percent to 32,6 percent reduced the fall in attributable profit to six percent from its previous R50,1 million to R47 million.

Earnings per share declined from 417,4c to 392c.

The dividend for the year, however, was increased from 180c a share in 1988 to 190c.

Balance sheet

The latest balance sheet shows total assets up 12 percent from R554 million to R622,1 million.

The market value of these assets is R936 million.

SA Eagle, priced at R24,50, is trading on a P/E ratio of 6,3 and provides a dividend yield of 7,8 percent.

Stockbrokers recommend that accumulation of the share be shelved until the end of the year.

COMMENT: The primary trend for SA Eagle over the past five years has been favourable.

The current price of R24,50 is nine percent below the 1989 peak of R27.

Before the share price can be expected to travel to new heights, the price will have to rise above R25.

The Star
Finance

Former directors of Arontex called to give evidence

Star 24/5/90

By Des Parker

DURBAN — Former directors of liquidated Durban-based Arontex Holdings and its subsidiaries — including chairman Trevor Aron — have been summoned to give evidence at an inquiry in Pietermaritzburg next week into reasons for the clothing group's failure.

The holding company and its five subsidiaries were provisionally liquidated in the Supreme Court, Pietermaritzburg, in March, with the final order being made this month.

Liabilities of the main operating firm, Lara's Manufacturing Company, have been put at about R18,6 million with realisable assets of about R4 million.

Attorney Payl Wiener of Werksmans, who is representing the liquidators of the four subsidiary companies, said the three-day inquiry was being held in an attempt to discover reasons for the companies' liquidation, why liabilities were so high and to investigate the securities held by the various major creditors.

It also would attempt to reconcile the financial affairs of the various companies, as well as try to ascertain the movements of some of the stock.

In addition to Mr Aron, subpoenaed witnesses included former financial director Alan Gitsham and company drivers who were being called to try to resolve the stock question.

Lloyd Spendiff of Ernst and Young Trust, joint liquidator of Lara's, said a number of offers had been received for the business.

However, it was to be put up for auction with remaining moveable assets in Durban on June 11 to try to obtain better prices.

SA democracy first, cash later — Swiss banks

MK 24/5/90

ZURICH. — When President De Klerk went shopping along Zurich's famous Bahnhofstrasse he walked just a few metres above huge stores of gold — much of it South African — in Swiss bank vaults.

However, the bankers are unlikely to recycle much of this wealth to South Africa in fresh loans until they are convinced political peace has cemented chances for stable economic development in a post-apartheid society.

One banker said last night: "The economy in South Africa will develop magnificently as soon as an agreement is reached that guarantees democratic rights for all.

"A political solution has to come first. Economic development will follow."

Mr De Klerk, nearing the end of his nine-country European tour, spent his first day in Switzerland talking to government officials and met business leaders privately.

On Bahnhofstrasse Mr De Klerk and his wife Marike window-shopped at stores crammed with South African gold and diamonds.

POLICY NOT CHANGED

Switzerland has never imposed sanctions on South Africa. However, it limits new loans to R550-million a year to prevent Swiss banks being used to circumvent sanctions other countries have imposed.

Mr De Klerk raised this subject at yesterday's talks, but had no response.

Swiss government spokesman Mr Michel Pache said: "He mentioned it and then it was finished. Things will stay the same. It is too early to speak about this."

Bankers said they were glad Mr De Klerk had had the chance to outline his vision of a new South Africa in person, but his trip would not change their lending habits.

Mr Daniel Mollet, deputy-director of Switzerland's fourth-largest bank, said: "I cannot speak for the banking world generally, but as far as Swiss Volksbank is concerned, our policy has not changed as a result of his visit. We are not discussing a change."

Trade between the two countries has grown in recent years, but is still well below its peak in 1982, though trade figures exclude gold, of which Swiss banks are major buyers. — Sapa-Reuter.

● Pik's interview, page 4.

Bill places societies on equal footing

(58) BDay 25/5/90

LESLEY LAMBERT

CAPE TOWN — The Mutual Building Societies Amendment Bill, tabled in Parliament this week, will enable mutual societies to operate on an equal legal footing with equity based building societies and other deposit-taking institutions.

The new legislation proposes that all shares in a mutual society be recognised as share capital with the purpose of making it easier for the few remaining mutual societies to comply with statutory minimum share capital requirements.

Current legislation requires the societies to maintain unimpaired reserves of at least 4% and indefinite share capital of at least 5% of their liabilities.

New legislation governing banks and building societies which have converted to public companies over the past few years, is presently being drafted. The financial authorities hope to get it through Parliament during the current session.

BANKING F/M 25/5/90 (58

Eyeball to eyeball

Much recent speculation about the future structure of the banking sector hinges on what ex-Nedcor MD Piet Liebenberg will do when he becomes Bankorp CE in July. Till then there will be no clarity on the direction Bankorp and its subsidiaries, including formerly listed TrustBank, will take.

The background to Bankorp's problems has been unrestrained asset growth without comparable growth in capital and reserves. This has been compounded by a series of recent problems (see "Trust rethinks.") There is talk that the group's backer, Sanlam, has tired of throwing money at it. As this is only the latest troubled phase in a chequered history, something radical may have to be done to rescue it not only from current problems but from its reputation.

Naturally, this has created much uncertainty — and not only at Bankorp. Decisions within that group are likely to have a ricochet effect on the entire industry, which is particularly vulnerable as the economy moves into a recession.

Bankers now face:

- Lower growth in volumes;
- Illiquidity in the money market which drives up funding costs and shaves margins;
- New legislation which will force most banks to hold a higher ratio of capital and reserves to assets; and
- Changes in legislation which will open up the ownership of banks.

At the same time, institutions will have to keep paying for expensive skills and technology and adequately reward shareholders.

In this climate they are turning to new sources of income, charging fees for services previously provided free. This is bound to provoke consumer resistance and may open the way for non-banks to provide facilities like transmission accounts from point of sale.

It seems unlikely that all groups will be able to face the challenge without rationalisation. After years of attempting to outstare each other, one or more deposit-taking institutions may now be preparing to blink.

It's to be expected that choice of partners will be based on reducing costs, which means avoiding duplication. So the decision should be made for sound operational reasons. However, says one banker, "at this level management is still sitting and staring at each other. The initiative will come from shareholders who will realise the benefits to them of rationalisation and force the pace."

With the Perm, once second largest building society, now part of Nedcor, and Volkskas and largest building society group UBS Holdings in a working relationship since 1987, possible permutations are vast.

Important participants are the giant life offices, which provide powerful backing for major deposit-taking institutions:

- Sanlam, which has stood by Bankorp since its rescue of TrustBank in 1978;
- Old Mutual, with interests in Nedcor;
- Liberty, with a holding in Standard; and
- Southern, with a stake in First National.

Also a factor is the Rembrandt group's holdings in Volkskas, Standard and Sage. A possible player is Anglovaal, through AA Life, which is expected to move into banking next year.

Other chips in the game are the smaller building society holding companies, Allied, Saambou and NBS, which are likely to be sucked into somebody's slipstream before long. So is Boland Bank, in which Volkskas has about a 9% stake.

Whatever the line-up, there will be several vital ingredients to success, including capital adequacy, critical mass needed to reduce average costs, operating efficiencies to keep expenditure to a minimum, and expertise to match the demands that will be made on the sector in the Nineties.

Institutions will have to stop thinking in terms of short-term tactics and concentrate on long-term strategy. *Ethel Hazelhurst*

FM 25/5/90 (58)

CAPITAL MARKET FM 25/5/90

Trust rethinks (58)

TrustBank is to wind down capital market activities. In future, it will focus on those instruments which do not exceed three years. However, it will continue to trade options and futures for hedging purposes and as liquid assets.

Says senior GM Jan Kühn: "We have had a strategic rethink. The rewards don't warrant the risk."

TrustBank is rumoured to have lost R25m-R30m in the market last November-December. These losses influenced the decision but were not the only factor, says Kühn. "High volatility, at times associated with sluggish liquidity, substantially increases unacceptable risks."

Says a dealer: "It is disappointing when a major player disappears. The fewer writers there are the smaller the market becomes." Says another: "Commercial banks are probably best able to support markets through sheer size so their reluctance to participate doesn't inspire confidence."

FirstCorp wound down capital market market-making and jobbing activities four months ago and concentrates on "longer-term positioning for FirstCorp itself." Vice-president Peter Carroll says this was influenced by FirstCorp's heritage from Citibank. (First National merged merchant banking activities with Citibank in FirstCorp.) Citibank's strength was in the dollar market: it did not deal in the local capital market. "So it was a matter of recognising our relative strength."

Others who've quit are stockbrokers Shapiro North and Mathison & Hollidge.

Dealers say margins are being squeezed by competition and a smaller market. In 1985, there was a five-point double on R1m deals; that has narrowed to 0,5 points.

Reasons include less demand by fund managers, who have been winding down gilts exposure. Gilts are being bought, then not managed, so volumes are dropping off, says a dealer. Also, since the proposed introduction of new liquid asset requirements, which will reduce profitability, a number of banks appear to be reducing positions.

One capital market operation has reopened. Corbank, which closed its last year, has started up again through the merger with Cape Investment Bank. ■

LOAN ISSUE (58)

FM 25/5/90

The Development Bank of SA has raised R178m private capital and plans to borrow a further R125m by March 31 (*Economy*, May 4). The fully subscribed May 9-10 stock issue is part of a plan to raise R1,5bn over the next three to five years.

The government-guaranteed stock has a coupon of 14,5%, yield to maturity of 16,4% and term of 20 years (redemption: September 30 2010). According to issuing house Senbank, most went to major insurance companies, pension funds and other institutions.

PERMANENT CHANGE

FM 25/5/90

While there may be truth in the saying that a change is as good as a holiday, former Edgars Stores group development manager Philip Chilton-Jones is unlikely to get much respite when he attempts to make his contribution to meeting the country's pressing housing needs.

Chilton-Jones, a leading light in the retail property development field, has apparently been head-hunted by the Permanent Building Society to beef up Permanent Development Corporation (Devco), its township and general residential development arm.

(58)

Chilton-Jones has been appointed MD. He joins Peter Hibbit, who was recently appointed chairman. His move ends eight years of involvement in retail planning and development. Before that he was with Stanbond — Standard Bank's property financing division.

Chilton-Jones says: "It's a little early to say exactly what I will be doing with Devco. I have a steep learning curve ahead of me and will have to get the feel of things before making predictions. But the Perm believes there is potential for expansion and is positioning the company to become a more significant force in development."

This, he says, could well mean Devco spreading its risk beyond the confines of the housing development market. "I have had a tremendous time with Edgars but I cannot deny that I'm looking forward to this new challenge."

