FINANCE – GENERAL

1991

JULY – AUGUST.

THE MONEY MARKETS by Andrew Gill

Gloomy figures underscore Stals's message on rates cut

THE light went out at the end of the tunnel for market participants last week as they took note of particularly ugly CPI and money supply figures.

Consistency from Reserve Bank Governor Chris Stals in the preceding weeks also helped to hammer home the point that no drop in official rates was likely for a considerable length of time.

A general 10-point climb in the three-month area was recorded and more paper was issued than there had been for several weeks.

Liquidity remained a problem for the Reserve Bank, however, as the "artificial" shortage dropped R400m to R1,85bn on Thursday despite a R500m tap on the day. It brought the amount of special TBs in the market up to R1bn, both of which carried over the month-end.

Apparently hundreds of millions of rands in dollar swaps unwound towards the end of the week, few of which were rolled over and special issues had to fill the gap. Also, tax cheques were not expected to drain the system over the weekend with today being the beginning of the new month.

Indications were that the month-end traditional squeeze would be little more than a hug with a further R300m in TBs maturing on Friday without a roll over.

Rates were expected to increase further in July, with thoughts of the next Bank rate cut on the back burner for a few months.

The liquidity that has prevailed over the past few months was blamed by the Bank on increases in the gold and forex reserves and a decline in government deposits with the Bank — ie, the big spenders.

Also, the lowering from 5% to 4% in the amount of cash reserves banks had to hold against short-term liabilities at the Bank was taking its toll, according to June's Quarterly Bulletin. Other factors were deficits on the forward cover book and the abolition of the 2% cash reserve requirement against medium-term liabilities, it said.

One of the major factors was dollar swaps. Monthly peaks in these ranged from R900m in January to R1,9bn in March and R1,4bn in April and May.

Further evidence that government was behind a large amount of the excess liquidity in the market was evident in the money supply figures.

Credit extension to the domestic private sector by banking institutions actually fell by over R1,5bn in April, compared with government's account which more than doubled over the same period.

A Reserve Bank spokesman was quoted as saying that the increases in money supply were partly due to the Bank's move to slap a ban on "undesirable funding practices" in the form of circulars 9 & 10.

This was a little confusing, considering the fact that the circulars had been put on ice and latest indications were that they would be revoked.

The revokal did not happen as expected last week but officials have not yet reversed (or given any indication that they will do so) the original reversal entered into at a meeting earlier in June, so we should expect it in the near future.

Rights issues set to raise R2bn capital

BDay 1/7/91 (58)

WILLIAM GILFILLAN

MORE than R2bn in new capital is to be raised in a spate of rights issues in the first half of this year by companies taking advantage of the buoyant share market.

Standard Merchant Bank corporate finance GM Mark Barnes says rights issues are logical at the moment. "With the cost of funding still high and with management becoming less optimistic that interest rates will drop as a result of the ongoing high inflation" he believes more issues will take place.

He expects many companies "will take advantage of price-to-earnings ratios standing at levels higher than they have been for a while". Barnes says the funds raised will be used largely to refinance existing borrowings and to place them in a strong position for expansion in the next upturn.

Opportune

With high price-to-earnings ratios, fewer shares need be issued to raise the same amount of capital, which avoids excessive dilution of earnings per share.

"Second-tier companies will more likely use the funds as an alternative form of financing to borrowings rather than for expansion purposes," says Barnes.

Firstcorp executive vice-president Stuart Jones agrees it is an opportune time for rights issues "considering the market is holding up so well".

He says companies must tell the market what the funds would be used for. The market would not follow a rights offer unless it felt the funds raised would be used well. "If the funds raised are to be used to reduce debt it is up to the market to decide if a reduction in debt is necessary.

"If a company has a good track record, then institutions are likely to follow the issue without knowing exactly what the company has in mind."

In recent weeks rights issues were announced by Metropolitan Life (R220m), Consolidated Metallurgical Industries (R100m) and UAL's Sycom property fund (R75m). The R1,1bn raised in April by energy group Engen is to be used to fund expansion and exploration projects. Engen's issue was the largest the JSE had seen since July 1989 when Gencor raised R1,4bn.

The rights issues have been undertaken not only to finance projects but also to reduce debt and take advantage of any potential acquisitions given the depressed economy.

According to JSE statistics, R4,18bn was raised through rights issues in 1990. About R2,5bn had been raised by this time last year. A feature of last year was the number of mining companies coming to the market — 11 compared with two so far this year. JCI's ferrochrome producer CMI is offering a 30% discount to induce shareholders to follow their rights. Gengold's developing gold mine Oryx had to put plans for a rights offer on ice because of bearish market sentiment.

Metropolitan Life is an example of a company taking advantage of a high price-to-earnings ratio. The share currently stands at 1 000c, having risen by over 70% from its low of 575c in October last year — the ratio moving to 16,4 from 9,4.

Building a profile on foreign capital markets

Development Bank to raise R100m overseas

58 CT 1/7/91

Own Correspondent

JOHANNESBURG. — The Development Bank wanted to raise about R100m in new foreign finance this year as the first step towards building a profile on international capital markets, GM André la Grange said at the weekend.

Speaking after the release of the bank's annual report, he said: "I can confirm from visits by a number of international banks that there is interest in the work we do.

"We could be singled out among other SA borrowers."

If the bank approached international markets, it would begin with a small amount.

But a successful issue of new stock would be the start of active participation in foreign markets to "build a reputation as a first class borrower," he said.

Development Bank CE and chairman Simon Brand said: "Internationally, it has been a very encouraging year for the bank.

"We are getting a favourable response to our ideas on how we can co-operate with overseas development agencies."

These agencies "appeared willing" to co-operate with the Development Bank in SA and in neighbouring countries.

It was becoming "virtually impossible" to receive all the delegations from overseas development agencies.

But Brand said the main problem in development in the short term was not the lack of finance — it was the difficulties faced at the level of implementation.

These difficulties had led to a drop-off in the rate of new applications.

If the trend continued, development would lose momentum.

The annual report shows the bank approved 66 new projects for R473m in the financial year ending March 1991 — sharply down from the approval in 1989/90 of 107 projects worth R1,2bn. Actual disbursements were up 36% to almost R1bn but this rate would slow in the next few years.

Agencies

Brand said financial strain and political pressure had hampered the capacity of the traditional development agencies, including the homeland governments, regional development corporations and local authorities.

The bank was addressing the problem by making increasing use of non-official bodies, including civic organisations and non-government development organisations.

He conceded the non-official bodies lacked infrastructure. Also, political pressure not to work with the bank still existed.

"The main constraint is not finance at this point but getting things done. We should put less effort into the creation of new wholesale funding agencies and really attend to the delivery mechanisms.

"Only then will it make sense to raise more funds," Brand said.

The proliferation of socio-economic funding agencies was cause for concern.

The bank placed a high premium on the co-ordination between the different organisations.

"At this stage we are concentrating on sharing information and research. We are also holding discussions with the Independent Development Trust on sharing resources for investigating and evaluating projects.

"Instead of their setting up a large organisation to do that, they could make use of the bank's capacity on a contract basis."

He said the proliferation of development funding institutions had led to confusion about who was financing what and about the criteria of the different organisations.

He envisaged that sometime in future, some of these organisations would merge, "although we are not quite there yet".

The different organisations could combine efforts to raise funds on the local and overseas capital markets.

The bank's capital market activity had been particularly successful in the past financial year, he said. The bank had raised more than R500m in the market and was ahead of its funding programme.

Development Bank has best year yet

ARG 1/7/91 (58) (34)

From DEREK TOMMEY

JOHANNESBURG. — The Development Bank, formed to channel cash, assistance and advice to sustainable development projects, has had its most successful year yet.

It provided R991 million for projects in the year to March, an increase of 36 percent on the previous year's figure, its annual report shows.

Further good news is that it has started tapping the capital market, which should enable it to maintain the flow of funds for suitable projects at a high level.

Between May last year, when the bank entered the capital market, and the end of March this year, it raised two substantial loans.

It received R178 million with a primary issue of its long-dated 14,5 percent stock, and a further R397 million from the secondary market.

Chairman and chief executive Dr Simon Brand says that since the bank entered the capital market the composition of its cash flow has changed dramatically.

It had marked the start of a phased programme to achieve one of the originally stated objectives of the bank — to increase significantly its funding base.

At the end of March the bank had 1 301 projects in the pipeline to which it expected to contribute R9,6 billion.

This outlay is only slightly higher than the year-ago figure of R9,34 billion.

One of the reasons for this is a sharp drop in the number of new projects approved.

In the year to March they numbered 66, requiring an outlay of R473 million — a significant reduction from the 107 projects for R1,2 billion last year.

The drop in applications is ascribed to the reduced ability of borrowers to repay loans and pay recurrent costs.

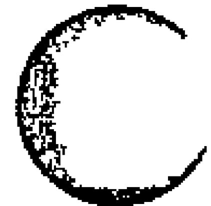
Projects have therefore needed to be delayed or phased out over a number of years.

Another reason for the drop in projects approved has been unrest, as a result of which township agencies were not only constrained by the cost of the projects, but were also under severe financial difficulty, says Dr Brand.

In addition, many of these agencies lacked community acceptance, which also affected their capacity to initiate and implement projects.

But for these factors the number of urban development projects would have been significantly higher.

Meanwhile the bank's bad debt experience has been good. All arrear instalments at the end of March 1990 were recovered in full.



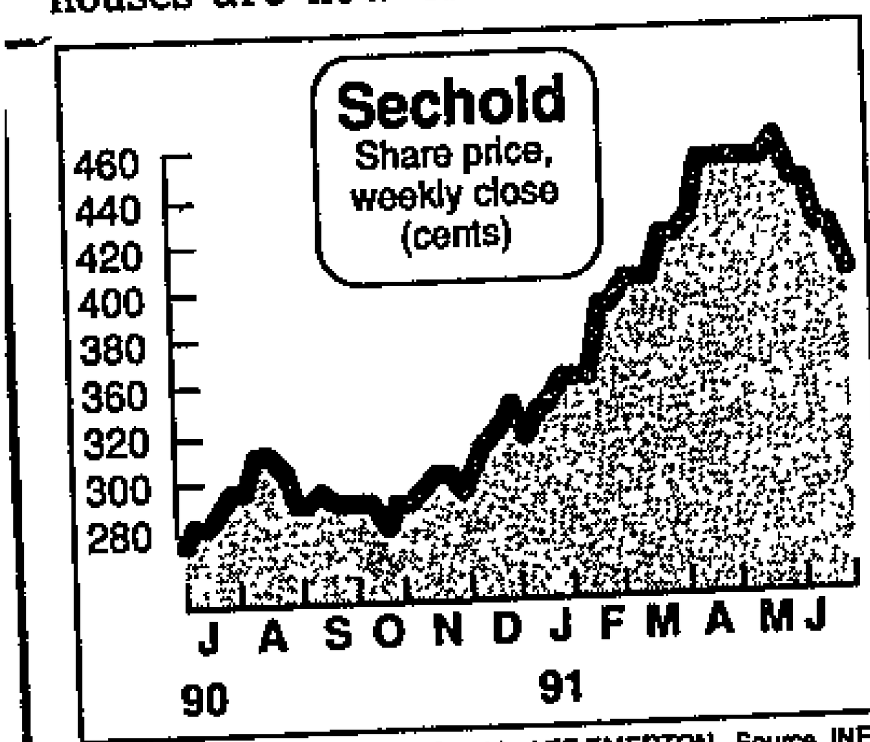
Sechold expands client base as discount houses disappear

SEAN VAN ZYL

SECHOLD — formerly Securities Discount House — has carved a new role for itself after the demise of the discount houses.

Discount houses used to be intermediaries between banks and the Reserve Bank, but the banks increasingly bypassed these middlemen. As their role in the markets became increasingly nebulous, the Deposit-Taking Institutions Act did away with the legal differences between them and banks.

Securities Discount Holdings has been forced to change its name to Sechold due to the Act. It had to drop the "discount" in its name and also had to change the name of its operating subsidiary National Discount House to NDH Bank, executive director Pat Abrahams said. Discount houses are now classed as "deposit-taking institutions" under the new legislation.



Graphic LEE EMERTON Source INET

Shareholders' approval for the name change was obtained at the company's AGM last week. Sechold's listing on the JSE under its new title comes into effect from July 15.