(58) FM 25/5/90

COMMERCIAL UNION

Spreading out

Activities: *Composite insurer.*
Control: *Commercial Union London 36%; UBS 28%; GFSA 24%.*
Chairman: *A M D Gnodde; MD: W A Rutherford.*
Capital structure: *10m ords. Market capitalisation: R170m.*
Share market: *Price: 1 700c. Yields: 5,6% on dividend; 22,8% on earnings; PE ratio, 4,4; cover, 4,1. 12-month high, 1 700c; low, 1 500c. Trading volume last quarter, 9 000 shares.*

Year to Dec 31	'86	'87	'88	'89
Total assets (Rm)	256,6	305,0	432,6	572,4
Solvency ratio (%)	48,6	43,3	70,6	88,8
Net premiums (Rm)	167,2	201,5	230,7	263,0
Underwriting profit (Rm)	(2,7)	10,9	21,3	11,5
Inv. income (Rm)	14,8	18,3	21,6	36,7
Pretax profit (Rm)	13,5	27,8	43,0	50,5
Earnings (c)	113	187	312	387
Dividends (c)	47	57	75	95
Net worth (c)	1 015	1 090	1 630	2 335

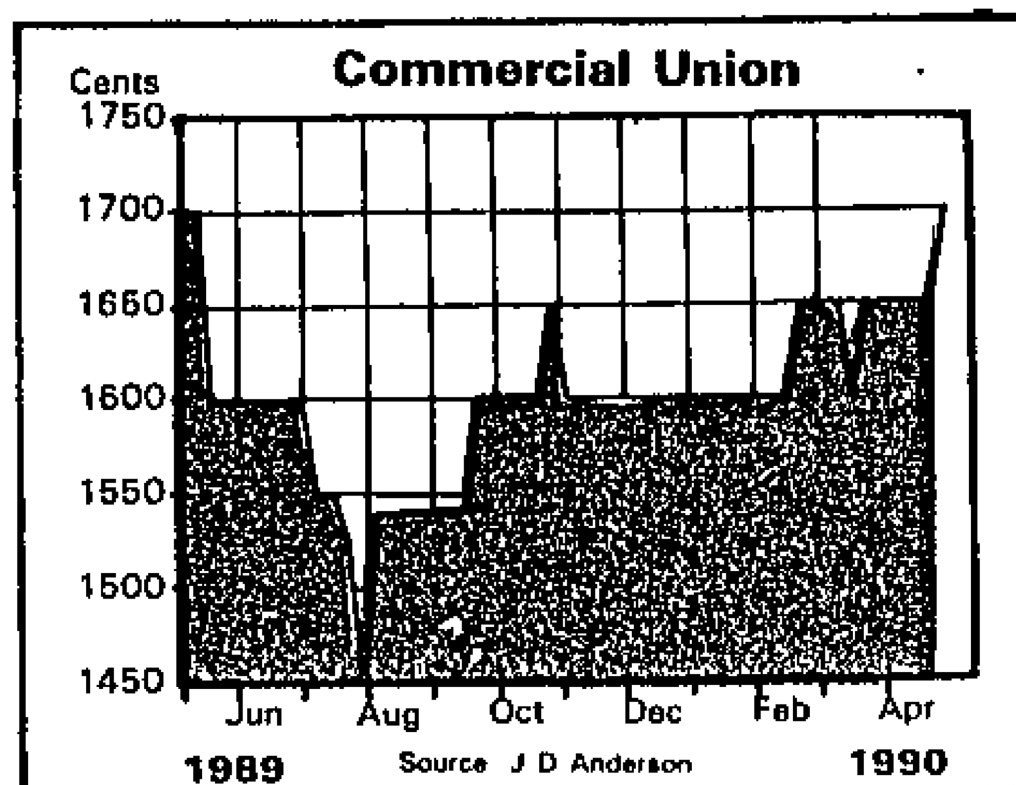
Cusaf's 1989 results followed the by-now familiar pattern of sharply lower underwriting profits (measured off the high 1989 base), counterbalanced by a surge in investment income to produce a satisfactory overall improvement in earnings and dividends.

However, where this company differs from the rest of the short-term insurance industry is that it has been a bit more imaginative than most in the development of its business base. A few years ago, it entered the crop protection field; more recently credit insurance and factoring have been added to the spread of activities.

In the context of total earnings, these new interests are too small to have much effect in the short term. But the principle of spreading the eggs among more than one basket is as sound for an insurance company as it is for an investment portfolio and could yield benefits in terms of countering the often widely fluctuating fortunes of the insurance industry.

Chief executive Bill Rutherford believes underwriting profits will remain under pressure during the current year, notwithstanding the fact that most companies have responded to the 1989 setback by tightening up on premium ratings. Barring any major disasters, however, it is probable that the decline in rand terms will be less marked than last year, though at the same time the industry will probably not be able to count on a repeat of the exceptionally strong growth of investment income either, to smooth the bottom line.

Cusaf's Rutherford ... pressures on underwriting profits



This combination does not look promising from the point of view of earnings but — again in common with most of its competitors — Cusaf's dividend is more than amply covered by investment income at its present level and there is thus no reason to believe that distribution will not continue to grow.

Last year's 95c payment cost the company R9,5m, absorbing a mere 26% of investment income (including realised surpluses on investment disposals) and in addition to this there was a R2,3m contribution to the income statement from the life fund.

This underlines the point that from the standpoint view of a shareholder, the main business of these companies is investment; not insurance — even at last year's extraordinarily high level underwriting profit contributed less than half of Cusaf's total pretax income, while in the latest year this proportion sank to 23%.

However, since market sentiment is often more affected by underwriting trends than investment performance, at this stage of the industry cycle shares in the short-term insurers can often be picked up on attractive yields. Yield-wise, Cusaf is no exception in this regard either. But with only 1,2m shares available outside the three major blocks, availability in this instance is a decided problem.

Brian Thompson

FM 25/5/90 (58)

BASIL STARKE FM 25/5/90

Credibility gap

Activities: *Building, construction and property development.*
Control: *Basil Starke Family Holdings (Pty) 36%.*
Chairman: *B E Starke; MD: M Phillips.*
Capital structure: *17,5m ords. Market capitalisation: R4,4m.*
Share market: *Price: 25c. Yields: nil% on dividend; 62,0% on earnings; PE ratio, 1,6. 12-month high, 41c; low, 18c. Trading volume last quarter, 86 000 shares.*

Year to Dec 31	*'87	'88	'89
ST debt (Rm)	8,3	18,9	14,9
LT debt (Rm)	2,6	6,6	9,3
Debt:equity ratio	2,30	2,87	12,42
Shareholders' interest	0,21	0,20	0,19
Int & leasing cover	7,4	nil	1,5
Return on cap (%)	26,5†	(1,9)	13,5
Turnover (Rm)	77,3	136,9	151,6
Pre-int profit (Rm)	7,0	(0,8)	7,2
Pre-int margin (%)	9,0	(0,6)	4,7
Earnings (c)	24,0	(36,9)	15,5
Dividends (c)	5	—	—
Net worth (c)	122	38	52

* Nine months
† Annualised

Viewed against chairman Basil Starke's forecast, that 1990 results should again be satisfactory, the current 1,6 historic p:e ratio suggests there is something of a credibility gap between the perceptions of management and investors on where the group is heading.

Reasons are not hard to find. For one thing, overall performance has been miserable since the back-door listing in 1987. For another, the balance sheet is still horribly overgeared. And, if a third reason is needed, it would be that management does not seem to have any fixed ideas of what the group structure should be — at the time of the listing in 1987 BSI was simply the holding company of Basil Starke Group. But then it added various activities of its own which, with effect from the start of the current year, have been transferred to BSG, thereby reverting to the pyramid structure once more.

To be fair, 1989's performance was materially better than 1988's. In that year BSI incurred a loss of almost 37c a share after having reported positive earnings of 2c for the first six months which was followed by a forecast of earnings totalling almost 24c a share at the time of the rights issue. At least this time around the income statement was back in the black, even if the final outcome

growth for the rest of the year.

LEGISLATION FM 25/5/90

Back to square one

The newly published Housing Development Schemes for Retired Persons Amendment Bill will starve the retirement village industry of development funds.

That, according to Sapoa, it will perpetuate the problems of the original Section 10 of the Act which was repealed because of pressure from the private sector.

Sapoa's response relates to one of two property-linked Bills published last week. The other was the the Usury Amendment Bill by the minister of finance. The Usury Act amendments are integral to the grand strategy, masterminded by the Urban Foundation, to entice institutional funds into low-cost housing.

In a strongly worded memorandum to the Director-General of Trade & Industry, Sapoa executive director Brian Kirchmann points out that the Retired Persons Amendment Bill (the second such amendment in less than a year) secures right of occupation to a retirement village unit for the purchaser, irrespective of whether the deal involves sectional title, share block or life right.

However, the main problem is that the amendment is structured so that it gives the unit buyer rights superior even to those of the mortgagee who provides the funds for the purchase.

He goes on to suggest that it would be trite to mention that a mortgagee lends to a mortgagor on the principle that the property can be sold to meet outstanding debts if the buyer fails to meet bond repayments.

However, in terms of the proposed legislation, any sale in execution now becomes subject to 75% of the holders of right of occupation consenting to the sale.

Kirchmann adds: "We cannot envisage any mortgagee being prepared to lend money subject to these conditions. To expect a mortgagee to acquire the consents envisaged in the Bill before a sale in execution is preposterous."

He further claims that the amendment is badly drafted because it is vague about issues such as preferrent claims and where they apply. He suggests that the holder of a right of occupation should have rights equal to that of the registered lessee.

Kirchmann and Sapoa's view is endorsed by property attorney Johan Roodt who points out that the amendment is designed to give pensioners a real right to the property they occupy irrespective of the type of purchase (*Property* February 9).

"If it goes through as it stands, a buyer of a life right unit will have greater rights than a freehold title owner who is subject to a mortgage bond." He believes the proposal, if approved, will severely affect the ability of developers to fund such schemes because of the lack of security for capital finance. It also restricts the developer's rights when dealing with his property. No scheme can take place on the site without the consent of all occupants.

"The net result is that all schemes in future will have to be self-financing because there will be no security available for long-term lenders. It makes nonsense of the business of development.

"Secondly, it fails to address an existing loophole related to the definition of retirement villages. This allows developers to bypass the constraints of the Development Schemes for Retired Persons Act altogether by simply not calling the development a retirement village and not confining occupation to people over the age of 55."

The Usury Act amendments (nine in all) seem likely to have a smoother passage. They are aimed at resolving two perceived obstacles to the entry of the financial institutions into low-cost housing (*Property* December 8).

They relate to the recovery and scale of the administrative costs of providing home loans by the banks and building societies.

Key aspects of the new legislation will be to entitle lenders to levy what is called the bond administration fee which will be a one-off R175 and a monthly ledger fee of R5 a month from borrowers.

Furthermore, every time the security under the property is varied or substituted, the lending institution — which previously wasn't entitled to charge for reviewing the new financial circumstances — will be entitled to charge R100.

In terms of security, an example would be where a person has a bond over two properties and wishes to have one of them released. The R100 will recover the administrative cost of making the change.

It also clears up a long-standing anomaly related to the charging of compound interest on overdue mortgage instalments.

The Usury Act amendments are an integral part of the Urban Foundation's strategy

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to dramatically dent the low-cost housing logjam. As part of this initiative the foundation negotiated a R20m loan guarantee fund on the international financial markets which will reduce mortgagee exposure in the sub-R35 000 housing arena, particularly as such lending carries a higher risk as a result of political disturbance, and the risks of defaulting on payment by purchasers because of strikes, boycotts or loss of employment.

According to attorney Standish O'Grady, who worked on drafting the legislation, the Bill will also entitle the lender to recover premiums for guarantee insurance (the premiums paid into the loan guarantee fund for high-risk, low-cost housing). ■

Sharp slowdown in demand for credit

BI Dem 25/5/90 (58)

GRETA STEYN

A DRAMATIC slowdown in the rate at which banks and building societies are extending credit provides financial confirmation of the slowdown in the real economy.

Reserve Bank figures show that all monetary institutions' credit extended to the private sector grew by only 2,5% in the first quarter of this year, translating into annualised growth of just over 10% for the year. If the demand for credit continues at the same slow pace for the rest of this year, credit growth will be well below the Reserve Bank's acceptable level.

The Bank has indicated it would not frown on a growth rate in banks' balance sheets of about 1% a month. If February and March are anything to go by, the banks will find it plain sailing to meet the authorities' targets. Growth in credit extended to the private sector virtually sputtered to a halt in February (at 0,15%) and March (0,5%).

Bankers confirm that high interest rates are hurting both corporate and individual customers and much of the remaining demand for credit is "distress borrowing". Customers are in many cases drawing on credit facilities just to survive higher interest payments.

Credit growth in the first three months of this year was half of the 5% recorded in the first quarter of last year. In the full year to December 1989, all monetary institutions' claims on the domestic private sector grew by over 20%.

Namibia has been excluded from first quarter figures this year but is still included in last year's figures. The exclusion complicates analysis of year-on-year figures, but February saw an annual rate of 18,6% — well down from December's.

The Bank would like to see 11% to 15% growth in the broadly defined money supply, M-3, over the year. M-3 consists of all deposits with banks, building societies and the post office, including long-term savings. Changes in M-3 are brought about by bank credit and inflows on the balance of payments.

Bank credit provided the impetus for growth in M-3 over the past two years but a slowdown to an annual rate of 10% would restrain growth in the country's stock of money.

The narrow definition of money supply, M1A — cash, cheque and transmission accounts or money held for spending, not saving — is another financial indicator confirming the slowdown in the real economy. The annual rate of increase in M1A slowed to only 6,73% in March from 8,54% in February and 11,65% in January.

Sharp drop in gold price . . .

Bank placed in tight spot

CAPE TIMES 28/5/90

Own Correspondent

JOHANNESBURG. — The Reserve Bank, already under pressure to reduce interest rates because of the cooling of the economy and rising black unemployment, has been placed in a tight spot by the sharp drop in the gold price, say senior brokers.

John Liackman, senior partner of stockbrokers Max Pollak & Freemantle, said: "The monetary system must be under increasing pressure as it has to absorb the effects of the lower gold price, either through a lower currency or defer any possibility of a relaxation in interest rates.

"While interest rates will probably not go higher, the monetary authorities are unlikely to bring them down in the third quarter as markets had expected," he said.

The steady tone of gold shares on the JSE on Friday reflected expectations that gold would go up, and it clawed its way back to the $367-level. But analysts said share prices' resilience could also indicate investor reluctance to accept that gold has more downside than upside potential.

They were concerned that gold should come down so easily and swiftly after its $14 mid-week plunge. Such behaviour would be expected from a gold price of more than $500, but not at levels where the metal was recommended as a buy.

This gave rise to suggestions the market was not difficult to manipulate and that the price was in a disorderly area, fuelling concern that if gold broke through resistance at $355/$350 it could drop to $310.

David Meades, of stockbrokers Meades, De Klerk Inc, said gold was technically in a highly sensitive area and at a point where it would be tested more rigorously than at any time in the past 18 months.

"A gold price below $350 would put the Reserve Bank in a tight spot. Pressure would mount to lower the rand, which could then fall to R3 to the dollar.

"This would have inflationary consequences and make policy-makers' task more daunting. With rising black unemployment, they have to decide how far they are prepared to let the economy decline without creating an overkill situation."

Bullion markets are expected to remain subdued until after today's public holidays in Brussels, London and New York.

B/Day 25/5/90

(58)

CD easing means Bank rate could soften later in the year

PERCEPTIONS are hardening that Bank rate will be lowered before the end of the year and further reduced early, rather than late in 1991. This can be deduced from last week's easing of rates on six-month and 12-month negotiable certificates of deposit (CDs).

Investors, cautious for far too long because they had been beguiled by the high rates they were earning on call deposits, are now locking into better yielding longer-term paper. And the issuers of CDs, the banks and the building societies, are starting to reduce their dependence on call money which costs them dearly because of the interest-free cash deposits which they have to sterilise in the Reserve Bank.

The major focus at present is in the 12 months area. Bankers report that demand for CDs has brought the rate tumbling down from 19,20% to 19% in a matter of days — with a holiday break intervening. Compared with a 19,20-19,10% bid-and-offer spread the previous week, dealers were quoting a 19,05-18,95% spread at the close of business after funeral conditions last Friday.

In the six-month area business was significantly quieter, but even here the trading spread was shaved by 10 points in the double price. Rates, however, were unchanged for three-month CDs because of a lack of interest.

IN THE MONEY MARKETS
Harold Fridjhon

The trade in CDs is emitting unmistakeable signals: Bank rate is expected to come down by at least three percentage points a year from now and by at least one full point before the end of this year. And the lack of interest in three-month CDs indicates the belief that there will be no change in Bank rate before August. If these expectations were not held firmly by both issuers and takers, the downward movement would not have been as marked.

And there is every likelihood of the rates on 12-month and six-month CDs coming down still further as current indicators are more closely analysed. The inflation rate is slowing down. Bank lending is reducing as demand across the board is slackening. Liquity in the econmy is increasing as exports rise and imports slacken. The one dark cloud which might induce umbrella caution is the indifferent performance of the gold price.

Apart from CDs, the money market behaved in a dull and listless fashion. Predictably the shortage — the banks' debt to the Reserve Bank — continued to build up, reaching R3,17bn on Thursday, although on Friday it eased to R2,88bn. With three settlement days to go, the shortage could build up to about R3,8bn at the month-end.

The only rate to have changed during the week is that for wholesale call money which is rising ahead of the June 1 settlement. Banks were paying 19% on these deposits. The rate for 90-days liquid bankers acceptances (BAs) has been frozen at 18,40% for the past four weeks.

And the Treasury bill rate, rigid at 18%, symbolises the Reserve Bank's immutable stance on Bank rate.

Choosing the right time to invest is crucial

St 26/5/90

SMALLER investors have notoriously bad timing when it comes to making investment decisions.

This view is shared by many institutional fund managers who, due to their greater experience in investment markets and are not trying to make a "fast buck" on every turn.

Even when it comes to unit trusts, people pour money into the market everytime the market soars and withdraws when the market weakens.

Ideally, they should be following the opposite strategy. Large and experienced speculators, who take longer term views, buy in periods of weakness and sell into strength.

According to Otto Jaekel, general manager of Sanlam Unit Trusts, now is the ideal time to invest lump sum in shares, particularly in unit trusts with a well-balanced and distributed portfolio."

"Caution on the Stock Exchange is the order of the day at present. Sound indicators are scarce. The economy is cooling.

"We nevertheless believe that there are good buying opportunities on the market. However, the big question in an investor's mind still is - when is the right time to invest?"

Oversold market

According to Mr Jaekel, investors traditionally invest in unit trusts at the wrong time.

Statistics show that investors tend to invest lump sums when the Stock Exchange is oversold because they are carried away by the positive sentiment in the market place.

On the other hand, investors tend to adopt a wait-and-see attitude during ideal times for investing. They make a decision to buy only once the market is well into an upswing.

During the past two years, particularly after the recession of the Stock Market in October 1987, there have been good opportunities for making profits by investing in unit trusts. However, investors did not seize them.

The ideal time to invest was in February 1988 but it was difficult to convince investors at the time. Negative sentiment and fears that the market could recede again did not encourage confidence among investors.

"To an investor, timing is vital on the stock market. To make a profit, he must be able to act at the right time."

Sanlam Unit trusts now have a method by which investors are helped to reduce this risk if investing in shares and by which investor confidence is increased, says Mr Jaekel.

"TransTrustplan offers investors a trouble-free opportunity to distribute the risk of investing in shares and to invest under any stock exchange conditions. Also the chance to earn high interest on a bank account which functions like a savings account."

To enable investors to have the best of both investment worlds the TransTrustplan functions as follows: An investor invests a lump sum in a demand account at TrustBank. From this account his investment is phased into a unit trust of his choice in monthly instalments.

In the short term the investor's account will enjoy a high interest rate.

In the long term the unit trust investment will earn tax-free dividends and an interest income.

The investor can spread the period within which he wants to phase in his money in a unit trust from 3 to 48 months.

For example, in the event of a buying opportunity such as a drop in share prices, the investor can give instructions to have the phase-in discontinued and have the balance of his money transferred to a unit trust in a lump sum.

Investors therefore no longer have to hover in the wings waiting for the right moment to invest.

This new product of Sanlam, in my view, is quite sensible. Many small investors make the mistake of investing a large lump sum into the market. Now one can guard against market collapses by "dribbling" in small amounts over a period of time.

All travel allowances up

Star 26/5/90

(58)

SVEN LUNSCHE

IN A a major boost for South African tourists and business people travelling abroad and to neighbouring countries, the Reserve Bank yesterday announced increases of up to 50 percent in foreign exchange travel allowances.

The move reflects the continued slide in the rand exchange rate against all major Western currencies since the last adjustments were introduced in 1987.

The Bank's Exchange Control Department said in a statement: "Due to the effective depreciation of the rand since then and the effect of inflation on costs in foreign countries, the real value of some of these allowances which dealers may provide to their customers without prior reference to the Bank has been eroded.

Existing limits

"More applications are therefore now being made to the Reserve Bank for special approval of amounts in excess of the existing limits."

The adjustments announced by the Bank, which come into effect on June 1 this year, include the following:

- The travel allowance for holiday visits abroad has been increased from R10 000 to R15 000 per annum and for business visits from R15 000 to R22 500 per annum.
- In respects of visits to neighbouring countries the holiday allowance has been raised from R4 000 to R5 000 and the business allowance from R8 000 to R10 000 a year. Appropriate adjustments have also been made to the maximum allowance per day for business visits.
- The allowance for South African residents studying abroad will in future be R2 250 a month as against the present R1 500.
- The amount of local bank notes that may be imported or exported by travellers to and from the country has been lifted from R200 per person to R500 per person.

Emigration allowance

The Reserve Bank also announced considerable concessions to family's emigrating from South Africa.

The settling-in allowances per family, which may be transferred through the financial rand system overseas or to neighbouring countries, has been doubled from R100 000 to R200 000.

In addition the total value of personal goods and effects that may be exported has been raised by 20 percent from R40 000 to R50 000.

The same increase applies to the value of a vehicle that is being taken out of the country on emigration.

Reduce the risk

(58) ST Times 27/5/90

By DIRK TIEMANN

UNDER-insurance poses a major risk to policyholders.

The Welkom tornado has exposed the danger, says Commercial Union.

Many policyholders who suffered in the disaster were not fully covered, particulary with replacement costs showing the full effect of years of high inflation.

CU gives this example: A loss amount of R20 000 is covered by an insurance sum of R50 000. The contents are valued at R80 000.

The claim is calculated by multiplying the R20 000 and the R50 000 and dividing by R80 000. The insurer pays only R12 500 and the policyholder must put up the balance of R7 500.

A CU spokesman says, because the company is concerned that its policyholders should not be exposed to the risk it has increased the sums insured by 25%.

Prospective home owners will have to wait longer

By COLETE CAINE

FIFTY-TWO families who signed building contracts for homes in Koster's Reagile township last December expected to be in their new homes by April 1.

But the 52 houses have not even been started yet.

Five of the 52 – all civil servants whose bonds are subsidised by the government – asked *City Press* to investigate the reason for the delay.

They said they had spoken to the contractors, Own-A-Home of Potchefstroom, who blamed the Reagile council for not allocating them building sites.

They had also appealed to the council, but were told the delay was not the council's fault.

The five had loans approved in mid-December. In January, the contractors took them to Old Mutual to sign insurance policies for the houses.

A spokesman for the Reagile Council explained that the contracts had been signed before sites had been allocated, but this was about to be done and building was expected to start soon.

Although delays are common in the building industry, it is safer not to sign a contract until you are sure the builder has been allocated the sites he says he will build on for you.

Before signing any contracts, check with the council.

UDF-affiliated body praises Lekoa council firings

By CHARLES MOGALE

C/Press 27/5/90 (58)

THE Transvaal Provincial Administration received praise from unusual quarters this week following the dismantling of the Lekoa Town Council.

A hard-hitting statement released by the UDF-affiliated Vaal Civic Association (VCA) heaped praise on Transvaal MEC for local government Olaus van Zyl while castigating councillors trying to hold on to their jobs.

Van Zyl had previously come under heavy attack for failing to resolve the rent issue, which has resulted in residents boycotting payment, and the various councils retaliating by withholding services.

Last week, Van Zyl dismissed the entire Lekoa council for failing to put its house in order and to stop their squabbles among themselves.

"We support the TPA, in particular Van Zyl, even though this (the disbanding of the council) was long overdue. We blame Van Zyl for failing to address himself to the deadlock earlier, and his delaying tactics," the VCA said.

Clarifying support for Van Zyl, the VCA said this was based on an undertaking by the MEC to launch a commission of inquiry into maladministration and corruption within the council.

The VCA lashed out at councillors' umbrella body, United Municipalities of South Africa (Umsa) president Tom Boya, who bitterly attacked the TPA for dismantling the council. Boya has called for Van Zyl's resignation.