Discount houses were also involved in money and bond market trading — largely as intermediaries — for banks, mining houses and pension funds under the old legislation. The potential client base has now been thrown wide open by the new Act.

As a result, Sechold has enlarged its trading-related client portfolio accordingly. However, Abrahams said the group was also looking at other growth areas to promote "quality earnings".

Structured corporate financing had been earmarked as a future growth area, he said. While moves in this direction would overlap with merchant banking activities, he noted that a discount house's operating costs were marginal in comparison — because of the smaller infrastructural base.

Because of a discount house's relatively small infrastructural requirement, Abraham emphasised that Sechold would not be expanding into retail banking services — which has been made possible through the Act.

Sechold holds four "banking" licences as a result of the new Act, which Abrahams said the group would continue to hold indefinitely. "Because of the scarcity of trading licences, we have already been approached on several occasions to sell off a number of the licences."

He said Sechold might sell off one or two at an appropriate time.

Martin & Co analyst Richard Jesse said while discount houses were limited to available capital, obvious areas of expansion would be into corporate project finance, corporate finance advice services and portfolio management specialising in financial securities.

Dampened

He added that discount houses with a strong enterprising management team — "such as Sechold" — had a broad and promising future ahead.

Jesse felt Sechold was a good investment, although the group's lack of disclosure to shareholders of its activities has always dampened investor confidence.

Abrahams said Sechold's yearly trading results to end-June would reflect a real growth in earnings — in line with its past trading performance.

Development Bank has most successful year since formation

(58)

By Derek Tommey Star 1/7/91

The Development Bank, formed to channel cash, assistance and advice to sustainable development projects, has had it most successful year yet.

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The drop in applications is ascribed to the reduced ability of borrowers to repay loans and pay recurrent costs.

Projects have therefore needed to be delayed or phased out over a number of years.

However, another reason for the drop in projects approved has been unrest.

As a result of the unrest township agencies were not only constrained by the cost of the projects, but were also under severe financial difficulty, says Dr Brand.

In addition, many of these agencies lacked community acceptance, which also affected their capacity to initiate and implement projects.

But for these factors the number of urban development projects would have been significantly higher.

Dr Brand says that once these problems have been alleviated, urban development should increase.

The bank's bad debt experience must be unique in South Africa at present.

All arrear instalments at the end of March 1990 were recovered in full.

At the end of March 1991, arrears totalled only R2,5 million, which the bank is confident it will rcover.

However, the bank has decided to appropriate R150 million for a development loan reserve against delinquent loans — possibly because no one believes a bank can have no bad debts.

But it points out that its general reserve has always been earmarked as a contingency reserve against delinquent loans.

Although profit maximisation is not the bank's main objective, it achieved a net operating surplus of R33 million in 1990-91, against R46 million in the previous year.

AA Life net premium income rises to R122-m

AA Life posted impressive results for the 14-month year to June 1991.

Net premium income rose 34,9 percent to R122 million.

New business growth in a depressed market was 18 percent higher than in the same period last year.

Bruce Howard, newly appointed managing director, says: "AA Life has performed particularly well in a difficult year. Our steady growth is likely to continue and the expected upturn towards the end of this year should ensure yet stronger growth in the new financial year."

Mr Howard says the company has seen a sixfold increase in assets over the past nine years — from R50 million to R345 million.

During this period, AA life has moved from a ranking of 24th to its present standing as the 12th-largest assurance company in South Africa.

Ot has seen major restructuring which, according to Dr Brian Benfield, managing director of Avins, has helped the growth of the company and placed it in a position for continued expansion.

In September 1990, Anglovaal Insurance Holdings (Avins) was formed as the company holding a 95 percent stake in AA Life, 60 percent in Crusader Life, 100 percent of Atlantic Reassurance and 26 per cent in Pegasus Life (UK). — Sapa.

Metfund doubles liquidity to 'cushion weakness'

ROBERT LAING (58)

THE high ratings of the all gold and industrial sectors are making portfolio managers cautious, resulting in Investec Group's Metfund doubling its liquidity to 18% from 9% during the quarter to provide a "cushion against expected weakness that may occur in the short term". B/Day 1/7/91.

Metfund, Metboard's unit trusts, produced a return of 22% for the year to date excluding distributions, beating the JSE all share index's 20,5%, fund manager Hendrik du Toit said in his quarterly review.

While the industrial index advanced at a rate similar to that of the first quarter, the all gold index increased by 37% — roughly 10 times as much as the gold price's advance.

Du Toit said he was cautious about exposing the portfolio to gold shares because of the "less than encouraging international environment for the bullion price".

"The industrial index, at a price-to-earnings ratio of almost 13, is also expensive in the light of its own history," he said.

He said the portfolio included new counters which reflected the group's expectations of a sound dollar and slowly improving world economy. Metfund has acquired holdings in Safren, Samancor, C G Smith, Engen and Absa.

□ Investec Investment Trust announced earnings of 98,8c a share.

Development Bank wants foreign loan

(58) BDay 1/7/91

GRETA STEYN

THE Development Bank wanted to raise about R100m in new foreign finance this year as the first step towards building a profile on international capital markets, GM André la Grange said at the weekend.

Speaking after the release of the bank's annual report, he said: "I can confirm from visits by a number of international banks that there is interest in the work we do.

"We could be singled out among other SA borrowers."

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These agencies "appeared willing" to co-operate with the Development Bank in SA and in neighbouring countries. It was becoming "virtually impossible" to receive all the delegations from overseas development agencies.

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R100m loan

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☐ From Page 1

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The bank was addressing the problem by making increasing use of non-official bodies, including civic organisations and non-government development organisations.

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Another top Allied executive quits Absa

GRETA STEYN

ANOTHER senior Allied executive, one of only two to land a top post in the Absa group, has resigned.

The MD of property development company the Absa Development Corporation, Roger McDonald, yesterday confirmed that he had resigned to go into business on his own.

His departure follows that of Allied MD Kevin de Villiers and three other top Allied executives.

McDonald, who was known to be a supporter of De Villiers, has given up a package rumoured to be close to R300 000 a year to handle the marketing and finances of the Kyalami and Waterfall office parks as an agent for Anglo American Properties (Ampros). The position as head of Absa's property development had been hotly contested within the group.

McDonald said yesterday: "My resignation has nothing to do with the recent turbulence within the group.

"But I see little future in major banking for anyone with an entrepreneurial spirit."

He expected further rationalisation to take place in the banking sector in the next few years, causing "more turmoil".

The crackdown on executives' perks tax, uncertainty over the effect of inflation on pensions and the threat of banks' nationalisation had caused him to change direction. "But there are no hard feelings between Absa and myself," he said. "I intend doing business through the group."

Aside from McDonald, Angus Prentice as head of corporate banking is the only senior Allied executive to find a top position in Absa.

Masterbond calls off merger with Pretoria Bank

Star 2/7/91

By Magnus Heystek (58)

The proposed merger between financial services company Masterbond and Pretoria Bank has been called off.

Masterbond is now looking for another partner to facilitate its long-term objectives.

Another announcement regarding a possible merger with an insurance company is expected soon.

According to a spokesman for Masterbond, the merger was called off after Pretoria Bank failed a due diligence test conducted by Masterbond's auditors.

One condition precedent to the proposed merger was that the net asset value of Pretoria Bank was to exceed R3,7 million.

According to managing director of Masterbond Johann Brits the decision would have no material effect on the group.

"Clearly, it puts a temporary brake on our more ambitious growth plans, but the underlying philosophy behind the proposed merger remains.

"We will continue to seek a partner who will bring synergistic benefits to both parties and who will enable us to broaden our operating base."

Mr Brits emphasised that with or without a partner Masterbond was well poised for further growth.

"Our initial proposal called for the merging with Pretoria Bank of our interests in Masterprop, Masterbond trust managers and capital and asset management.

"These divisions provide us with an extremely healthy, balanced base. Our financial operations prosper in times of high interest rates, while our property activities benefit from low interest rates."

Since its formation seven years ago, Masterbond has chalked up an impressive growth record.

In the 12 months to February 1991, total assets managed rose from R532 million to R994 million, while funds under administration leaped from R496 million to R892 million, comfortably exceeding the R750 million forecast.

Premium rise looms over Aids

Star 2/7/91.

The number of people suffering from Aids is currently doubling every 10 to 12 months, says Southern Life chairman Neal Chapman.

Writing in the group's annual report, Mr Chapman states: "However incomplete our current data might be, it is a fact that the number of people infected is currently doubling every 10 to 12 months and projections for the mortality rate by the end of the century are alarming."

He goes on to say it is inevitable that life offices will have to increase premiums in the foreseeable future, especially for younger people, in order to cater for payments due to policyholders who become infected after taking out a life policy.

"While it is difficult to increase rates in a competitive market environment, failure to do so timeously will compound the problem and lead to mortality losses which will have to be borne by policyholders and, in the case of propietary companies, by shareholders too."

Mr Chapman writes: "As the plague spreads and begins to impact on labour forces, national health costs and dependants, employers across the full spectrum of business will face major problems.

"I can't urge strongly enough the importance of educating employees and their families on the causes of Aids and how to take protective measures." — Sapa.

Absa wants tax changes to benefit banks

GRETA STEYN

ABSA has called for "radical changes" to tax legislation to enable banks to compete on an equal footing with life assurers.

In an economic review in Absa's first annual report, it says "traditional" legislation should also be changed to encourage private savings.

The call indicates that Absa CE Piet Badenhorst has not given up the battle to convince the authorities that banks still face an unlevel playing field.

Government has failed to take decisive action on this score. It has put on ice a proposal to introduce a withholding tax on interest.

Absa says: "It is in the interest of the country to encourage private savings by, for example, introducing a low withholding tax on deposits and exempting from tax interest on bank deposits of more than five years to maturity."

Absa believes banks face a drawback in the competition for savings because of inflation. Current legislation is based on a non-inflationary environment. Consumers, faced by double-digit inflation, want a hedge against inflation while trying to maximise debt exposure. As a result, there is a built-in tendency towards increasing contractual savings with life assurers.

Turning to the macro-economic environment, Absa says fiscal policy should not be used for socio-political aims.

"Fiscal policy should concentrate on promoting productivity and efficiency rather than pursuing socio-political goals which, in the long run, are not achievable if not supported by economic fundamentals."

Prospects of tackling SA's unemployment remain gloomy unless wage demands are moderated to well below the inflation rate.

To create enough jobs for a rapidly growing population required large fixed investments which government could help achieve by reversing its current practice of dissaving.

It says the budget deficit envisaged for 1991/92 at 3,4% of GDP is too large — implying continued dissaving via the use of borrowed funds to partly finance current spending.

It is also potentially inflationary.

Norwich NBS holders net 18,6% return

Business Day Reporter

BDay 3/7/91

NORWICH NBS unit trust holders earned an overall return — capital plus income re-invested — of 18,6% during the year to June, compared with the JSE all share index rise of 11,5%.

Norwich Life said in a statement yesterday the fund's above average holding of gold shares (12,9% of its equities at the end of March) was a "useful contributory factor to the good performance over the past quarter".

Norwich management company MD John Bowman said the investment managers had demonstrated their ability to adjust rapidly to a changing market. The June quarter saw the implementation of a strategy different to that adhered to over the previous three quarters.

This change resulted in liquidity being reduced from a record 49% at the end of March to 8%, plus 7,5% in marketable Eskom stock by the end of June. In the light of restricted marketability on the JSE, as well as good cash flow enjoyed by the unit trust during the quarter (net cash flow equivalent a growth of 14%, taking the fund to R18,6m) this was most satisfactory.

He said investors were now prepared to take a "far longer view than normal", and were looking ahead to the impact of more bullish factors, in particular a probably buoyant 1992 economy, the lifting of sanctions, and the resturn of international investors.

Syfrets fund posts 33,6% total return

BDay 3/7/91 (58)

LIZ ROUSE

OPTIMISM over the JSE should be tempered by low dividend yields and a too rapid rise in share prices, says the Syfrets group's top portfolio manager Anthony Gibson in his quarterly report for Syfrets Growth Fund.

Syfrets Growth Fund's income distribution of 3,22c a unit for the past quarter brings total distribution to 13,17c a unit for the past 12 months. Total return (capital appreciation plus income paid) for the past 12 months is 33,64%. Inflation averaged 14,21% over the same time.

Gibson acknowledges the increased momentum of investors redirecting funds back into a rising equity market during the June quarter. Syfrets Growth Fund increased exposure to equities to 80%.