"The reason why Boya and his Umsa fight the TPA is clearly seen and known. They know they won't have access to the people's money," the VCA said.

It called for the intensification of the rent boycott and for the resignation of the neighbouring Evaton Council headed by Sam Rabotapi.

Van Zyl this week said the Soweto Council had not suffered a similar fate because it was working hard towards solving its crisis.

It had acted promptly on directives from the TPA, and it would be some time until progress could be evaluated.

Contamination scare brings new SA cover

S Times 27/5/90

By IAN SMITH

PRODUCT-disaster insurance has come to South Africa.

The final cost of Perrier's worldwide withdrawal of 160-million bottles of its famous mineral water will be known only in six months, but it has drawn attention to the financial hazards of product contamination.

Interest from SA manufacturers has prompted Lloyd's-represented brokers Hammond & Graaffs to introduce products contamination insurance.

Similar sophisticated cover was developed overseas by Lloyd's in the late '80s to insure against product contamination and extortion.

The insurance can cover the cost of ascertaining the cause and potential damage of the contamination as well as the recall, examination and destruction of the product.

It can also cover the loss of net profit for up to a year, restoration of the product and re-establishment of its reputation and market share.

Perrier was not covered for its worldwide recall in February — but there has been a rush to Lloyd's in the UK by food and drink manufacturers.

Hammond & Graaffs managing director Herbert Hammond says the saga highlights the vulnerability of manufacturers, particularly of high-profile products, to contamination scares.

"It does not matter whether the scare is real or a hoax — the damage can be catastrophic.

"While most big companies survive, a single-product manufacturer faces greater risk," says Mr Hammond.

Sanlam gets a smack on the bottom

S/Times 27/5/90 (58)

One TV 'baby' ad ruled misleading

Business Times Reporter

THE Life Offices Association has ruled that certain Sanlam adverts are misleading.

One of Sanlam's famous baby advertisements on television is among the casualties.

In a campaign estimated by rivals to have cost R5-million, Sanlam claimed that 20 of its market-related investment portfolios out of 24 surveyed in Richard Wharton-Hood's survey of investment performance had ranked first in performance.

Sanlam MD Pierre Steyn said he did not agree with the ruling of the LOA and he intended to reply.

He said: "We didn't stop the advertisements because they were banned or because we accepted this ruling. They were stopped because they had run their course. We are gearing up for the next Richard Wharton-Hood survey. The complaint was nothing but sour grapes." Mr Wharton-Hood has declined to give an opinion on the LOA's ruling.

Initially, a complaint was laid with the Advertising Standards Authority, but it did not feel competent to judge the matter.

A standing committee of the LOA, comprising mainly Sanlam's rivals, then had to adjudicate. One Sanlam representative was on the adjudication committee.

Mr Steyn said most of Sanlam's business was in what it called its "stable investment series". This type of business was not featured in the survey.

In another numbers-related development, Liberty Life has withdrawn from the survey. Mr Wharton-Hood's brother Dorian is Liberty's joint MD.

Abused

Another life office — suspected to be arch-rival Old Mutual — contended that the portfolios in the advertisements covered only 7% of policyholders' funds and attracted only 1,6% of net premiums.

It also felt the ads suggested that all Sanlam policyholders were the beneficiaries of its claimed superior performance.

Another objection was that the survey did not monitor 24 market-related portfolios, but six classes of portfolio — managed, equity and property, and in each case taxed and untaxed over four different periods and based on three modes of payment — with a total of 72 categories.

SANLAM'S PIERRE STEYN
'Nothing but sour grapes'

A SANLAM TV BABY
Advertisements withdrawn

He told Business Times: "The survey's findings were abused. In some cases it measured only a small portion of funds under administration and then generalised claims were made to the market on a wider scale."

Liberty also withdrew from an actuarial survey on investment performance run quarterly by Business Times, on the grounds that it did not measure the kinds of portfolios it was marketing.

After Liberty's withdrawal, Business Times stopped the surveys.

Rivals said Liberty pulled out because the numbers were not too flattering.

Dorian Wharton-Hood dismisses the suggestion, adding that Liberty still takes part in at least four actuarial surveys.

Richard said Liberty had taken part in his survey for 12 years without complaining.

In its advertisements, Old Mutual quotes "independent" investment writer Martin Spring, who proclaims its 100% equity-linked retirement annuity as "the investment opportunity of the decade".

In spending millions spreading Mr Spring's opinion, Old Mutual has implicitly endorsed him as an outstandingly wise adviser and indirectly enriched him.

Now Sanlam is quoting Finansies & Tegniek in its latest television ads, spreading the magazine's fame, and, in the process, tempting all media to emulate F & T and Martin Spring with flattering comment in the hopes of being made famous.

Under a headline: "Mutual, Sanlam in numbers war", Business Times reported on October 29 last year that the big Cape mutuals were continually querying one another's numbers.

Both claim to be SA's No 1 in policy sales and investment growth.

We said that the time had come for life offices to standardise the way they did their calculations.

But, as the numbers continue to fly, confusion continues to reign.

WALKER

2

Talking change to the Allied

S/Times 27/5/90

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SOMETIMES when my phone rings on Mondays I wonder who wants to take me to task about articles appearing the previous day.

So when Kevin de Villiers, chief executive of Allied Group, called after last week's complaints from staff members about the new bonus scheme, I asked him if he was cross.

Not at all. My article highlighted a change in payment of junior managers who had not been on a pay package with a 13th cheque. The Allied proposed to keep some of their salary and give it to them in December as a bonus, so bringing everyone into line.

No interest was to be paid on the amount retained. Mr De Villiers called me to explain that policy states that, when a change is made, staff must never be left worse-off.

The staff were cross because they had been given annual pay increases the previous month only to see the extra money taken away. It punished their cash flow in a month when they had already been hard hit by an increase in perks tax.

Mr De Villiers pointed out that the changes involved a discounted cash flow calculation — a difficult principle to explain in a circular. Taking into account the two years over which the bonus system is to be phased in, the staff will score.

He sent me a computer printout showing an example of the net effect on staff remuneration, using a salary of R1 000 a month. It assumes that the amount deferred could have earned interest at 15% a month, and arrives at less than a cent difference in the total annual salary this year.

Mr De Villiers says staff can get loans anytime and no special mention of this need be made in a circular.

If the shorter salary causes hardship, the Allied will grant loans at 19%, but will put the retained money into an interest-bearing account which should earn more than that.

I wonder why his example to me assumes an interest loss of 15%, not the 19% plus which could be earned.

Mr De Villiers agrees that the changes were not well explained in the original circular, but says he explained them on M-Net. For those of you who are not Allied employees, M-Net is the group's internal video system.

A GENUINE INVESTMENT OFFER

DIAGONAL STREET

Southern Life set for a winning centenary

S|Times 27/5/90 (58)

SOUTHERN LIFE's share price has gone north — nearly doubling in the past 12 months.

Last year's 16% climb in earnings disappointed the market, but the life office has redeemed itself in the eyes of investors, with a 21% climb in earnings for the year to March.

Profit reached 68,3c a share and the dividend grew at the same pace to 45,5c. This was on a rise in premium income of only 15% to a little less than R1,6-billion. Investment income picked up by 19% to R879-million.

The group was born in 1984 through the merger of Anglo American Life and Southern Life Association, whose name was retained. Its main business is life assurance and pension-fund management.

The merger paved the way for a JSE listing in 1985. The major shareholders were and still are Anglo American and First National Bank, with 40% and 35% respectively.

Since listing, the performance has been steady. Net premium income has trebled to R1,6-billion, translating to annual compound growth of 23,2%. Earnings and dividend growth has been of the same order, while total assets have increased by 27% a year.

JAN CALITZ

At March 31, including listed investments at market valuation, assets exceeded R14-billion.

In only its sixth year as a listed company, Southern Life Association is celebrating its centenary. It was founded in January 1881. Executive director of investments Jan Calitz says the event is occasioned by The Year of the Customer — "not that every other year isn't".

Southern Life has 4 000 staff members operating from 75 branches, and estimates its share of the life-assurance market at 8%.

Spread

Tucked into Southern is African Life, which last week reported tremendous growth in earnings — income rose by 46% to R61-million. African Life's total assets are R188-million.

It wrote R21-million of recurring individual premium business, of which R2,3-million — 11% — was through direct mail.

The small life office has achieved a spread of shareholders ahead of a proposal to list, possibly this year. Existing shareholders have been offered a bonus issue of 35 shares for every 1 000 or a final dividend of 4,7c a share.

Southern conducts business in Namibia and Zimbabwe. Chairman Neal Chapman believes that when political considerations are no longer a barrier to trade in southern Africa, Southern's presence will help it become part of the region's economic development.

Mr Calitz says SA's life offices are lobbying for changes in the way they are taxed. The trusteeship principle has been accepted by the authorities. But tax concessions for individuals in the last Budget were not extended to life offices, nor was the scrapping of dividends tax.

Mr Chapman welcomes the withdrawal of prescribed asset requirements, which were replaced by prudent investment regulations. But the changes have not gone far enough and are still too restrictive.

Investment in Government and other stock was brought down by a quarter to R1,6-billion, while investment in equities was well up at R2,8-billion.

Solid

The share price was bid at R12 after the results were announced, 17 times historic earnings and on a dividend yield of 3,8%.

For comparison, Liberty Life's PE is 31 on the rush of euphoria occasioned by the share split, AA Life's is 14 and Momentum Life's 19.

Southern looks solid enough for continued returns to risk-averse investors.

Good growth expected from UBS

By Ann Crotty

Investors are obviously expecting good figures from UBS when it reports tomorrow. On Friday the share closed at 625c which was close enough to its 12 month high of 665c and way off the low of 370c.

The 12-month low was hit almost a year ago and represented something of an aberration from a firmer trend that has been evident for the past 24 months.

Analysts are expecting an earnings increase of around 25-30 percent with some reports indicating that an increase of about 28 percent was already in the bag by end-December.

Results released from financial institutions for the period to end-March have generally reflected performances considerably stronger than those that have been published by industrial/consumer groups.

A significant part of the growth in bank profits has been generated by home loan activity.

For the six months to end-March the Perm almost doubled pre-tax profit and was a major contributor to Nedcor's strong earnings growth.

Volkskas, which reported a 26 percent advance in earnings for the 12 months to end-March, also got a major boost from its 96 percent surge in home loan activity.

The market beleives that the UBS will also show a considerable increase in its lending base in financial 1990.

But further down the line things could get tough for the banks and building societies. Last week the Reserve Bank released figures which showed that credit extended to the private sector had only grown by 2,5 percent in the first quarter of calendar 1990.

Not only is demand for credit slowing down under pressure from high interest rates (and the slowdown in the economy) but bad debt experience is likely to surge as borrowers get caught between this slower economic activity and the high interest rates.

And, while building societies have traditionally had a lower relative bad debt experience than banks, their greater exposure to the black market may soon see this situation changing.

Adcorp set for major expansion

Finance Staff

Adcorp Holdings, the professional services group listed in the banks and financial services sector of the JSE, is looking to increase earnings per share by around 20 percent in the year ending December 1990, shareholders are told in the 1989 annual report, published today.

Earnings for 1989 were 20c ashare, out of which a higher annual dividend of 9c a share (7c) was paid.

Allowing for the fact that the issued share capital is expected to rise by 29 per cent during 1990 as acquisitions made during the past year meet their profit warranties, a 20 percent earnings rise to 24c a share would flow from a 55 percent increase in attributable profit to R2 million.

Chairman John Barry says in the annual report: "Adcorp subsidiaries are now the dominant force in recruitment advertising and public relations throughout South Africa. Our companies are also of significance in financial advertising, design and market research.

"None of the markets in which Adcorp now operates is fully developed, and we intend to benefit from the further expansion of these markets by increasing market share both organically and acquisitively.

B'Day 28/5/90

HEADACHE PREDICTED FOR SOUTHERN

LINDA ENSOR

58

SOUTHERN Life — which was awarded the contract to administer the NUM's provident fund — has landed itself with a headache in the view of some involved in the pension industry.

The investment contract was awarded to Old Mutual.

"The provision of administration services is very expensive and it is difficult to cover costs," says one source in the industry who does not wish to be identified.

"Any company tendering would probably have hoped to get both contracts so that the losses on the one could be subsidised with the fees of another."

The source suggested Southern would find it difficult to keep track of members as most were migrant workers.

However, Southern's executive director of employee benefits Adrian Arnott says that while the upfront cost has been high — especially the cost of installing computer systems — the administration of the fund has been streamlined and has already broken even.

A special unit consisting of 20 people had been set up to administer the fund.

The contract was awarded a year ago, although the documents were signed recently.

Arnott said new systems were set up in co-operation with the Chamber of Mines and the NUM. There was a lot of work involved in supplying the NUM's 220 000 members with certificates of membership and other details.

BUSINESS DAY, Monday, May 28 1990

(58)

Barprop steps up drive to improve property portfolio

CHARLOTTE MATHEWS

BARLOW Rand Properties (Barprop) had sold property worth R40m as part of its drive to upgrade its portfolio from mainly industrial to a range of industrial, office and commercial property, MD Colin Steyn announced on Friday.

"The proceeds of the sales will be invested in the acquisition and development of well-located facilities that satisfy the quality and growth requirements of prime investment property," he explained.

The company had also bought agricultural land in Verwoerdburg off the Ben Schoeman Highway for R3,5m. The land would be re-zoned for hi-tech industrial use.

In one deal worth R27,5m Barprop sold 16 properties to Pangbourne Properties. The properties — located around the country — were mostly leased to companies in the Barlow Rand group.

The other major deals were the sale of a factory and land in Isando to Kempton Forum for R7,7m, the sale of premises in Port Elizabeth to Gutsche Investment and Management Company for R1,3m and the sale of property in Welkom to a trust for R1,5m.

● STEYN

Standard records growth in home loans to almost R5bn

NEIL YORKE SMITH

STANDARD Bank's mortgage lending book has just about reached R5bn, home loans GM Terry Power said last week.

The R500m increase during the first five months of this year confirmed Standard was determined to maintain extraordinary growth in this division.

Last year the home loans book soared 50% — or R1,5bn — to R4,5bn by December.

"We had 11% of the total R42bn SA market.

"This is particularly impressive when considering Standard's home loan division was launched in January 1987," said Power.

Standard's division ranked fourth in terms of size of book in the SA market.

Ahead of it were the UBS, Nedperm group and Allied.

"Competition in the home loan market is likely to increase this year and will be based on quality of services offered," said Power.

"Product and interest rate similarities between different players will increase the focus on efficiency and service.

"In this high interest rate environment and with the economy slowing, new business is likely to be harder to find.

"We expect slower growth this year, but the fact remains that people need houses and they need to finance them."

Since entering the market, Standard had been a leader in new product development.

"Our aim was to make home loan products more malleable," said Power.

Generally, financial institutions were feeling a margins squeeze as a result of high interest rates, which increased bad debt levels.

Power said bad debt levels were definitely higher than a year ago.

He confirmed Standard's home loan division was no exception. However, he said this would not stop the quest for new business.

"We are comfortable with current bad debt levels, which are not as high as we expected.

"Still, under no circumstances will lending criteria be relaxed in an effort to obtain new business."

"Besides being a good long-term income generator, home loans generate a wide range of affiliated services," said Power.

These included insurance, investments, estate planning and related banking services.

Leader 29/5/90

NEG creates immediate R10m reserve

B/Day 29/5/90

LIZ ROUSE

NATIONAL Employers' General Insurance Company (NEG) has created its full contingency reserve of R10m immediately because of its satisfactory results, says chairman Jan Maree in his annual review.

According to the Insurance Act, this provision could be created during a five-year period commencing 1989.

A difficult year in the short-term insurance market marked by insurers cutting rates resulted in NEG's pre-tax profit being reduced from R24m in 1988 to R20,9m in 1989.

Taxed profit dropped from R13,6m to R12,1m and earnings a share amounted to 736c (825c). The final dividend was raised to 165c, making a total of 250c (210c).

(58)

Maree says no growth was recorded in the group's gross premium income. Because of unstable market conditions, it was decided NEG would not follow rates down if this would produce an underwriting loss.

The underwriting surplus for the year to December 1989 fell to R5,4m (R14,3m in 1988). This was the third time an underwriting surplus was achieved during the past six years.

The downward pressure on rates adversely affected underwriting profits, but under prevailing market conditions, was considered a satisfactory result.

NEG's investment income increased 60% to R15,5m (R9,7m).

B1Day 29/5/90

COMPANIES

Provincial's taxed profits rise 40,1%

(58)

LIZ ROUSE

THE focus of Provincial Building Society, whose assets total over R141m, is now on the return of assets and the bottom line as opposed to asset growth, says chairman Errol Drummond in his annual review.

He says that as a result of the entry of financial institutions into the field of housing finance, there is no longer a significant shortfall of mortgage funds in the society's traditional area of lending.

In the year to end-March 1990, the Provincial succeeded in increasing its taxed profit by 40,1% to R4,56m (R3,92m), despite having offered investors market-related interest rates and charging borrowers competitive rates of interest.

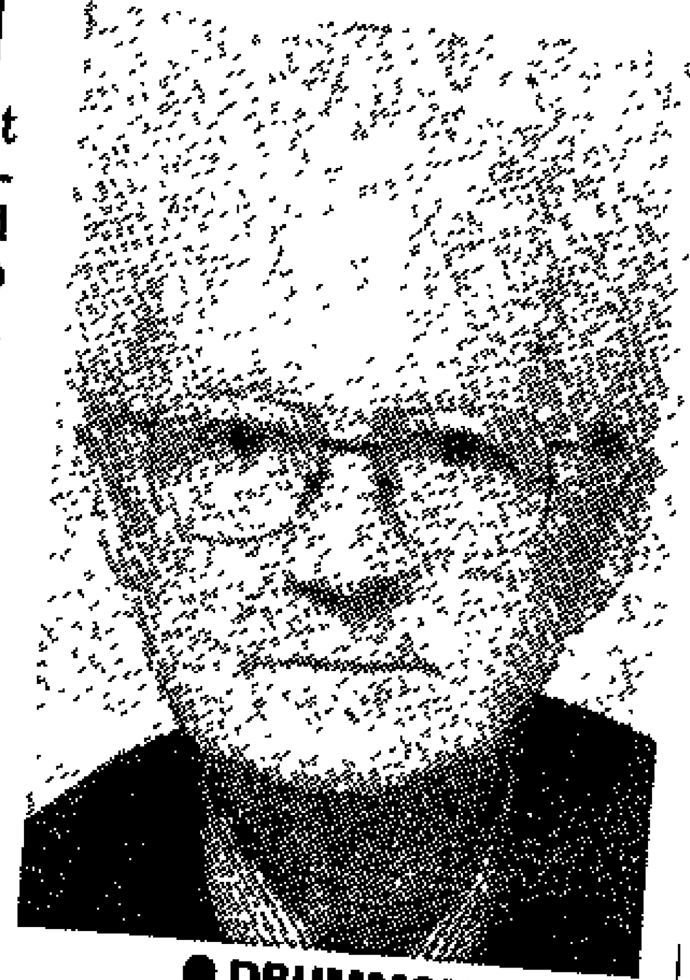
The society's conservative lending policy is evidenced by the fact that at the year-end the total properties in possession, sold and unsold, amounted to only 0,07% of its total loan portfolio, says Drummond.

The society, granted loans amounting to over R33m in the year to March.

Provincial has continued to place particular emphasis on distributable reserves in relation to assets. At the year-end reserves were nearly three times greater than the statutory reserve requirement.

Percentage of reserves to assets has grown from 4,23% in 1980 to 9,99% in 1990.

Drummond says the society will continue to concentrate in the housing finance field for all members of the community and with providing a secure and safe avenue of investment at attractive rates to its investors and shareholders.



● DRUMMOND

The 1990 balance sheet shows Provincial's advances standing at R111,4m (1989: R98,1m), investments at R12,5m (R10,6m) and cash, deposits and bankers acceptances at R14,6m (R23m).

Appeal board to be established

Bill increases competition in banking

(58)

BDay 29/5/90

CAPE TOWN — Legislation on the financial deregulation of banks, building societies and other deposit-taking institutions, enabling them to compete on equal grounds, was tabled in Parliament yesterday.

LESLEY LAMBERT

The Deposit-Taking Institutions Bill proposes that discount houses be drawn into the same category as other deposit-taking institutions and that an appeal board be established.

The Bill incorporates the Banks Act and the Building Societies Act and provides a more "even playing field".

At the same time, it tightens procedures for registering newcomers and supervising deposit-taking institutions to ensure customers' protection.

The Bill provides a blueprint of the restructuring which has taken place since the trend in financial deregulation started to blur the strict boundaries between financial institutions.

Banks, equity-based building societies — many of which joined forces in the late 1980s — and other deposit-taking institutions are subject to the same legal treatment in terms of the Bill. Mutual building societies are governed separately by the recently tabled Mutual Societies Amendment Bill which has also been revised to enable the unconverted societies to compete in the new financial environment.

Discount houses have been drawn into the same category as other deposit-taking institutions as their traditional role as intermediaries between the banking system and the Reserve Bank has diminished. As a result, the definition of "liquid assets" has been amended to phase out discount house call loans as a component of statutorily required liquid assets.

An important change proposed in the Bill is the establishment of an appeal board to hear appeals against the Registrar's decisions. The board will consist of a jurist, an accountant and a banker.

While the institutions will remain subject to the disciplines of the Companies Act under the new legislation, stricter authorisation procedures are to be applied to newcomers in the sector.

Under current legislation, new applicants are merely approved in principle. The Bill proposes new procedures, based on stricter criteria, for provisional and final registration and makes provision for the cancellation of registration.

Another new provision empowers the Registrar to restrict the activities of registered institutions under specified circumstances. He is also entitled to apply for a Supreme Court order to prohibit unregistered deposit-takers.

The general underlying principles for prudential requirements, which are aimed at ensuring the institutions maintain ade-

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Banking Bill

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quate capital and reserves to safeguard their solvency, remain the same as in the Banks Act.

But, while the Bill retains the risk composition of banks' assets as the basis for capital prudential requirements, it proposes a new definition of capital and a new method of calculating the minimum capital requirement for a deposit-taking institution. This is in line with the internationally accepted Basle proposal on banking solvency.

One provision in the Bill's risk management chapter is that an institution must seek the approval of its board of directors for an investment or loan exposure to any one client exceeding a prescribed percentage of its capital and reserves.

At the same time, the institution must report proposed transactions to the Registrar if these transaction leave it overexposed to any one client.

The only new principle related to investment guidelines for deposit-taking institutions is that the limit on the stake they are entitled to acquire in registered insurance companies is increased from 30% to 49%.

The Bill does away with previous distinctions between private, corporate and foreign investors in deposit-taking institutions. Whereas private individuals are currently not allowed to acquire more than 10% of a bank or building society and companies are not allowed to acquire more than 30%, these restrictions are amended to a 10% minimum and 49% maximum limit for all investors.