He points out, however, that the rise in share prices is occurring from already expensive levels. The dividend yield of industrial shares is currently 2,8%.

"The only two occasions in history when the yield has fallen to similar levels, or lower, were in 1969 and in 1987 — both of which were followed by sharp falls in share prices."

Gibson softens this warning by saying that although Syfrets' portfolio managers believe that the share market is at a historically expensive level, they nevertheless have to acknowledge also that SA is entering an uncharted period that could prove to be the start of growth not seen for the past two decades.

He confirms that, assuming SA is at the bottom of the economic downturn, a rising equity market is consistent with previous economic cycles.

He attributes the rise to a belief that the SA economy will experience a period of expansion starting early in 1992. He says SA will enter a cyclical economic upswing prompted by restocking. The kick-start (housing and electrification) will provide a further growth impetus.

Recovering world economies will boost export prices and volumes, while the lifting of sanctions will improve access to world markets. SA will be allowed to borrow World Bank and IMF money which has been denied in the past.

Returns

All these factors will translate into higher company profits and dividends.

Gibson warns, though, that the political process is not going to be smooth over the next couple of years.

He says Syfrets Growth Fund will remain relatively fully exposed to equities, but will only commit further funds to counters offering above average returns.

Two new holdings, Engen and Murray & Roberts, were added to the portfolio, while the holding in Minorco was sold in the June quarter.

Pretoria Bank placed under curatorship

B/Day 3/7/91 ANDREW GILL (58)

THE Reserve Bank has stepped in to guarantee depositors' cash after transaction irregularities at Pretoria Bank put their funds at risk.

Pretoria Bank MD Laurence Perrin said criminal proceedings were being instituted against former staff members in connection with alleged fraud arising from mismanagement of assets and deposits.

The bank, with R210m in deposits, had its merger with Cape-based financial services group Masterbond called off on Monday after a due diligence test saw Pretoria Bank fail to meet certain criteria.

The due diligence test brought to light the irregularities.

The extent of the irregularities had not been accurately determined, said Perrin. The bank has been placed under the curatorship of auditors Deloitte Pim Goldby.

Although the future was uncertain, it was not necessarily the end of Pretoria Bank, he said. The bank would be actively seeking funding from new depositors to cover liabilities, but would not be looking at further asset growth.

New depositors could invest the money at commercial rates and, in the process, have that investment guaranteed by the Reserve Bank.

The Reserve Bank has guaranteed all capital and interest deposits which will be paid on maturity.

Pretoria Bank directors applied for curatorship in terms of Section 69 of the Deposit-Taking Institutions Act which, a Reserve Bank statement said, should enable Pretoria Bank to "continue its normal business activities for the present" and protect the interests of depositors.

In the interests of maintaining the stability of the SA banking system, the Reserve Bank said, it would afford its co-operation to the curator to ensure that depositors would suffer as little inconvenience as possible.

Safegro trust sees assets reach R32,6m

(58) B/Day 3/7/91

LIZ ROUSE

A BUOYANT equity market and a strong inflow of investors' funds pushed Safegro Unit Trust's assets to R32,6m at the end of June from R24,2m at the end of March.

Management company, IGI Life Fund Managers, says in its June quarterly report that renewed investor expectations of worldwide economic recovery caused a strong inflow into the fund with the unit price increasing by 12,6% over the quarter as JSE share prices surged.

Performance, including income for the 12 months of operations to end-June, has yielded a total return of 20,2%, say portfolio managers.

Safegro continued acquiring quality shares with long-term potential. Liquidity was reduced to 15,9% at the end of June compared with 18,7% at the end of March.

New counters in the portfolio were 100 000 Genbel Investments and 30 000 Engen. Additions were made to holdings in De Beers, Anglos, Gencor Beherende, JCI, ABSA, AVI, C G Smith, HLH, Richemont, SA Brews, Sunbop, Sasol, Afrox, Tiger Oats, Iscor, Rembrandt Beherende and Rembrandt Group. Minorco was sold.

Safegro's ten largest holdings at the end of June were Safren, Richemont, Anglos, Genbeheer, ABSA, Consol, Sunbop, De Beers, JCI and Wooltru.

Boland 'will stay profitable'

LESLEY LAMBERT

CAPE TOWN — Boland Bank's future independence would depend on its ability to profitably meet clients' needs, chairman Pietman Hugo said in his annual report released yesterday.

It was speculated recently that the Rembrandt Group was planning to sell its effective 29% stake in Boland to concentrate more on ABSA. Rembrandt subsequently denied the speculation.

Hugo said Boland's directors were aware of the potential benefits of rationalisation in the banking sector and constantly evaluated all available options.

But, he indicated that Boland would continue to achieve the levels of profitability required to maintain its independence.

The Paarl-based bank had increased its profits for the 47th consecutive year and was confident that it would at least maintain its present level of profitability in the current financial year, he said.

Like others in the banking sector, Boland faced a tough year. The economy would, at best, yield only a marginal average growth rate, business would be limited and risky and the new turnover tax would exert further pressure on profit margins, Hugo said.

The new tax on financial services would have to be passed on to the users of these services and would make it difficult for Boland to strengthen its capital base by means of profit reservation, he said.

During the past financial year, the group's net income after tax, transfers to internal reserves and bad debt write-offs, increased by 14,1% to R17m.

The earnings a share increased from 110,8c to 126,4c, while the net asset value a share rose from 917c to 995c.

The improvement in profits was attributed largely to increases in both fee and net interest income, as well as vigorous control of discretionary expenditure.

On SA's future, he said the political transition would not proceed smoothly, Sapa reports.

It would seem that the road to the "new" SA was proving to be exceptionally rough and could be longer than expected.

"The situation is complicated by attempts by major extra-parliamentary political groupings to create a power base for themselves for the purposes of the negotiation process," Hugo said.

"Political stability and the creation of economic prosperity go hand in hand."

Hugo said he was confident government had taken the right course.

Curator appointed at Pretoria Bank

Finance Staff Star 3/7/91

The Reserve Bank has appointed a curator to manage the affairs of Pretoria Bank with immediate effect.

This follows this week's decision by financial services company Masterbond to call of the merger with Pretoria Bank after it failed a "financial diligence test" by Masterbond auditors.

The Reserve Bank said in a statement yesterday that Pretoria Bank had asked for the appointment of a curator.

Pretoria Bank managing director Laurence Perrin said investments were fully safeguarded in terms of the assurance received from the Registrar of Deposit Taking Institutions, who is linked to the Reserve Bank.

Mr Perrin said: "The curator will ensure, with the necessary assistance of the Reserve Bank, that the depositors of the bank will be able to withdraw their deposits with the institution at the normal time of maturity and receive interest in accordance with existing arrangements.

"Clients of the bank thus need have no concern as to the security of their investments."

The curator would enable the bank to carry on its normal day-to-day operations and would also protect the interests of depositors.

The Pretoria Bank was not an authorised foreign exchange dealer and held no foreign deposits, Mr Perrin said.

The decision to appoint a curator was taken because of concern over certain credit exposures, exposed by the Masterbond auditors.

"The diligence study revealed certain transaction irregularities and although the extent of these have not yet been determined, legal proceedings have been instituted," Mr Perrin said.

After the collapse of the merger analysts now speculate that Masterbond is looking for a possible link with an insurance group to facilitate its long-term growth objectives.

Short-term finance on offer

Top overseas banks in rush for SA links

B/Day 4/7/91 (58)

ANDREW GILL

MAJOR overseas bankers have been flooding into SA in recent weeks as they gear themselves for the country's return to international acceptability..

American, German, Swiss, French, Belgian, Austrian, British and Japanese banks have had consultations with various sectors of the financial community, including banks, mining houses and public corporations, mainly with a view to short-term financing.

A major benefit of the visits is expected to be a drop in the penalty rates charged by foreign banks for dealing with SA.

Local businesses have been subject to an unofficial "apartheid penalty" since the imposition of sanctions and the debt moratorium in the mid-1980s, similar to the discount at which local coal producers were selling their product.

Trade finance has already benefited from the discussions and has become "very easy to get at relatively cheap rates", a local banker said.

A London dealer close to the banks said trade finance for SA had been about 3 percentage points more expensive than levels granted to other countries about a year ago. This had fallen to between 1 and 1,25 percentage points.

He said it was probable that trade finance available to SA outstripped demand.

Most of the deals were done at about 180 days but some were as long as 360 days.

The Reserve Bank's latest Quarterly Bulletin said an inflow of short-term capital to the tune of R1,36bn was recorded in the first quarter of 1991. This compared to a net outflow of R1,15bn in the fourth quarter of 1990.

Economists warned at the time that the inflows were not necessarily stable and could just as easily result in large outflows if the political situation turned sour.

Medium- to long-term finance was, however, still a long way off. Uncertainty about the country's economic future was a hindrance but the main problem was the debt moratorium.

About $7bn of debt remained inside the standstill net and it was unlikely those creditors would want to increase their longer-term exposure to SA in the near future.

The biggest through to the lesser known banks had been here "trying to get a foot in the door".

Among the banks to have visited SA so far are Morgan Guarantee, Citibank, Chartered West LB, Deutschebank and Lloyds, with Morgan Guarantee and Citibank said still to be in the country.

US broking houses have also been here acting on behalf of some unnamed American banks.

US banks are not allowed to get involved with SA in terms of US anti-apartheid legislation but are looking ahead to setting up concrete links when the laws are dropped.

This, too, was more likely to be on the short-term side of the market.

Although the waters were being tested at the moment, bankers said they had been "seeing faces we haven't seen in many years".

Banks in countries with sanctions against SA had apparently anticipated the dropping of the curbs and wanted to take

☐ To Page 2

Strauss backs Stals's policies

GRETA STEYN

STANDARD Bank Group MD Conrad Strauss has come out in strong support of Reserve Bank Governor Chris Stals's high interest rate policy, saying it would work in time.

"If we want to reduce inflation, there can be no deviation from current policies now," he told the National Students' Federation in Johannesburg yesterday.

Econometric analysis suggested that there was a lag of six to eight quarters between a reduction of money supply growth and a fall in inflation.

So far in this business cycle, the rate of monetary expansion had been lower than inflation for only three quarters.

It was wrong to characterise the current policy as "a failed experiment in bringing inflation down while creating massive unemployment".

Attempts to "buy" political stability and goodwill with cheap money and increased government spending would trigger potentially uncontrollable inflation.

Although monetary policy in itself could not create wealth, it was an indispensable condition for a framework conducive to wealth creation.

58 CT 4/7/91

Overseas bankers gearing to return to SA

Own Correspondent

JOHANNESBURG. — Major overseas bankers have been flooding into SA in recent weeks as they gear themselves for the country's return to international acceptability.

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US broking houses have also been here acting on behalf of some unnamed American banks.

The visits follow closely behind those by numerous high-power foreign trade delegations interested in setting up operations and trade links with SA businesses.

Flemings 'to bring new investors'

Leading UK bank to start SA operation

B/Day 5/7/91

JOHN CAVILL

LONDON — Robert Fleming Holdings, the UK merchant bank, financial services and international investment group with £25bn in funds under management worldwide, is to set up in SA.

One of the top four British investment managers, Flemings intends to offer the full range of merchant banking services and hopes to open for business in Johannesburg by the end of this year.

Adam Fleming, 43, a director of the holding group and of several investment trusts, will move to Johannesburg with his family in September.

Flemings will be the first UK merchant bank to move into SA since the start of the reform process by President F W de Klerk. Warburg's is believed to be on the point of a decision.

Fleming said yesterday: "We think money is going to come into SA and we have a huge and wide range of investment clients. We are not just coming to chew up the local merchant banks. We feel we can bring something to the party and that is international investment.

"Europe is already investing in SA again. But when I looked through our portfolios under management their ownership of SA equities was about zero. Back in the mid-1960s an international fund would typically have between 5% and 10% in SA stocks.

"Our reasons for starting in SA are twofold. President de Klerk has done an incredible job of rehabilitating SA internationally. I met him and listened to him during his visit to London and was enormously impressed.

"And, in a funny way, I think the period of financial sanctions has made SA become financially strong and people are beginning to wake up to that fact," he said.

Fleming, who was an investment manager for Flemings in Hong Kong and Singapore before returning to London, said the group had been invested in SA in the 1950s when it owned Utrecht Colliery. "We pulled out for purely business reasons and in many ways I wish we had stayed on.

"I think a lot of foreign companies made the wrong decision when they withdrew."

He would not say how much capital Flemings, which is a family-controlled private group, would be putting into its SA operation. "We tend to start off in a small way and to build up. Our main emphasis at first will be on the investment side which is my particular area."

While Flemings realised that the SA equity market was tightly controlled by the big institutions, he said the group believed the demand for capital would see a "big gearing up and an opening of the market".

Flemings was the first UK bank to become involved in east Germany and while it and other former communist economies differed from SA, there were similarities in the capital requirements.

Yesterday the group announced net profits of £31,2m — down 13% — but an increase in net assets of 6% to £313,7m. Gross assets of the bank are nearly £2,8bn.

In addition to the giant Save and Prosper unit trust group, Flemings runs 12 investment trusts with portfolios spread across the world and offices in 16 countries — from the US to Japan, Hong Kong, Indonesia and from Australia and New Zealand to France, Germany and Switzerland.

Daily Telegraph

CT 5/7/91

UK bank to open in SA

From JOHN CAVILL

LONDON. — Robert Fleming Holdings — the UK merchant bank, financial services and international investment group with £25bn (about R117,5bn) in funds under management worldwide — is to set up in South Africa.

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"And, in a funny way, I think the period of financial sanctions has made SA become financially strong and people are beginning to wake up to that fact," he said.

"I think a lot of foreign companies made the wrong decision when they withdrew."

New black bank set to fan the flames of a bitter old rivalry

B Day 5/7/91 (58)

THAMI MAZWAI

IT IS MORE than a battle for the market between the two black banks, the African Bank and the about-to-be-launched Future Bank. It is an extension of the increasingly bitter rivalry between two black chambers of commerce.

At stake immediately are the billions of rands in black savings and business organisations, but it is part of a feud between the National African Federated Chamber of Commerce (Nafcoc) and the Foundation of African Business and Consumer Services (Fabcos).

African Bank, founded in 1975, is in the Nafcoc camp. It is now to be challenged by Future Bank, if that is the name decided on by the partnership of Fabcos and Wesbank. The new bank will probably be headed by former African Bank CE Gaby Magomola after his move to Fabcos.

The competition between Nafcoc and Fabcos has not been confined to whispering campaigns or the establishment of rival businesses to compete in the black market. Some of the violence in the taxi industry, in the Cape and Katlehong, is part of the feuding between rival groups of supporters.

Nafcoc supporters have also questioned the credentials of Fabcos, some claiming it is a puppet organisation controlled by Fabcos Marketing MD, James Chapman, and that it was set up by corporate SA.

Fabcos says Chapman has skills it needs, just as Nafcoc has not hesitated to use whites or white organisations whose resources it needed. White businesses involved in Fabcos's launch provided management expertise or resources, as they do for Nafcoc.

Strong undercurrents of loyalties to the ANC or PAC have also made themselves felt in the past two years, to the extent that Nafcoc was regarded as ANC-inclined while Fabcos was regarded as PAC-inclined. The two organisations have, however, stressed their neutrality and regularly meet both political groups. Nonetheless, the strong links some of their leaders have with specific political organisations, and the lines they push at meetings, keep these undercurrents alive.

There has been no love lost between the two black chambers of commerce since the launch of Fabcos in 1988. Until then Nafcoc was the only business organisation seeking a better stake for black entrepreneurs in the economy.

When the SA Black Taxi Association (Sabta) was formed in 1979, Nafcoc saw it as an opportunity to increase its membership, which until then had consisted mainly of the retail trade in the townships and pockets of black industrialists and farmers. Nafcoc wanted Sabta as an affiliate but Sabta, conscious of its growing clout in the transport industry, demanded that Nafcoc first restructure its national executive and give Sabta a say commensurate with its numbers. Nafcoc rejected this, for it would have meant being swallowed by Sabta.

MOTSUENYANE

Sabta then launched Fabcos, roping in or forming various trade associations like the National Stokvels Association of SA (Nasasa) and the African Builders Association, to establish itself as a chamber representing all aspects of black business. Fabcos now has 14 affiliates.

Significantly, it was Sabta president, James Ngcoya, who was elected president of Fabcos.

The black community has seen a proliferation and duplication of trade organisations since the formation of Fabcos. Last year Nafcoc launched the National African Taxi Organisation, countering Fabcos's Sabta. Before this Fabcos had launched Afsure (Pty) Ltd, an insurance broking house which then directly competed with Afribrokers, the African Bank and thus Nafcoc-inspired insurance broking agency.

Lawrence Mavundla's African Council for Hawkers and Informal Business pulled out of Fabcos to join Nafcoc, and Fabcos retaliated by forming the Foundation for African and Informal Business.

Nafcoc this year formed the National Industries Chamber and resuscitated its African Federation for Building Industry.

MAGOMOLA

In a nutshell, Fabcos and Nafcoc control rival trade associations in insurance broking, taxis, the liquor and building industries, spaza shops and informal businesses. The fight has now extended to the banking sector.

It was Magomola's dismissal by the African Bank three years ago that set the scene for the coming battle. After his dismissal, which had a sequel in the Industrial Court where he was awarded an out of court settlement, Fabcos appointed him chairman of Fabcos Marketing. In the meantime Jack Theron, who is white, was appointed chief executive to replace Magomola.

Sam Motsuenyane, president of Nafcoc and chairman of the African Bank, who was in the middle of the Magomola controversy, has defended the decisions to fire him and appoint Theron.

For the past 14 months Magomola has worked with Wesbank officials to set up the new bank. There was thus an unmistakable air of triumph about him, and his comment last week that "my years as a banker are not yet over", was loaded with meaning.

Also at the centre of the coming fight between the African Bank and Future Bank will be NedPerm, which has a big stake in stokvel money through the Perm. The Perm's Richard Ford has worked closely with stokvels over the years, creating a strong base. The institution now has at least 80 000 stokvels as customers. Ford banks on retaining their loyalty through the service they have received from the Perm.

There could be a brighter side for traders in organisations affiliated to Fabcos and Nafcoc, who may at long last find credit easier to come by.

Behind the bank battle lie two rival business organisations. And involved in both are the personalities — Magomola, Theron, Motsuenyane and Ngcoya. Much is at stake for all of them when the new bank opens for business in October.

Mazwai is business editor of the Sowetan. He is currently on a brief secondment to Business Day.

FM 5/7/91

(58)

CIB

BATTLE OF THE BANKS

A conflict of interest between creditors of the failed Cape Investment Bank — including the State-owned SA Rail Commuter Corporation — and the Reserve Bank erupted into a row at the second creditors' meeting last week. Allegations were made of collusion between the CIB board, controlled by Prima Bank, and the central bank. This has been linked to accusations that CIB assets were stripped by Prima, before it was placed in provisional liquidation, an act which caused its insolvency.

Former CIB MD Andy Swartz alleged in an affidavit to the Master of the Supreme Court that by withdrawing a deposit less than two weeks before CIB was placed in provisional liquidation, it acted as a preferential creditor.

There is a controversy over supporting documents. These have been classified secret by the Bank, in terms of Section 33 of the Reserve Bank Act. The Act states that no one is allowed to disclose written communication between the Bank and any person, marked as "confidential or secret." Documents relating to the deposit and guarantees given to Prima by the Bank have been marked "secret or confidential."

The *FM* has been told that, together with the Prima-controlled CIB board, the Bank advised major depositor SA Rail Commuter Corporation not to withdraw its R249m deposit, despite withdrawing its own deposit. Part of the deposit matured on March 28 and the Rail Commuter Corporation was persuaded not to withdraw the deposit. This emerged in liquidation papers. On March 18, minutes of a meeting held between new CIB directors, auditors and the Reserve Bank indicate that all present knew CIB was trading while insolvent.

Swartz alleges that Prima stripped CIB of its assets by taking over all the viable operations such as the trading operations, CIB Project Finance and CIB Leveraged Investments. He claims the asset strip was designed to reduce the NAV of CIB to such an extent that the price Prima would have to pay would be negligible. Prima in effect has taken over a number of operations without paying for them. The formula agreed upon for payment was NAV less bad debts on December 18, effective date of the takeover.

Also in dispute is a claim by the Bank made at two creditors' meetings which was dismissed. The amount of R23m claimed at the second meeting has been revised down. At the first creditors' meeting on June 4, the Bank's claim for just under R25m was dismissed on a technicality under Section 44 of the Insolvency Act. The claim was ceded by Prima to the Reserve Bank and was for, among others, call deposits and services rendered by Prima to CIB.

The difference between the two claims is believed to be salary packages paid to ex-CIB employees who were retrenched recently. The question which has to be asked is: who then footed the bill for the difference if the claim is no longer being made?

The first claim was dismissed by the Master of the Court because no cessions from Prima to the Reserve Bank were attached. The claim at the second creditors' meeting was dismissed because only an affidavit was attached which said that the cessions were made orally. According to Reserve Bank attorney Jacobus Luttig, the Bank "will launch a review on the proceedings to have the claim established in a court of law." He couldn't say why no cessions were attached but suggested it could be because they were verbal agreements.

Van Greuning

Bellingan

It was also alleged at the creditors' meeting that the Bank's claims on the estate of CIB could be invalidated because it took part in "collusive dealing" with Prima. Creditors plan to fight the claim under Section 31 of the Insolvency Act which deals with "collusive dealing before sequestration." In terms of this law the court may set aside any transaction entered into by the debtor where he, in collusion with another person, disposed of property which had the effect of prejudicing creditors.

The takeover by a tiny bank of one 10 times bigger seemed odd right from the start. Prima Bank, with a capital base of R4m, took over CIB, with a capital base of R38m, effective from December 18 last year. The two did not complement each other: Prima was a small, though well-run trading operation, while larger CIB was involved in a broad spectrum of banking services. On the first day of the takeover, almost 100 of the 130 CIB staff were retrenched and an ex-Old Mutual portfolio manager, Allan Greyling, was appointed MD.

At the time both DTI Deputy Registrar Christo Wiese and Bank Governor Chris Stals denied involvement (*FM* April 26) in the deal.

Swartz says CIB approached a number of institutions in its search for a partner to increase its capital base in November. Prima was dismissed as being unsuitable as it lacked infrastructure and capital. The bank had at least one tentative offer on the table believed to be from Investec.

Executive chairman of CIB at the time, Jan Pickard Jnr, with a stake of about 40% in CIB Holdings, announced to the press an effective 49% of CIB had been sold to Prima.

Luttig's answer to questions sent to DTI Registrar Hennie van Greuning about the alleged collusion was that all relate to "assistance the Reserve Bank gave in an attempted rescue operation." Swartz says if the Bank thought the rescue operation was necessary, it should have allowed CIB to do a deal with a financial institution that had the necessary infrastructure and capital to absorb such a deal.

The "rescue operation" involved the issue by the Bank of a number of documents containing information which the *FM* is precluded from disclosing — because they carry a stamp of secrecy under Section 33 of the Reserve Bank Act. In addition, CIB issued "accommodation" bills with the full knowledge of the Bank with the idea of improving its funding position.

The *FM* has in its possession documents to prove the issue of these bills. They have also been confirmed in the Cape of Good Hope Supreme Court by CIB debtor Transvaal Distillers MD Riaan van Rensburg. The judge referred these actions to the Attorney-General and Registrar of DTIs for investigation. Transvaal Distillers is now in liquidation. Luttig says no such bills were discounted.

In an affidavit at the creditors' meeting last week, ex-CIB treasury head Freddie Marais gave details of the bills which had been issued. "Mr Bellingan instructed me to draw bankers' acceptance bills totalling about R75m. . . . I pertinently told Mr Bellingan that the underlying transactions would be fictitious and consequently the drawing of the documents and the discounting thereof would be illegal."

Prima MD Johan Bellingan told him to proceed with drawing these documents as he had an arrangement with the Reserve Bank. Bellingan says he cannot comment on the subject as all transactions are subject to the secrecy clause of the Reserve Bank Act. Marais alleges the bills were fictitious because the letters of credit did not exist, the transactions on the bills were fictitious and the bills did not qualify as liquid bankers' acceptances.

continue →

P.T.O.

RESERVE BANK FM 5|7|91

BRANCHING OUT (58)

Managers of Reserve Bank branches throughout the country have been called to its Pretoria head office to discuss the future role of the Bank. This comes after they were informed last week of a decision that the status of all branches — with the exception of Pretoria and Johannesburg — will be that of depots.