Top performance by UBS Holdings

B Day 29/5/90

GRETA STEYN

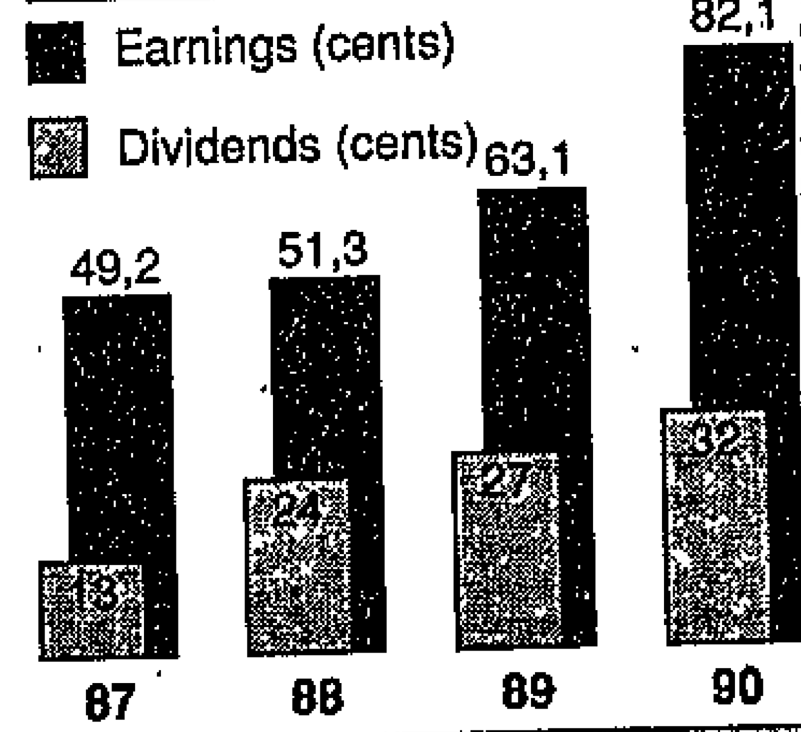
UBS HOLDINGS emerged with flying colours from the monetary policy squeeze to post a 30,1% increase in earnings to 82,1c a share, and an 18,5% increase in dividends to 32c in the year ended March 1990.

Growth in advances was in line with what the Reserve Bank wanted from banks and building societies (13%). Total asset growth was higher (18,9% to R15,7bn.) The group made the assets work — its return on assets (ROA) improving to 1,36% from 1,23% in 1989. ROA is an important measure of a bank's profitability.

UBS CE Piet Badenhorst told JSE analysts and financial journalists yesterday the group's ROA was the best in the banking sector, with Nedcor second.

"We are outperforming our competitors," Badenhorst said, noting the group's capital adequacy was another reason it deserved a higher rating than its competitors. Capital adequacy had emerged as a major constraint on most banks' balance sheets — but UBS Holdings was more than comfortable, with the best equity-to-assets ratio of the sector (9,2%).

Banks and building societies have experienced squeezed margins during the past



year. The income statement shows that interest income rose more slowly than expenditure on interest (42% versus 51%).

But the group not only emerged unscathed from the squeeze — it made the interest rate structure of the past year work for it through its building society.

Executive director Alwyn Noeth said the interest rate cycle and structure of the United Building Society's book worked in

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UBS Holdings

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the group's favour.

The building society remains the largest contributor to group profits (50,8%).

Badenhorst noted that a rising interest rate cycle normally favoured building societies, with the reverse usually true in times of softening rates. However, the group's asset and liability management had focused on ensuring it would not be locked into unfavourable rates once interest rates started falling.

Another feature of the income statement was the fall in the tax bill — down 7,7% to R85,1m.

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UBS lifts profit 30,7 percent

By MAGGIE ROWLEY
Business Staff

IN spite of a tightening of fiscal and monetary policy, UBS Holdings lifted profit (before extraordinary items) by 30,7 percent to R196,9 million for the year ended March 31.

Earnings a share were up 30,1 percent to 82,1c. The final dividend has been lifted 22 percent to 19,5c a share, bringing the total payout for the year to 32c a share (27c), which is covered 2,6 times by earnings.

The directors say that in spite of higher interest rates demand for credit remained strong. The intense competition for retail business in the finance services industry continued unabated with sustained pressure on the cost of funds.

They said that through selective growth in assets and further diversification, the group increased the return on average shareholders funds from 12,3 percent to 14,3 percent and again improved the return on average total assets reaching a new high of 1,36 percent (1,23 percent).

Building society operations contributed R100 million or 50,8 percent of attributable net income; banking activities, including equity-accounted earnings of associates, accounted for 18,5 percent (R36,5 million) while insurance business contributed 17,4 percent (R34,2 million).

United Bank increased its client base with total assets soaring 127,5 percent to R1,3 billion.

United Development Corporation increased taxed profit by 25 percent to R2 million in spite of sales of housing units declining.

In order to secure its business in the mortgage market, the group acquired a one-third interest in Real Estate Multi-Listing Services SA and a 25 percent interest in listed estate agency Aida Holdings.

The directors say that the group "will embark upon the elimination of the current statutorily enforced separation of building society and banking business at the earliest possible opportunity".

1984	33.9%
1983	32.0%
1984	33.9%
1985	29.5%
1986	28

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NEWS

Stalemate over job dispute

Staff Reporter

Accusations of racist comments and unfair dismissal led to a bitter dispute between a personal chauffeur and the Sage Holdings chairman that snowballed into 18 months of fierce correspondence and two Conciliation Board hearings. Now both parties wait to take the matter to court.

Mathews Baloyi says:

Sage Holdings' chairman allegedly called him a "cheeky bastard" and forced him to resign in what an industrial relations firm claims to be a shocking display of employer behaviour.

Mr Baloyi, who describes himself as a loyal employee of 16 years, says his boss, H F Shill, asked him to resign in January last year. He claims he was pressured into doing errands for other members in the company while Mr Shill was overseas.

When he refused to resign, he received his only disciplinary action in nearly two decades — a final written warning. Mr Baloyi claims he was victimised, harassed and humiliated. He says he was demoted to a driver's assistant and made to carry boxes and wash cars.

Because of this "unfair treatment", Mr Baloyi says he sought legal advice. Industrial relations consultant Philippe van Welwergen sent letters to the Sage group asking for an explanation.

Attempts were made in vain to settle the dispute through the Conciliation Board.

Mr Baloyi's health deteriorated to such an extent "under the stress and pressure" that on August 15 he was forced to resign against his will, he claims.

Mr Baloyi says he was put in a position where he could neither support his wife and three sons nor pay his housing bond.

Even securing a position became difficult because, he claims, Sage would not give him the reference his colleagues and advisers felt he deserved.

Dr van Welbergen says: "Mr Baloyi worked faithfully with 100 percent attendance until Mr Shill conducted his campaign to get him to leave.

"We demand a full inquiry into Mr Shill's behaviour and want an apology ... Even though Mr Baloyi was constructively dismissed, the company still insist that he left of his own free will."

H F Shill's reply:

Mr Shill told The Star these accusations were unfair and inaccurate.

Sage Holdings manager Bob Hazzard said they were very concerned about the allegations and surprised that the matter was still continuing.

"After two Conciliation Board hearings, no settlement was reached, so we prepared ourselves to go before the Industrial Court. However, Mr Baloyi and his advisers dropped the matter so we thought that was the end of it.

"Mr Baloyi was not dismissed, he resigned. Neither did we try to prevent his getting another job by giving him a poor reference. We gave him the standard certificate of service.

"He was not demoted. Because the inter-personal relationship between Mr Shill and Mr Baloyi had become untenable, he was transferred to another department, but still with the same salary and as a driver ..." Mr Hazzard said.

"We are very suspicious about the motives for Mr Baloyi's wild accusations. We were worried that outside and malicious forces were motivating him, so we were very careful to follow the proper legal procedures."

BIDay 30/5/90 (55)

UBS chief sees good growth potential

NEIL YORKE SMITH

UBS HOLDINGS CE Piet Badenhorst plans to maintain earnings growth during the current year while developing United's banking activities.

"There's a lot of growth potential in the retail consumer market.

"We would also like to get into foreign exchange," he says.

However, he stresses United's first priority is the home loans business. Badenhorst wants to build profits, not empires.

"What's the point in creating top-heavy institutions that don't deliver adequate returns to shareholders?" he asks.

"Of course we'd like to grow, but not at the price of reduced lending margins."

The JSE's current darling, UBS Holdings is described by some analysts as "the bluest of blue chips in the financial services sector".

The group yesterday announced a 30,1% increase in earnings a share to 82,1c for the year to end-March.

Dividends increased 18,5% to 32c.

He attributes success to dynamic management and sophisticated computer technology.

"We're lucky — this team believes firmly in the work ethic," says Badenhorst. An early starter, he leads by example.

"I'm usually here by 6.30am and usually work a 10 hours day — longer depending on circumstances."

Still, Badenhorst is obviously proud that he is rarely the first to arrive or the last to leave.

The strategic decision to focus on technology was made as long ago as 1963. "We were on line by September 1967," says Badenhorst.

The technology focus has been maintained — two members of the executive team, including Badenhorst, spent time developing the original computer study group.

"Each step has been planned in minute detail, and we've had a lot of interaction with overseas banking technology specialists."

Badenhorst reckons this is why United has avoided falling on its face in the technology area, and has not needed to spend billions recovering from past mistakes.

He confirms this has been a major strength in United's successful move into the banking arena.

"We're also in the fortunate position where we have a built-in home loans client base, which is a feeder for our banking business."

"Unlike competiters, we don't need to undercut just to get market share."

He describes his management style as hands-on.

"The powerhouse of this business is its client base," he adds.

He describes himself as a man who appreciates simple pleasures. "Something I never forget is that everyone has a family.

"All people are individuals with interests, fears and hopes. No matter who you are or what you achieve, this must be remembered."

Badenhorst's admirers say he epitomises the self-made man. He expresses surprise at this, but confirms he has supported himself since entering Helpmekaar High School.

"I bought my own clothes, shoes and books and am proud of it.

"Having worked hard I appreciate that a lot of people have to struggle. This is one way of keeping in touch with basic values."

After matriculating Badenhorst studied accounting at Wits University.

He worked as an understudy to the chief accountant before being transferred to the computer side, where he spent 14 years.

He accepted his current position in April 1983.

BADENHORST

Investec gets 20% stake in Berns, Block Associates

LINDA ENSOR

INVESTEC has acquired a 20% stake in financial services group Berns Block Financial Services, which trades as Berns, Block Associates.

Investec Group MD Stephen Koseff said yesterday the acquisition would extend the marketing force of the bank. While Investec was strong at the top and bottom ends of the market, Berns Block was better placed to service the middle range of client.

Also, Koseff said, Berns Block offered a more personalised service which the bank could not offer because of its size.

Berns Block MD Arnold Berns said the link with Investec would enable the group to develop its corporate market by increasing the range of services it was able to offer.

"Furthermore, the two groups will create innovative and exciting banking, investment, and insurance related products. For example, by linking geared investments with finance provided by Investec and guaranteed by specially structured insurance policies, capital growth on investments is increased proportionately to the amount of loan finance introduced to the investment," he said.

Other new products arising out of the link with Investec include: instalment sale finance, leasing finance, medium-term loans, professional partnership finance, housing and participation mortgage bonds, international portfolio management, international asset structuring, capital raising, management buy-outs, mergers and acquisitions and company restructurings.

Berns saw managed property syndications as a major area of future expansion as it offered the small investor an opportunity to invest R10 000 or more in prime commercial properties. Returns over five years were normally in the range of 135-140%, he said.

Link

Berns Block has restructured itself and formed subsidiaries of its main operating divisions namely broker services, securities, employee benefits, tax services and financial resources which includes asset management services.

The company was formed in 1983 by 10 Liberty Life agents, the link with Liberty Life being finally severed in December last year. This severance removed a constraint on the group, and gave it more credibility as an independent operator, Berns said.

Berns believed Berns Block was unique in being able to offer a wide range of financial services in-house.

New urgency in Bankorp shake-up

(58)

B/Day 30/5/90

GRETA STEYN

FORMER Nedcor CE Piet Liebenberg will take the reins at the troubled Bankorp group on Friday — a month earlier than Liebenberg's original agreement with the Nedcor board.

Coinciding with his arrival at the helm there will be a major restructuring within Bankorp — with TrustBank, Santambank and Senbank being incorporated as divisions rather than subsidiaries.

Liebenberg has reached a new agreement with Nedcor chairman John Maree to enable him to take up his position as executive chairman in June.