Reserve Bank senior deputy governor Pierre Groenewald refuses to discuss the matter with the *FM* though spokesman Johan Terreblanche says it is an internal matter and that no firm decision has been taken. "Dr Groenewald said the matter was sub judice," says Terreblanche.

About a month ago managers were asked to assess how changes would affect their personnel.

Last week managers received a memo which informs them that a decision to change the branches to depots has been taken.

This means that Reserve Bank branches in major centres will handle only bank note transactions for commercial banks. No individual client services will be conducted and exchange and ledger sections will disappear. Branches affected are in Cape Town, Bloemfontein, Port Elizabeth, East London and Durban. The branch in Maritzburg has been closed.

Groenewald ... *the matter is sub judice*

In Reserve Bank branch circles the move is causing much concern. Employees fear being laid off despite assurances to the contrary.

All branch managers will travel to Pretoria for a workshop on Thursday and Friday during which Groenewald and other officials will discuss the changes. *Eddie Botha*

RAND'S PRICE

Jul 2 1991	R1 equals	One foreign unit equals (R)
SDR	**0,263**	**3,803**
	0,284	3,527
ECU	**0,304**	**3,288**
	0,303	3,306
UK £	**0,212**	**4,707**
	0,213	4,706
US $	**0,344**	**2,910**
	0,376	2,658
Canada $	**0,392**	**2,551**
	0,437	2,288
Switzerland Fr	**0,536**	**1,866**
	0,527	1,898
France Fr	**2,117**	**0,472**
	2,089	0,479
Germany DM	**0,626**	**1,597**
	0,622	1,608
Japan Yen	**47,475**	**0,021**
	56,955	0,018
Italy Lira	**465,135**	**0,002**
	466,645	0,002
Zimbabwe $	**1,155**	**0,866**
	0,920	1,087
Austria Schil	**4,400**	**0,227**
	4,370	0,229
Holland Guilder	**0,705**	**1,418**
	0,699	1,431
US $ value of SDR	1,332	**1,316**
US $ value of ECU	1,247	**1,126**
Financial Rand		
Cost per US $	4,099	**3,342**
Discount (%)	35,106	**13,017**

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

PRETORIA BANK

IN CARE FM 5/7/91 (58)

An amount of about R20m, raised to finance a projected financial services company, Novabank, is to be returned to investors this week, says Masterbond Trust (MBT) chairman Koos Jonker. This follows a decision by MBT to withdraw from a planned merger with the Pretoria Bank, who was to be its partner in the venture.

Pretoria Bank was subsequently placed in curatorship, at its board's request, by the Registrar of Deposit-Taking Institutions (DTI). The Reserve Bank says "at this stage" the bank will continue its normal business activities and "the interests of the depositors of the institution will be protected thereby."

MBT holds 10% of the bank which MD Johann Brits says was unable to meet the conditions of the merger. "Our initial proposal called for the merging with Pretoria Bank of our interests in Masterprop, Masterbond Trust Managers and Capital and Asset Management," says Brits. "The decision to withdraw will have no material effect on the group but it clearly puts a temporary brake on our more ambitious growth plans."

One of the conditions of the merger was that Pretoria Bank should have a net asset value (NAV) of not less than R3,7m. The bank was not able to meet this requirement, says Jonker, partly because of certain irregularities that were identified in a "due diligence test" initiated in October last year by MD Laurence Perrin and finalised in May. Irregularities included the theft of more than R600 000. (Investigations into the theft have been completed and the docket is with the State prosecutor.)

Merger discussions with Pretoria Bank came after an attempt by MBT, three years ago, to register as a bank. This was in anticipation of the Deposit-Taking Institutions Act, which came into effect in February this year, drawing MBT's fund-raising operations within its legislative ambit. Jonker says MBT was advised to seek a partner already registered as a bank.

At present, MBT raises money via mortgage participation bonds which do not fall under the DTI Act. "We also act as agents in placing debentures," says Jonker.

Merger discussions were under way when, in August last year, MBT discovered "certain irregularities" at Pretoria Bank. MBT then installed its financial director, Perrin, as managing director. Perrin will assist the curators in "optimising the asset book" — that is, recovering loans and advances.

An "information document" relating to the private placing of shares in Nova Bank has been published and the shares were sold except for 24% reserved for a financial institution interested in acquiring a large stake. Though shareholders' funds are now to be returned, MBT is continuing negotiations with an institution with a view to broadening its operational base, says Jonker.

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MBT buys and syndicates property. At present, says Jonker, its major investment is a 38% holding in Phinda, a game farm in northern Natal which Jonker says is valued at R70m. According to Jonker it was bought last year for R26m which is the value of MBT's present holding. Says Jonker: "We bought game to the value of R13,9m, buildings and improvements amount to R15m and capital appreciation is R15m." ■

The Aids threat

The 'Life' men fight back

Star 6/7/91 (58)

MAGNUS HEYSTEK
FINANCE EDITOR

THE Aids debate refuses to die down.

Last week's report on the possible effect of Aids on the economy has drawn widespread reaction.

Leading the assault is the life assurance industry which has sharply criticised some of the conclusions made by the head of the Aids Economic Research Unit (AERU), Keith Edelston.

Backed by some alarming statistics concerning the spread of Aids and the effect it will have on investments, particularly on ten-year endowment policies, Mr Edelston advocated a greater degree of liquidity in investments.

Aids with its potential catastrophic impact on economies, both locally and internationally, has dramatically shortened investment horisons, Mr Edelston said.

In his scenario, three years can now be considered a long-term investment, while the ten-year period is simply far too long to have money tied up, he said.

His predictions about a severe economic recession in the middle of the decade has been supported by another researcher, Jane Wiltshire from Tongaat-Hulett.

Peter de Beyer, marketing actuary at life assurance giant Old Mutual dismisses the projections as "extreme and misleading".

He is supported by Dorian Wharton-Hood, managing director of Liberty Life.

DORIAN WHARTON-HOOD: For some years now the assurance industry has been putting away great sums of money for future Aids claims.

"The major impact in terms of full-blown Aids and consequent deaths will not occur in the Nineties as suggested, but rather some ten years later.

"The projections given of 6,7 million dying in 2001 is way over the top, as is the suggestion that the number of deaths will peak in the late Nineties. Deaths of perhaps 1 million to 1,5 million people a year are possible, but this will be in the years after 2005," says Mr De Beyer.

Thus, even if Mr Edelston is right in predicting an Aids-induced recession, he is ten years out at least, he says.

The individual investor must maintain a sensible spread of investments, he adds. "Contractual savings through life assurance products are unique in that they offer exposure to growth assets while also including substantial guarantees.

"The average investor does not have the resources to research companies and sectors that offer the best long-term values for investment purposes. Life assurers have proven skills in this area.

"Surely", says Mr De Beyer, "investors should rather increase the proportion of savings channelled to life assurance products in times of uncertainty and volatility.

"The advice not to invest in life assurance products is prejudiced in the extreme and will lead to lost opportunities for any investor who follows this advice."

Dorian Wharton-Hood, MD of Liberty Life is also critical of last week's findings, rejecting outright some of the claims. "I'm quite sure that medical research will find a cure for Aids in the next ten years or manage to bring down the cost of treatment for Aids," he said.

"For some years now the assurance industry has been putting away great sums of money for future Aids claims. In a way, the industry can be accused of over-reserving for potential future claims," he said.

However, Mr Wharton-Hood declined to disclose how much Liberty has put into reserve for future Aids-related claims.

He agreed with Mr De Beyer's contention that the average investor does not have the necessary investment skills to go it alone. "They invariably get it wrong, buying and selling at the wrong time".

"The assurance industry has a proven track record of providing inflation-beating returns on investors' money. I'm quite positive that we will continue doing so in future.

"The industry has extremely capable investment fund managers who are very much aware of the potential effects of Aids and who will take timeous steps to protect policyholder's investments," he said.

That the assurance industry is extremely concerned is illustrated by comments made by other assurance leaders this week.

In Cape Town Gerhard van Niekerk, chief operating officer of Old Mutual said the following at the release on an Aids educational package to 17 000 staff. "The worldwide Aids epidemic is one of the deadliest diseases threatening mankind today. At this stage, there is is no evidence that the bleak scenario regarding the spread of the virus in South Africa will not become a reality. Failure to effectively deal with Aids right now will severly threaten the whole business environment, as well as the quality of life for our people," he said.

In the annual report of Southern Life, chairman Neil Chapman also expresses grave concern about the potential impacts of Aids.

"The ravages which the HIV virus is wreaking in the countries north of our borders are all too plain to see, but as yet the number of cases identified within our boundaries is still at a comparatively low level.

"However incomplete our current data might be, it is a fact that the number of people infected is currently doubling every 10 to 12 months and projections for the mortality rate at the end of the century are alarming."

"We think it is inevitable that life offices, will have to increase premium rates in the near foreseeable future, especially at the younger ages, in order to provide for the extra death claims that will arise from policyholders who become infected after purchasing their policies", he said.

Failure to do so, he warned, will lead to mortality losses which will have to be borne by policyholders and shareholders.

Insurance rates on cars, homes soar

58 CT 6/7/91

By PETER DENNEHY

HOUSEHOLDERS' insurance premiums have risen between 15% and 25% this year, and motor car insurance by far more, according to a city insurance consultant.

Mr David Hersch said he could give no overall figure for increases in car insurance, but said his prediction earlier this year that they could rise by as much as 65% may still prove correct.

"One company, for example, has increased its motor vehicle insurance prices by between 18% and 70%," he said.

He gave examples of monthly premiums for comprehensive insurance of a Toyota Corolla worth R21 000. According to his figures which are provided by the insurance companies themselves, the average premium for such a car was R155.05 a month. Annually, it costs an owner an average of R1 717.51 to insure a car of that value with an alarm and immobiliser and a fair no-claim record.

Regarding householders' insurance, Mr Hersch provided figures for a burglar-barred house with general contents worth R55 000, R12 000 worth of specified items, and R5 000 worth of unspecified.

Monthly rates ranged between R112,29 and R193,60 which amounted respectively to R1 225 and R2 323,20 a year.

Bank 'assistance' of R300m for CIB

BDay 9/7/91. (58)

ROBERT GENTLE

THERE was growing speculation yesterday that the R300m at the centre of the CIB liquidation row was actually a form of special assistance given by the Reserve Bank to help CIB trade its way back to profitability.

This conflicts with the version given at a recent CIB creditors' meeting by former MD Andy Swartz. He has maintained that the R300m was a deposit which was withdrawn when the Bank became aware that CIB was going under.

Eleven days after the alleged "withdrawal", the Bank applied for liquidation of CIB.

That the R300m was a deposit, or that the Bank acted unethically by pulling out its money ahead of the liquidation, has been repeatedly denied by Registrar of Banks Hennie van Greuning.

"I can categorically state that it was not a deposit," he said yesterday.

He said he would not say anything more because he was bound by the Reserve Bank Act which allows the Bank to withhold certain information from the public in the interests of macro-economic stability.

The theory in the market yesterday was that the Reserve Bank, having learned of CIB's liquidity problems late last year, lent it R300m at a rate of 1%. CIB then redeposited the R300m with the Reserve Bank at a rate of 16%, meaning CIB had effectively made a 15% (R45m) turn on the deal. The question in the market was: why did the Reserve Bank simply not give CIB R45m instead of going through such a tortuous transaction?

Van Greuning conceded that with the benefit of hindsight and given the inadequacies of the old Banks Act compared with the more rigorous Deposit-Taking Institutions Act, it was perhaps not wise to have issued CIB its final banking registration around August last year.

"If a similar situation existed today under the present legislation, a final banking registration would not be issued," he said.

The necessary checks and investigations had been applied in the case of the CIB final registration, Van Greuning said, but "within the looser constraints of the old Banks Act".

Nevertheless, the feeling in some quarters of the market was that CIB was already showing signs of problems in the second half of last year, and that consequently the Reserve Bank should not have granted it final registration.

Van Greuning said the only real indication of serious trouble emerged in March this year, long after the final registration had been issued.

Van Greuning confirmed that the third auditor appointed to value CIB's assets and liabilities was KPMG Aiken & Peat's auditing division, and that this had been at the invitation of the SA Rail Commuter Corporation, CIB's largest single creditor with a deposit of R249m.

Bank Registrar seeks to lift gag

REGISTRAR of Banks Hennie van Greuning has acted to clear his department in the controversial Cape Investment Bank liquidation.