His move from Nedcor to Bankorp is widely regarded as a bid to rescue the Sanlam-controlled group, currently in the grip of a capital crunch.

Bankorp announced the new developments late last night, and said rationalisations and restructuring would be aimed at cutting costs by eliminating duplication.

The three subsidiaries — TrustBank, Santambank and Senbank — will be merged into one subsidiary known as Bankorp Ltd. However, the three separate corporate identities will be retained in the market place.

They will become divisions of Bankorp Ltd, with strictly defined roles, instead of separate banks.

Bankorp chairman Derek Keys last night described the move as a "streamlining operation."

Instead of three treasuries, there will be a single central treasury — headed by Senbank's current MD Doug Anderson.

TrustBank will be focused on commercial banking services for private individuals and small and medium-sized businesses.

It gains Santambank's commercial banking activities such as cheque accounts, mortgage loans and credit cards. Santambank will specialise only in instalment credit.

The CE of TrustBank will be Chris van Wyk — currently MD of Bankorp. Santambank retains its current CE Johan Myburgh.

All corporate banking will be handled by Senbank — the TrustBank's current corporate banking division will merge with Senbank.

In addition, the latter will continue to provide the usual merchant banking ser-

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Bankorp

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vices. New CE will be Hennie van der Merwe.

Another separate division will be Risk Management — to be headed by Liebenberg until he appoints a group senior GM to head the division.

In a separate development, Bankorp's controlling shareholder Sankorp has informed the Board of Bankorp it is prepared to support a further rights issue, if necessary, for additional capital.

Sankorp's shareholding in Bankorp, at 81%, is already way in excess of the limits set in the Banks' Act — a situation only allowed in emergencies by special permission of the authorities.

Plagued by runaway operating costs, squeezed margins and bad debts, earnings plummeted by 25% at the interim stage to end-December.

New bid for 'banking equality'

GRETA STEYN

THE authorities were urgently investigating new steps to achieve greater equality in the financial services sector, Reserve Bank Deputy Governor Chris de Swardt said yesterday.

He told a meeting of the Johannesburg Economics Society that the Deposit-Taking Institutions Bill, tabled in Parliament on Monday, left a major issue unresolved.

"Banks face an unlevel playing field when it comes to competing with traders in the securities and derivatives markets. Unlike banks, they do not have to comply with statutory requirements."

Companies that traded in the money, capital, and derivatives markets that were not banks fell outside the ambit of the Deposit-Taking Institutions Bill. He doubted these traders could be accommodated in a Bill which had as its main focus intermediation between lenders and borrowers.

"Should there not be a functional separation between trading in financial markets and deposit-taking and lending — with separate regulations for both? In such a framework, all securities traders would be subject to their own set of rules, irrespective of whether they are registered deposit-taking institutions or not."

He said the issue had to be resolved before the new Act was implemented.

The new Bill's ambit was a contentious issue at yesterday's meeting, with senior bankers questioning exclusion of life offices and mining houses from the definition of deposit-takers.

De Swardt said: "Inclusion of the life offices has been hotly debated and is still a hot issue. Maybe there is some substance in the accusation that insurance companies are taking deposits.

"But the issue cannot be addressed in this legislation. That is why we urged the Minister of Finance to appoint a committee to investigate the imbalance between contractual savings and deposits with banks. Unfortunately, part of the problem has been a prolonged period of inflation."

One of the issues touched on at the meeting was the need to regulate financial ser-

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Banking

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vices, with Wits University's Prof Merton Dagut saying free-marketeers usually agreed some form of regulation was needed. Asked about regulating the informal lending activities of "stokvels", De Swardt said the issue would be looked at next year.

De Swardt said the Technical Committee which had drawn up the new legislation had favoured removing the minimum cash reserve requirement from the Bill. Reserve Bank opposition had thwarted this.

"The committee believes the cash reserve requirement is a monetary policy instrument and should be in the Reserve Bank Act, rather than in the legislation currently before Parliament. The debate on the issue continues and the possibility of such a change cannot be ruled out."

Investments bolster StanGen's profits

LINDA ENSOR

STANDARD General Insurance (StanGen), 92% held by worldwide insurance group Generali, increased its total assets by 22,4% to R284,3m in the year to end-December.

StanGen's statutory solvency margin stood at 43% at year-end.

Gross short-term premium income — 55% of total income — increased by 22% to R106,6m although an underwriting loss of R4,5m (loss of R2,2m) was experienced due to the state of the market and the need to substantially increase reserves.

The life division's gross premium income was 46% higher at R87,5m. Claims and benefits paid out by the life division were 45% higher at R27,9m.

The surplus in the life fund "comfortably exceeds the actuarial valuation of liabilities," according to a StanGen statement. A transfer of R1,3m was made from the life fund to the income statement in the 1989 year.

Total investment income increased by 32% to R27,6m, which contributed to a rise in bottom-line after-tax profit to R1,6m (R365 000).

A high degree of liquidity was maintained to benefit from high interest rates.

Investec in tie-up with Berns, Block

By Jabulani Sikhakhane

Investec Bank has acquired a 20 percent minority stake in Berns, Block Financial Services, a financial planning and management services group.

MD Arnold Berns said yesterday the link with Investec would enable the company to develop its corporate market by increasing the range of services it was able to offer.

As a result of the link, Berns, Block Financial Services, trading as Berns, Block Associates (BBA), will be able to offer instalment sale finance, leasing finance, medium-term loans, professional partnership finance, housing and participation mortgage bonds, international portfolio management and off-stock exchange capital raising, among others.

BBA controls five subsidiary companies performing various services required to formulate and implement comprehensive financial plans for individual and corporate clients.

Mr Berns said BBA regarded property syndication as one of the major areas for development.

Investec MD Stephen Koseff said the link with would provide Investec with an opportunity to close the gap in its product range.

Arnold Berns

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BBA had more expertise in personalised services, particularly in the middle-to-lower end of the market, he said.

"The linkage provides us with an additional marketing arm for a wide range of services we offer. We hope to tap into their market niche and client base," he said.

Mr Koseff said the recent acqusition by Investec of Duros Merchant Bank and I Kuper & Company had been well-digested and had made contributions to group growth in financial 1990.

He said new acquisitions could be announced shortly, but added that the group would be moving to a new head office next month and would need time to digest the move.

Bankorp unveils plans to clean up its structure

By Ann Crotty

For the second time in 12 months Bankorp has announced a major restructuring.

But this time round, there is no rights issue. Although there is talk of a rights issue, there seems to be less fanfare and there will be considerable rationalisation of duplicated services.

According to chairman Derek Keys the bank has been streamlined in order to enhance customer service, reduce costs and sharpen group focus.

Mr Keys will be handing over his chairmanship to Piet Liebenberg who will be executive chairman of Bankorp Holdings and its wholly owned subsidiary, Bankorp.

Bankorp will be the central company in which the assets and liabilities of Santambank, Senbank and TrustBank are consolidated.

According to the official announcement, these three operations will continue to act under their established trade names, but with redefined roles. They will cease to be separate companies and will instead be constituted as operating divisions.

The streamlining, which is effective from June 1, will eliminate the considerable duplication of services that exists throughout the group.

Bankorp will now have one bank for personal and commercial banking. It will be called TrustBank and will comprise those operations (cheque and savings accounts, mortgage loans, personal loans and credit cards) which were in Santambank and TrustBank.

Santambank will become the specialist instalment finance bank for the whole group and will incorporate TrustBank's present instalment finance business. Senbank will include the corporate banking activities previously carried out by TrustBank. It will be headed by Hennie van der Merwe who recently joined Bankorp from Nedcor.

According to market sources, this sort of restructuring has been on the cards since Sankorp appointed Mr Keys to head its banking operation last year.

The move became all the more necessary in view of the disappointing results for the six months to end-December 1989 which indicated that some major surgery would have to be undertaken if Bankorp was to produce even limited earnings growth.

Although investors may be encouraged by these moves and by the appointment of Mr Liebenberg and Mr Van Der Merwe, they must be aware that the turnaround process will be a lengthy one.

They may also be a little discouraged that despite last year's massive rights issue, another one cannot be ruled out.

Mr Keys says: "Sankorp has informed the board of Bankorp of its willingness to support a further rights issue, should it prove necessary to satisfy Bankorp's capital requirements."

Pretoria's orders, ex- next year when negotia- should recruit and pro- mote on merit alone.

Insurance costs look set to rise - warning

Sowetan Correspondent

HOMEOWNERS and motorists have been warned to brace themselves for dramatic increases in insurance on houses and vehicles. They could exceed 20 percent in the next 12 months.

The warning comes from the South African Insurance Association.

The combined blows look set to add serious fresh burdens to household budgets already under pressure from inflation and high interest rates.

SAIA chief executive Rodney Scheeberger said the scale of increases was inevitable, but imperative.

The short-term insurance industry, he said, had been rocked by:

* New estimates that the toll of claims over the tornado which hit Welkom two months ago could soar to more than R300 million.

* New guesstimates that the number of vehicles likely to be stolen by the end of the year could climb to 72 000. To this had to be added the crippling cost of claims from mounting road accidents.

The Automobile Association noted in a recent count that premiums on motor insurance had already jumped in past months, and should be expected to leap between 20 percent and 40 percent by the end of the year.

Now the SAIA has said that premiums on houseowner and householder policies, covering property and all contents, can be expected to increase by 20 percent or more.

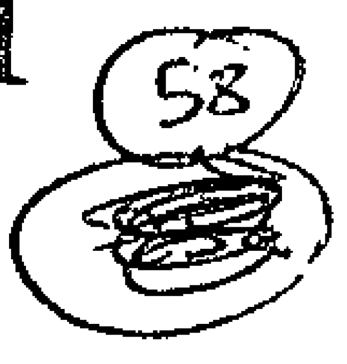
Scheeberger said the association had sent letters to top insurance companies warning them to call a halt to a three-year rates war to win new customers.

Alarm bells had been rung by figures showing that total income from premiums on houseowner and householder policies dropped by 2 percent last year.

Scheeberger said it seemed that several insurance brokers and their clients had been lulled into a false sense of security when the insurance payouts on catastrophes dropped almost zero last year.

New banking legislation puts all on equal footing

Star 30/5/90



By Peter Fabricius
Political Correspondent

CAPE TOWN — New legislation regulating the banking business would protect depositors by preventing banks going bust, according to Democratic Party Finance spokesman Mr Harry Schwarz.

He said yesterday he welcomed the mammoth Deposit-taking Institutions Bill which was published earlier.

The bill provides for the regulation and supervision of the business of public companies taking deposits from the public.

The main object of the bill is to create a framework for regulating, including the supervision of, the business of accepting and employing deposits made by the general public.

The bill safeguards depositors by prohibiting deposit-taking business by persons not registered as such.

Mr Schwarz said one of the main features of the bill was that it increased the percentage shareholding which one company could have in a bank from 30 percent to 49 percent.

Mr Schwarz said that this would help to prevent banks getting into financial trouble.

They were much more likely to get financial support when needed from a 'big brother' with a 49 percent shareholding — than someone with only 30 percent or less.

The other significant aspect of the bill was that it would force banks to pay more attention to the merits and quality of their management.

There was one potential 'downside' to the bill flowing from the fact that it would put all deposit-takers — including building societies — on the same footing.

This might encourage banking institutions to seek the most profitable business and ignore the business that building societies have traditionally pursued — providing housing for the middle-income group.

Mr Schwarz said the DP would ensure during the committee amendments to the bill, that this problem was attended to.

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BACKGROUND

There's no stopping a big insurance price rise

Competition over the past few years has kept insurance premiums relatively low. But, as **MICHAEL CHESTER** reports, underwriters say they can no longer withstand the pressures of rising car thefts and spiralling repair costs. Motorists and home owners will have to dig deep into their pockets.

There are bad jolts in store for most homeowners and motorists when the time to renew annual insurance premiums on their property and vehicles next comes round.

Over the past three years, the lid has been held on increases in premiums while the insurance companies have slugged it out in a rates-war in competition to lure new business by offers of the cheapest bargains in town.