He has asked liquidator Aiken & Peat for an investigation under Section 417 of the Companies Act — and he has appointed a third firm of chartered accountants to value CIB's assets and liabilities.

The Section 417 investigation entails cross-examination of interested parties before a judge in court, and aims to establish whether there was any negligence or criminal act before or during the liquidation. If so, the matter will be referred to the Attorney-General.

By DAVID CARTE

The official reason for the investigation is to make sure no creditor or other party has been treated prejudicially, as alleged in an affidavit at an acrimonious meeting of creditors in Cape Town this week.

But Dr Van Greuning is known to want to refute allegations against his department. He is expected to undergo cross-examination.

Dr Van Greuning told Business Times: "I am an accountant by training and I came from the private sector. Therefore I believe in market discipline.

"Having been a partner in a major auditing firm, I believe in full disclosure. But unfortunately, I am prevented by Section 33 of the Reserve Bank Act from disclosing certain information. That is why I have asked for a Section 417 inquiry."

Arch-critic of the Registrar and the Reserve Bank is former CIB managing director Andy Swartz.

He alleged in an affidavit to the second meeting of creditors that the Registrar and the Reserve Bank had colluded to arrange the sale of CIB to Prima Bank.

Mr Swartz says in his affidavit that the Reserve Bank withdrew a large deposit 11 days after hearing from CIB's auditors that it was insolvent. After another 11 days, he says, the Reserve Bank applied for the liquidation.

Dr Van Greuning denies that the amount in question, said to be R300-million, was a deposit

He says it was a normal central bank transaction but he is prevented by Section 33 from saying any more.

In refusing to guarantee the deposits of large creditors of CIB, the Reserve Bank departed from normal practice.

Risk

Depositors in TrustBank and Nedbank were guaranteed by the Reserve Bank when they ran into trouble but those in small banks, such as Rondalia Bank, Rand Bank and now CIB, have been permitted to lose money. The Reserve Bank says non-payment in these cases was not a threat to the banking system.

Only those claiming less than R5-million from CIB will be paid out by the Reserve Bank. The Reserve Bank is a creditor of CIB to the extent that it is underwriting smaller depositors. Mr Swartz contends it should not be a creditor.

Dr Van Greuning says the decision not to support big depositors was based on the Reserve Bank's "risk management, market-oriented" approach.

The SA Rail Commuter Corporation (SARCC), which had deposits of R249-million in the insolvent bank, has to stand in the queue among ordinary creditors.

Mr Swartz's affidavit says the Reserve Bank advised SARCC against withdrawing its funds after taking out its own money, a point borne out by the Reserve Bank's liquidation application. Dr Van Greuning says the truth or otherwise of the allegation will be established by the inquiry.

Meanwhile, transport Minister Piet Welgemoed has received the findings of an inquiry into why SARCC deposited such huge amounts in a bank with shareholders' funds of R40-million. The inquiry was undertaken by stock brokers Pierre Faure and Jannie Mouton.

Transport Director-General Ronnie Meyer says Dr Welgemoed will report to the Cabinet, which will decide whether to publish the report.

SARCC head Bart Grove has been prevented by ministerial order from saying anything.

This is the second large financial setback in an organisation under his control. In 1985, when he was head of Sats, R3,5-billion was lost on foreign-currency exposure.

At a Section 417 investigation, Mr Swartz will also have to answer questions. One will be why CIB lent such large amounts to Transvaal Distillers Limited (TDL), whose interest bill was seven times its turnover, another why CIB accepted a deposit from SARCC amounting to 80% of its liabilities and whether the board was informed of all off-balance-sheet exposures.

One reason CIB fell was that TDL and five associated companies, which borrowed R24-million from CIB, were placed in provisional liquidation.

TDL managing director Riaan van Rensburg told the Cape Supreme Court he had been asked by CIB's new management to sign bills for discounting with the Reserve Bank against "fictitious transactions".

After ruling against TDL and Mr Van Rensburg, Mr

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Debtors use home loans as crutch

By TERRY BETTY

BORROWERS who cannot meet their overdraft, hire-purchase and credit card commitments are gaining relief by liquidating these short-term debts with borrowings against long-term home loans.

The advantages to the borrowers are that home loans carry lower interest rates and are repayable over a longer time. The banks benefit by gaining solid collateral for their advances.

In addition, their capital requirements for home loans are about half those for other forms of bank credit. That means they can lend more.

The Reserve Bank noted a big increase in mortgage advances when the property market was in the doldrums. A bank official says the improvement in property in the past few months is probably insufficient to justify such increases in mortgage advances.

Imprudent

A Reserve Bank Bulletin says the increases in the market values of property because of inflation provides collateral that can be borrowed against. This encourages consumption expenditure when real disposable income cannot support it.

Standard Bank divisional general manager of home loans Eric Tomlinson says this practice is not encouraged or advertised. But a customer will be given a home loan if he can afford the repayments. He says borrowing money to get out of debt is imprudent.

But a Standard branch manager says the method is often used to help clients with pressing short-term debt.

IN SA HANDS AGAIN: Glenvaal directors "Moff" Vorster, Steve Whitty, Allan Mansfield, Dermot Johnston, and Mike Ryan

Control of Glenvaal back in SA

S/Times 7/7/91 (Buss Times) (58)

By IAN SMITH

SOUTH AFRICAN management has bought control of insurance broker Glenvaal, clearing the way for expansion abroad.

Management, led by joint chief executives Allan Mansfield and Dermot Johnston, and a foreign partner have bought the 60% of Glenvaal which was owned by UK merchant banking group Brown Shipley. The amount paid is not disclosed.

Glenvaal, established in 1947, has strongly resisted courtship from many large SA groups and remains probably the most profitable independent broking house.

The way is now clear for Glenvaal to expand in foreign markets and to turn its liaison office in London into a full Lloyd's broking house.

More than 75% of Glenvaal, which is the largest profitmaker outside of the broking houses tied to major financial institutions, is now owned by executives of the group.

One of the main reasons for the change in control was to take advantage of opportunities for international expansion, says Mr Mansfield, who will spearhead the development of Gelnvaal's London company, Glensure.

Brown Shipley did not wish to have competing Lloyd's brokers in its insurance stable and the group agreed to cut Glenvaal free so there was no conflict with Brown Shipley's Holmwoods group.

Glensure already represents Glenvaal and a few other small SA brokers in London. It hopes to become a full Lloyd's broking house in two or three years.

"We have to serve our apprenticeship first," says Mr Mansfield. Glensure will have to meet Lloyd's stringent free reserves qualifications.

Brown Shipley directors have resigned and new Glenvaal Holdings directors are Michael Ryan, managing director of Glenvaal Transvaal, and Steve Whitty, group development director.

Glenvaal's ownership has fluctuated since its formation. In 1960 London-based Lloyd's brokers Holmwoods and Back & Manson took a minority holding when an association was established.

Retired

In 1979 Brown Shipley, which had taken over Holmwoods in the early 1970s, increased its Glenvaal holding from 30% to 100% when some of the founders retired.

In 1986 and 1987 Brown Shipley first gave up 10% and then another 30% to Glenvaal executives.

"They were always good shareholders," says Mr Mansfield. "All the deals have been amicable and they have not tried to stand in the way of our expansion overseas."

The group has grown to include 20 subsidiary companies with offices in major cities of SA as well as in London and Windhoek.

Gross premium income has risen from R2-million in 1961 to more than R190-million.

Glenvaal transacts all types of insurance and assurance, but it dominates professional indemnity insurance with more than 50% of the market, says Mr Johnston.

The group is in the first five insurance broking companies ranked by profit and it is the best-performing independent.

"In the last five years we have increased group profit by more than 25% a year," says Mr Johnston. "Now that more shares are owned by the executive we hope this will continue — or improve."

Rethink urged on housing strategy

6 Day 8/7/91

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GRETA STEYN

THE World Bank has urged government and the private sector to conduct a major rethink of housing strategies.

Housing sources said the bank had provided them with detailed suggestions in a critical report circulated after the bank's recent visit to SA. Government sources emphasised, however, that the confidential report had "no official status and merely reflects the bank's first impressions".

The bank strongly urged the Independent Development Trust (IDT) to reconsider its proposed capital subsidy plan, saying not enough people would benefit from current proposals. The size of the subsidies and the standards were apparently too high. The bank called for "broader rather than deeper" subsidy schemes aimed at reaching as many people as possible.

It also told SA banks and building societies they were using the political climate as a "convenient excuse" for not taking part in the top end of the black housing market, let alone in the bottom section.

The report called on banks and societies to meet civic organisations and other non-parliamentary groups to hammer out ways in which the institutions could become more involved in mass housing.

The bank wanted financial institutions — rather than government — to be the primary providers of housing finance. Leaving it to the public sector carried the threat of pushing the fiscal deficit to dangerously high levels. Mechanisms had to be found to encourage private financial institutions to move "downmarket".

The bank also urged financial institutions to develop more flexible mortgage lending products, suggesting that mortgage payments be linked to a wage index.

It criticised the lack of competition in the building industry. The market structure of the construction industry, including manufacture of building materials, needed

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an overhaul. Lack of competition saw prices rather than output increase when demand rose, the bank said.

Of major importance in a housing strategy was the racial and spatial integration of cities — a change that would benefit the economy by improving efficiency.

The World Bank likened SA's housing policy under apartheid to those of the command economies of Eastern Europe. As a result of these policies, the housing sector underperformed. The economy as a whole was affected. Spending on housing in SA was well below that of other comparable countries when expressed as a percentage of GNP.

Although residential building had a major effect on the economy, directly and indirectly, the bank cautioned against expecting too much of housing as a "kick-start" to the economy — the approach propagated by the Old Mutual/Nedcor scenario at present.

The bank suggested that the macro-economic implications of alternative home building programmes be explored in detail, so that the economic risks could be pinned down. These risks included the effects on inflation, the balance of payments and the fiscal deficit.

The bank felt SA could benefit from studying the Chilean experience of housing as fiscal stimulus to the economy. The country introduced large-scale capital subsidies that went directly to the beneficiaries and competitive tendering for low-cost housing.

A TIMES MEDIA PUBLICATION

Local banks prepare for 'unfair' battle as Stancha plans its return to SA

BDay 8/7/91 (58)

GRETA STEYN and
JOHN CAVILL

LONDON — Standard Chartered, the £22bn British-based international bank, is moving back to SA four years after it disinvested by selling its stake in Standard Bank under political pressure.

The Reserve Bank confirmed at the weekend that the British bank had applied for permission to open an SA office. It is the first major overseas bank that disinvested from SA to return to the country.

On August 1, Stancha trade finance division head Mel Balloch, 50, will open the group's representative office in Johannesburg. It will not be a full banking branch of Stancha — unlike Robert Fleming, which is to start up a merchant bank and investment management subsidiary.

A spokesman for Stancha said: "The office is being set up specifically to deal with trade flows between SA and the rest of Africa. We believe that the changes in SA will unlock a flood of trade, not only with Africa, and we want to be there, using our network of branches and offices in Africa, the Middle and Far East."

There is speculation in London that India is on the point of sending a trade mission to SA.

A senior Standard Bank source said the bank did not relish the return of its former parent to the region. He said there was a feeling among local bankers that major banks with representative offices in SA had an unfair competitive advantage.

As they were not fully fledged banks, but only representatives, they did not face the stringent requirements of the Deposit-Taking Institutions Act. The representatives could arrange loans directly between a local company and the overseas bank, taking away business from the SA banks in the highly competitive trade finance market.

Deutsche Bank kept a presence in SA through a representative office in Johannesburg, concentrating mainly on deals involving German companies.

Bankers expect the German bank to become more aggressive in the corporate lending market now that the stigma of lending to SA is disappearing.

The Standard Bank source said the bank had every intention of competing with Stancha in the African market. It had major plans of its own to expand into Africa.

Dealers said the return of foreign banks to SA could hasten the development of more sophisticated financial markets. They expected the fledgling markets for options, futures and other derivatives to benefit from foreign expertise. They also expected foreign banks to give a boost to the financial rand market as a major part of their business was expected to be in brokering investment in SA.

Stancha, with outstanding loans to SA of $809m at the end of last year, is one of SA's main international creditors.

It operates in 14 African countries from Zimbabwe to Kenya and Nigeria, Ghana, Sierra Leone and Cameroon. Overall its

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Stancha

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global coverage extends to 554 offices in 53 countries.

Balloch is one of the group's most senior executives. From responsibility for east, central and southern Africa in Stancha's economics department, he moved to France for three years and then joined the international division as Euro-currency manager. He then headed the group's Scandinavian section, starting a branch in Copenhagen, before being sent to Hong Kong as international manager for the Far East in 1978.

Balloch returned to London in 1980 to join the treasury division and to take responsibility for relationships with multilateral institutions such as the World Bank, IMF and the African Development Bank.

In the bank's sovereign risk department from 1986 (he was made its head in 1989), Balloch has been closely involved with the SA debt moratorium as well as Stancha's other "problem country" debt of $1,9bn against which it has made overall provisions of 57% — compared with only 5% for its SA exposure.

Balloch has run group trade finance since February last year

Crendel share price boosted by speculation

(58)

BD 8/7/91 SEAN VAN ZYL

MARKET speculation of a "major deal in the pipeline" has boosted cash shell Crendel Investments' share price by 40% to 280c over the past month.

Composite insurance holding company Hoskens Consolidated Investments (HCI) — which holds majority interests in IGI, Safrican Life and Safegro — recently acquired a 71,5% stake in Crendel Investments from the Tollgate group. Crendel was previously a clothing manufacturer.

Market talk suggested that HCI might be looking at reverse-listing merchant banker Mercantile Bank Holdings into the Crendel listing. HCI has an indirect 49% interest in Mercantile through Safegro, the financial services arm of the group.

However, HCI's chairman Mike Lewis said last week that no deals were on the cards, "and HCI would eventually inject a share portfolio into the Crendel listing".

He added that no developments could be expected in the short term as HCI was still finalising the details.

Crendel Investments sold its manufacturing assets for R42m in the beginning of the year and acquired about a 24% interest in Safrican Life. The company also bought approximately 4% of the issued share capital of HCI in a combined deal worth R33,4m.

With HCI now at the Crendel helm, market rumours have abounded on what the insurance group plans to do with the investment holding company. HCI, in line with JSE requirements, has also made an offer to Crendel's minority shareholders. But only 1,25% of Crendel's shareholders took up HCI's share swap and cash offer.

VAT inspires SBIC to embark on restructuring drive

B/Day 8/7/91

Business Day Reporter

(58)

STANDARD Bank Investment Corporation (SBIC), the holding company of the Standard Bank group, is to restructure some of its subsidiaries and divisions to lesson the effect of VAT on its profitability.

The move, announced in a statement on Friday, will be subject to the Registrar of Deposit Taking Institutions' approval and will apply retrospectively from January 1 1991.

The restructuring will result in Standard Credit Corporation, Standard Bank Corporate Finance, and SBIC Management Services absorbtion into Standard Bank of SA, the largest group subsidiary.

Group MD Conrad Strauss said the move had been triggered by the impending introduction of VAT, which would be payable on fees passed between independent group companies. The group hoped to take advantage of the moratorium on transfer costs to companies undergoing restructuring.

The amalagamation is expected to save the group about R7m in taxation in the first year of operation. A further one-off saving of about R1,6m will arise under the transfer moratorium, which expired on June 30.

Strauss said the business units' operational independence would not be affected and that no staff changes were under consideration.

Other group entities like Standard Merchant Bank, Standard Bank Financial Services, Standard Bank Insurance Brokers, Standard Bank Fund Managers and Standard Trust were not affected by the move.

"Some must remain independent for legal reasons while for others there would be no significant benefit in being absorbed into Standard Bank of SA," the statement concluded.

NBS in French Bank deal

ROBERT GENTLE

NATAL Building Society (NBS), the Durban-based home loans specialist, is to acquire 39% of French Bank in a R54m strategic move which will transform it into a broader-based financial institution.

French Bank, which has been operating in SA for more than 40 years, specialises in foreign exchange, trade finance and corporate finance. Its holding company is the French-based international banking group Banque Indosuez.

Before the acquisition, French Bank will have a R25m rights offer of ordinary shares and a R22,5m issue of redeemable preference shares.

According to a statement yesterday, NBS will acquire the 39% stake in French Bank from industrial group Barlow Rand. In exchange Barlows will acquire 10% of NBS at R9,25 an NBS share — a touch below last week's close of R9,50.

This 10% stake will be raised to 18% by acquiring further shares in NBS from major shareholders by an exchange of 23 Barlows shares for every 100 NBS shares.

Banque Indosuez will continue to hold 51% of French Bank and will retain managerial control. After the deal, other major shareholders will be Norwich Life and its associates with a stake of 26%, and Barlows with a stake of 18%.

"It is anticipated that many new exciting business opportunities will flow from the deal and all of the parties will be seeking ways in which to maximise the benefits by combining their specialist skills," the statement concluded.

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17/8/1983

Big British bank returns

CT 8/7/91

Own Correspondents

LONDON. — Standard Chartered, the £22-billion (about R103bn) British-based international bank, is moving back to South Africa four years after it disinvested by selling its stake in Standard Bank under political pressure.

On August 1, Mr Mel Balloch, 50, head of Stancha's trade finance division, will open the group's representative office in Johannesburg. It will not be a full banking branch of Stancha — unlike Robert Fleming Holdings which is to start up a merchant bank and investment management subsidiary.

Stancha's move will provoke strong protests from the End Loans to SA lobby which has persistently attacked its continuing relationship with SA.

A spokesman for Stancha said: "The office is being set up specifically to deal with trade flows between SA and the rest of Africa.

"We believe that the changes in SA will unlock a flood of trade, not only with Africa, and we want to be there, using our network of branches and offices in Africa, the Middle and Far East."

There is speculation in London that India is on the point of sending a trade mission to SA.

Stancha, with outstanding loans to SA of $809 million (about R2,4bn) at the end of last year, is one of the country's main international creditors.

It operates in 14 African countries from Zimbabwe to Kenya and Nigeria, Ghana, Sierra Leone and Cameroon.

In the East, Stancha does business in China, Hong Kong, Taiwan, Japan and South Korea as well as Thailand, Malaysia, India, Pakistan, Bahrain and the United Arab Emirates. Stancha's biggest shareholder is the Malaysian tycoon Mr Tan Sri Khoo Teck Puat, with 11%, who was one of a posse of "white knights", including Liberty Life, which rescued the group from a hostile bid from Lloyd's Bank in 1986.

Overall its global coverage extends to 554 offices in 53 countries.

Mr Balloch is one of the group's most senior executives. From responsibility for East, Central and Southern Africa in Stancha's economics department, he has headed group trade finance since February last year.

Bold R54m deal broadens NBS base

CT 8/7/91

By AUDREY D'ANGELO
Business Editor

NATAL Building Society (NBS) will buy 39% of French Bank of Southern Africa from Barlow Rand, widening the scope of its activities and giving it a link with Banque Indosuez — an international banking group based in France with assets of about R163bn.

The purchase is by way of an issue of NBS shares to Barlows. The deal, another step in the growing internationalisation of the SA financial scene, ends speculation that the NBS might be vulnerable to a takeover by a major SA banking group.

In terms of the acquisition, Barlows will increase its stake in the NBS by 10%. This means that the major shareholders in NBS will now be Norwich Life and its associates, with 26%, and Barlows with 18%.

Indosuez will continue to hold 51% of French Bank of SA and will be responsible for its management.

The R54m deal was announced yesterday, in a statement issued by the four companies.

French Bank has been operating in SA for more than 40 years, specialising in foreign exchange, trade finance and corporate finance.

The link will enable the NBS — which has become a diversified financial services group although mortgage lending is still its core business — to broaden its activities.

This is in line with an increasing trend for groups to offer clients a complete, one-stop range of financial services.

Before the acquisition, French Bank will have a rights offer of ordinary shares to raise R25m and an issue of redeemable preference shares to raise R22,5m.

The NBS will buy its stake in French Bank through the issue of ordinary shares to Barlows at a price of R9,25 per share. The share closed at R9,50 on the JSE on Friday.

In order to raise its total holding in NBS to 18%, Barlows acquired further shares from major shareholders through an exchange on the basis of 23 Barlows shares for 100 NBS shares.

Yesterday's statement points out that the deal "brings powerful partners together in a new financial grouping."

Barlows is one of SA's largest corporations with assets in excess of R12bn and an annual turnover of more than R30 bn.

The NBS has assets of more than R7bn. Yesterday's statement pointed out that its new link with Indosuez is "a significant strategic development in view of the attractive opportunities that will arise as SA's position in the world community is normalised.

"Opportunities for joint product development between NBS and French Bank will arise," the statement continues, "and the experience and expertise of Indosuez in financial services and technology will be a valuable resource."

French Bank's management says the link with NBS will provide it with "a broad based local funding pool" to expand its traditional business.

Two nominees of NBS will be appointed to the board of French Bank and two nominees of Barlows will be invited to join the board of NBS.

Andre Carstens has been appointed manager/development accountant at the local head office of Norwich Life.

Gold close

HONG KONG. — Gold of 99,9 fineness per troy ounce closed in Hong Kong on Saturday at $370,25. Gold closed in London on Friday at $370. — Reuter

NBS is 'safe from predators now'

(S8) B/Day 9/7/91

THE Durban-based home loans specialist NBS was virtually bid-proof since yesterday's R54m deal in which it acquired a 39% stake in French Bank and gained Barlow Rand as a powerful shareholder.

That view, expressed by the NBS and two leading banking analysts, is expected to kill the bid premium that had crept into the NBS share price for much of this year.

NBS shares touched R10,25 last month at the height of speculation that the independent banking group would fall prey to a takeover from one of the big five banks.

Ed Hern banking analyst Alan McConnochie said: "This deal effectively kills takeover speculation, unless one is prepared to pay a lot. A share price of around R10 now seems about right."

NBS Holdings group MD John Gafney said: "The takeover scenario has dramatically changed with Barlows coming in at 18%. We will at least know now what the speculative element in our share price is."

Barlows (18%) and Norwich Life (26%) would now control about 44% of NBS's share capital.

"We are pleased to have two partners of such stature," he said.

The new relationship with French Bank was essentially a partnership in which one party had the international connections and the other the local connections.

That view was echoed by French Bank director Benoit Destoppeleire, who said French Bank would gain access to NBS's

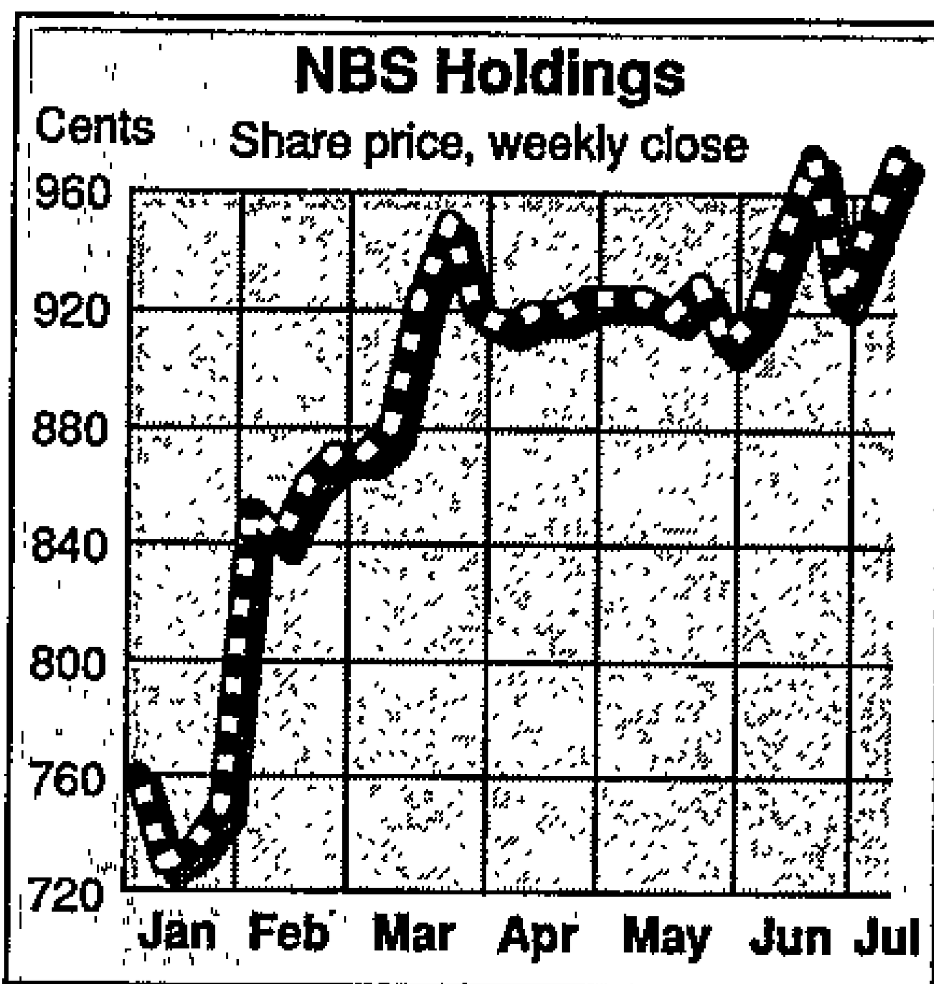
ROBERT GENTLE

large deposit base while maintaining its good relations with Barlows.