Now the SA Insurance Association breaks the news that the steam pressure built up by the cost of claims looks set to blow the lid off — and release a burst of increases that may push premiums higher by an average of no less than 20 percent or worse.

The motorist comes first in the firing line. A recent survey by the Automobile Association found that a number of short-term insurance companies had already broken ranks from the rates-war with jumps in vehicle premiums varying between 10 and 20 percent.

But that, the AA added, looked like only a start. It noted that experts now predicted increases accelerating to 20/40 percent in the next few months.

SAIA chief executive Rodney Schneeberger agrees that increases of an average 20 percent or higher look inevitable.

"Holding premiums too low during the rates-war built up such pressure that the industry was beginning to face a potentially disastrous situation," he said.

The two main problems:

- The unabated rise in the number of vehicle thefts — now threatening to climb from 60 000 last year to a 1990 toll of 72 000.
- A remorseless rise in the cost of repairs to vehicles involved in a growing number of road accidents — with the average cost of damage repairs having jumped from R1 800 only a few years ago to more than R4 000.

Though the SA Police had a sound record of successes with tracking down vehicle theft culprits, insurance companies had growing headaches when it came to matching recovered cars to their real owners.

"Car thieves have learned to make so many changes to stolen vehicles — respraying into new colours, switching engines, fixing false registration plates and lots more — that it is often impossible to identify the original product," he said.

The complications were illustrated by experience last year. Though the police recovered 31 555 stolen vehicles, the number confirmed as covered by insurance and matched back to the proper owner was whittled down to few more than 1 500.

The cost of 13 000 vehicles reported to insurance companies as stolen but still missing had to be carried by the insurers in pay-outs on claims.

Headaches were also compounded by the escalation of vehicle repair bills, worsened by spiralling labour costs and the price of replacement parts that had to be imported and were inflated by weak rand exchange rates.

Mr Schneeberger said it had become equally imperative to increase the average size of premiums on homeowner and householder policies that provided cover against catastrophes — fire, explosions, storms, floods and such disasters.

"Brokers and policy-holders alike may have been lulled into a false sense of security because of a sudden drop in the number of catastrophes last year," he said.

"But the spell has been broken as the claims flow in from the dreadful tornado that hit Welkom a few weeks ago The scale of the havoc is proving far worse than first reckoned.

The latest estimates put the cost of claims as high as R300 million or more.

"It is the heaviest blow since the R305 million in claims that followed the Natal floods of 1987 — and forces the insurance companies to make a totally new re-assessment of premium levels

"In the end, however, property owners will find increases may be in their own best interests if they have deliberately under-valued their buildings and contents in efforts to keep premiums down.

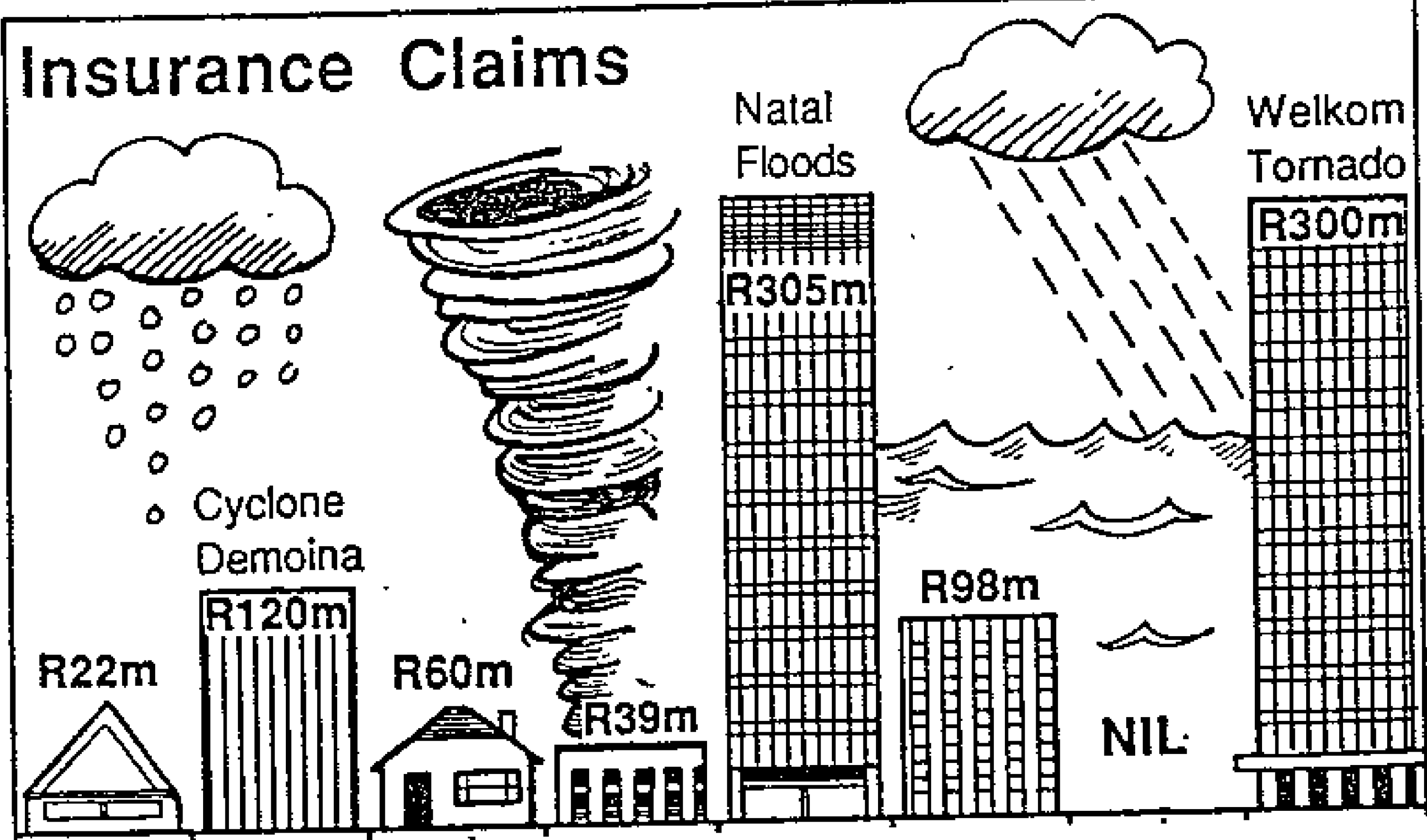
"Take as an example a homeowner with a house known to be worth R100 000 who puts in an insurance valuation of only R50 000.

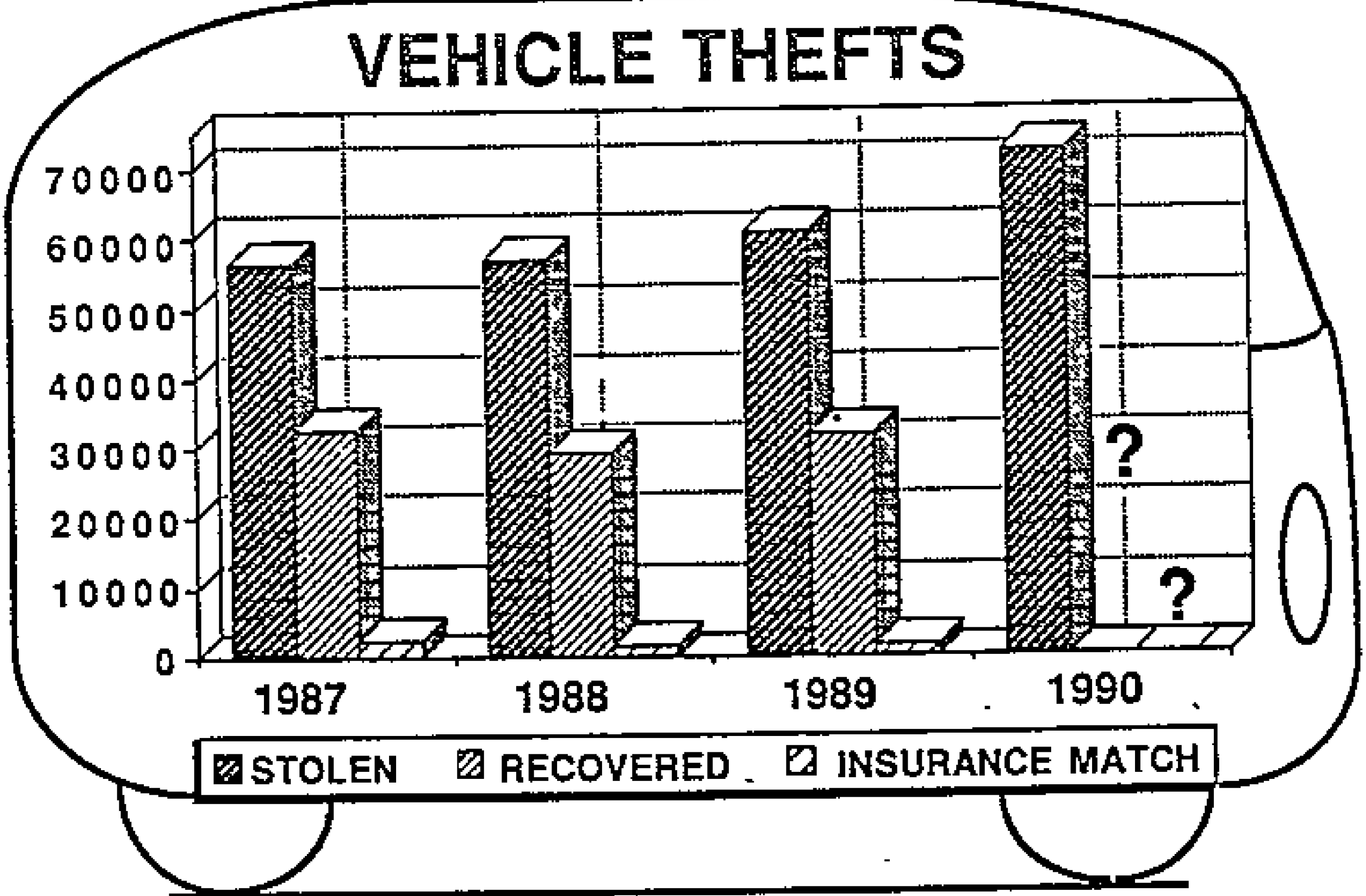
"If the house is destroyed by fire, let's say, it will come as the last straw to discover he or she can claim only a half of the true value of all the losses.

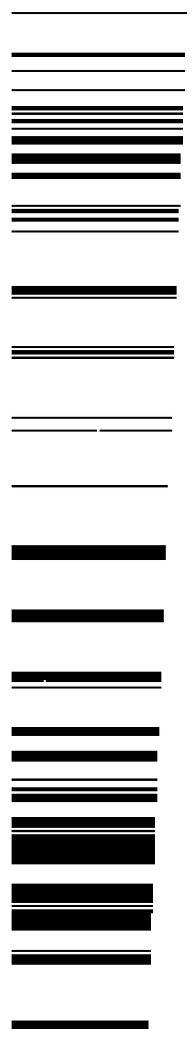
"The errors of under-valuation in the past couple of years have been underscored in new statistics.

"Income from premiums last year tumbled for the first time on record — down two percent when commonsense dictates that an increase of 15/17 percent was necessary just to cover inflation.

"Now comes the day of reckoning if we are going to ensure the benefits of a stable and secure insurance industry."







New trust a success

Finance Staff

31/5/90

(58)

Old Mutual's new industrial unit trust has attracted a huge inflow from individual investors and by Monday nearly R8 million had flowed into the fund.

Assistant general manager, Investments, Bastiaan van der Westhuizen says the heavy inflow is well ahead of expectations "and fully justifies our decision to launch an industrial fund." There is no doubt from the support we have obtained that the individual investor is choosing unit trusts as a vehicle for entry to the stock market."

The industrial fund has a portfolio of 20 blue chip industrial shares which are expected to perform particularly well in the medium term.