"It is also a show of confidence in the future of SA by our French-based parent Banque Indosuez," said Destoppeleire.

Martin & Co banking analyst Richard Jesse said it was a good deal for NBS, which would be able to access corporate business through the Barlows connection. He estimated the bid premium might already have dropped out of the share price.

NBS closed 25c up at R9,75, almost double the R5,15 notched up about a year ago.



Graphic: FIONA KRISCH Source: I-NET

SFS 'will hold growth rate'

B/Day 9/7/91 (S8)

SAGE Financial Services (SFS) expects the rate of growth in earnings a share at least to match the annualised 17% growth achieved in the 15 months to March 31, the directors say in their annual report.

According to the report they foresee significant potential for active development across the spectrum of activities between SFS and Amalgamated Banks of SA (Absa), and are confident of continued growth despite the general constraints of a recessionary economic environment.

In the 15 months ended March, SFS achieved net earnings of R42,8m compared with R29,2m in the previous 12 month.

Earnings per ordinary share rose to 42c on an annualised basis from 36c in the previous year.

The directors say the Absa transaction has added to the potential of SFS and the way had been opened to active reciprocal business expansion with the possibility of rationalisation of common interests in due course. — Sapa.

Much is at stake in the the battle of the banks

Sowetan 9/7/91. (58)

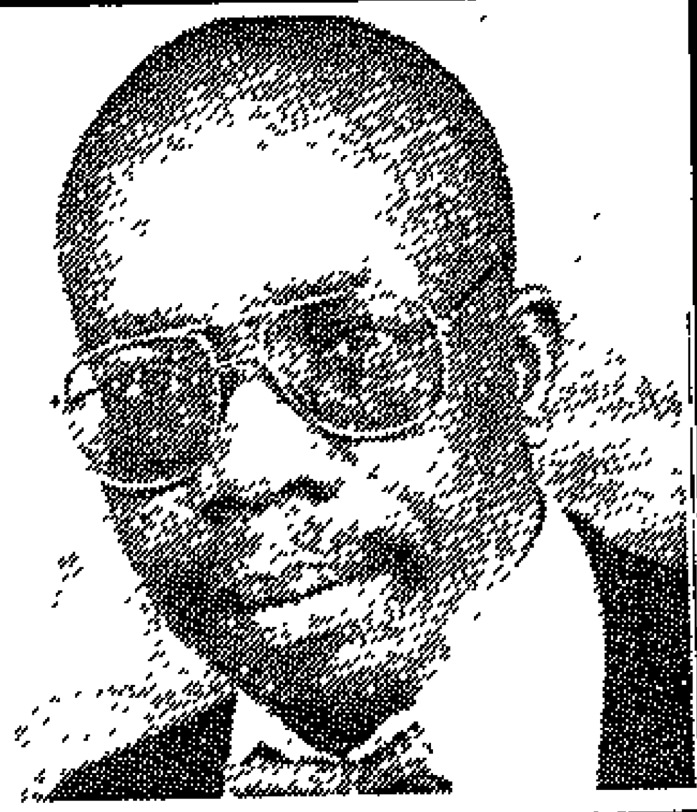
THE fight between two black banks, the African Bank and the about-to-be launched Future Bank, is more than a battle for the market.

It is an extension of the increasingly bitter rivalry between two black chambers of commerce - the National African Federated Chamber of Commerce and Foundation of African Business and Consumer Services.

At stake immediately are the billions of rand in black savings and business organisations.

African Bank was founded in 1975 and Gaby Magomola became its first chief executive. It is in the Nafcoc camp and is now to be challenged by Future Bank - also probably with Magomola as its first CE after his move to Fabcos.

The competition between Nafcoc and Fabcos has not been confined to whispering campaigns or the establishment of rival businesses to compete in the black market.



By THAMI MAZWAI who is away on a year-long sabbatical. He will return to *Sowetan* in January after working on various local and overseas financial publications.

Violence

Some of the violence in the taxi industry, in the Cape and Katlehong on the East Rand, is part of the feuding between the groups' supporters.

Supporters of Nafcoc have also questioned the credentials of Fabcos, some claiming it was a puppet organisation controlled by James Chapman, managing director of Fabcos Marketing, and that it was set up by corporate South Africa.

Fabcos says Chapman has the skills it needs, just as Nafcoc has not hesitated to use whites or white organisations whose resources it needed.

White businesses involved in its launch provided management expertise or resources, as they do for Nafcoc.

Strong undercurrents of loyalties to the ANC or PAC have also made themselves felt in the past two years, to the extent that Nafcoc was regarded as ANC-inclined while Fabcos was regarded as PAC-inclined.

The two organisations have, however, stressed their neutrality and regularly meet both political groups.

Future Bank, as it is expected to be called, is the brainchild of Fabcos and the African Bank that of Nafcoc.

There has been no love lost between the two black chambers of commerce since the launch of Fabcos in 1988.

Until then, Nafcoc was the only business organisation seeking a better stake for black entrepreneurs in the economy.

Traders

When the South African Black Taxi Association was formed in 1979, Nafcoc saw this as an opportunity to increase its membership, which until then had consisted mainly of the retail traders in the townships and pockets of black industrialists and farmers.

Nafcoc wanted Sabta as an affiliate but Sabta, conscious of its growing clout in the transport industry, demanded that Nafcoc first restructure its national executive and give Sabta a say commensurate with its numbers.

Nafcoc rejected this, for it would have meant being swallowed by Sabta.

Sabta then launched Fabcos, roping in or forming various trade associations like the National Stokvels Association of South Africa and the African Builders Association, to establish itself as a chamber representing all aspects of black business.

It now has 14 affiliates.

Insurance

Significantly it was James Ngcoya, president of Sabta, who was elected president of Fabcos.

The black community has seen a proliferation and duplication of trade organisations since the formation of Fabcos.

Last year Nafcoc launched the National African Taxi Organisation, countering Fabcos' Sabta. Before this Fabcos had launched Afsure (Pty) Ltd, an insurance broking house which then directly competed with Afrikabrokers, the African Bank - and thus Nafcoc - inspired insurance broking agency.

Nafcoc this year formed the National Industries Chamber and resuscitated its African Federation for Building Industry.

In a nutshell, Fabcos and Nafcoc control rival trade associations in insurance broking, taxis, the liquor and building industries, sphaza shops and informal businesses.

The fight has now extended to the banking sector.

It was Gaby Magomola's dismissal by the African Bank three years ago that set the scene for the coming battle.

After his dismissal, which had a sequel in the Industrial Court where he was awarded an out-of-court settlement, Fabcos appointed him chairman of Fabcos Marketing.

In the meantime Jack Theron, who is white, was appointed chief executive to replace Magomola.

Sam Motsuenyane, president of Nafcoc and chairman of the African Bank, who was in the middle of the Magomola controversy, has defended the decision to fire Magomola and appoint Theron.

For the past 14 months Magomola has worked tirelessly with Wesbank officials to set up the new bank. There was thus an unmistakable air of triumph about him; and his comment last week, "my years as a banker are not yet over", was loaded with meaning.

Also at the centre of the coming fight between the African Bank and Future Bank will be NedPerm, which has a big stake in stokvel money through the Perm.

The Perm's Richard Ford has worked closely with stokvels over the years, creating a strong base.

The institution now has at least 80 000 stokvels as customers. Ford banks on retaining their loyalty through the service they have received from the Perm.

There could be a brighter side for traders in organisations affiliated to Fabcos and Nafcoc, who may at long last find credit easier to come by.

Behind the battle of the banks lies two rival business organisations. And involved in both are the personalities - Magomola, Theron, Motsuenyane and Fabcos president James Ngcoya. Much is at stake for all of them.

BUSINESS DAY, Wednesday, July 10 1991

Development Bank to make R4bn available

JONATHON REES

THE Development Bank of Southern Africa will make R4bn available for development projects over the next three to four years.

Bank spokesman Frans van Rensburg said yesterday funds were for development in SA, the independent homelands, self-governing states, Lesotho and Mozambique.

Loans would be granted to national, regional or local government structures or their development agents.

Van Rensburg said almost R1bn had been disbursed in the past financial year, an increase of 36% compared with 1989/90.

Bank loans could be repaid over periods as long as 40 years, as most projects were infrastructural.

The bank's Lebowa project manager Alwyn Coetsee said Lebowa had applied for R750m worth of loans for the development of water schemes, transport and energy infrastructure.

Coetsee said 22 water development projects, valued at R181m, were in the identification phase, with a further five approved for funding of R60m.

He said water schemes required massive subsidisation due to the high costs of building a dam wall, laying pipelines, and technical support.

The bank had recently supported small water development schemes where communities took responsibility for initial development and maintenance.

The SA government would provide R500m to the bank this year and next year through the Industrial Development Corp.

Funds were also generated on the capital market.

The bank had provided R600m for the Lesotho Highlands Water Scheme since 1986, Van Rensburg said.

Financing was available for rural and agricultural development, business and entrepreneurial development, human resource development, bulk infrastructure development and urban development.

Van Rensburg said development funds were also made available by the Independent Development Trust, Urban Foundation, SA Trust Corp and the Small Business Development Corp.

Black insurance broker to contest council contracts

B Day 10/7/91

THAMI MAZWAI

AFSURE (Pty) Ltd, the first major black-controlled insurance broking company, has challenged the allocation of short-term insurance contracts by four black town councils to other companies, and yesterday MD Khehla Mthembu said Afsure would take the Diepmeadow council to court.

He declined to speak about the other disputes, but conceded that the Transvaal Provincial Administration was involved in one of them.

Mthembu confirmed he had successfully tendered for the Mohlakeng and Dobsonville town council contracts, with joint billings of R900 000, and failed in bids for the KwaThema, Katlehong and Daveyton accounts.

Afsure, Priceforbes Federale Volkskas (PFV) and Glenvaal are involved in the fight for the Kagiso, Tembisa and Ikapa (in the Cape) town councils' insurance accounts.

It is believed councillors wanted to give the contracts to Afsure in some cases, but officials intervened.

The Diepmeadow Town Council called in Afsure, Trustsure and Glenvaal for interviews.

Exco chairman Frederick Phiri said: "What was disturbing was to first call Afsure for an interview, when the tender was already considered defective, and then disqualify them on that basis. We were satisfied with the price."

Town clerk Johan de Jager said Afsure's tender was much higher than that of Glenvaal.

Glenvaal's Mike Brown said as far as he knew Afsure's quote was 33% higher than that of his company.

In Kagiso, Afsure failed to obtain appointments with town clerk Mike van Rensburg in an attempt to get details of the council's property and insurance history.

Van Rensburg said: "They did not need any forms and should just have tendered like everybody else. I met them personally when they came to introduce themselves. This council, more than any other, would welcome a tender coming from Afsure."

The Tembisa council has asked the TPA to approve its decision to allocate its account to Afsure despite its quote being higher than that of PFV.

TPA spokesman Pieter Wilkens said the TPA could not overrule the council, although it could ask it to revise its decision.

Old Mutual trusts' liquidity falls

BDay 10/7/91 (58)

LIZ ROUSE

WITH their relatively low liquidity levels, the Old Mutual unit trusts were well positioned for the upturn in the stock market in the June quarter, and liquidity fell further.

The unit trusts managers' strategy has always been to be as fully invested as possible because a unit trust's function is to invest in equities or gilts.

The R2,7bn Old Mutual Investors' Fund, with 265 000 investors, remains the industry's general equity top performer over five-, seven- and 10-year periods by following this strategy, with respective returns of 24,82%, 26,35% and 26,47%.

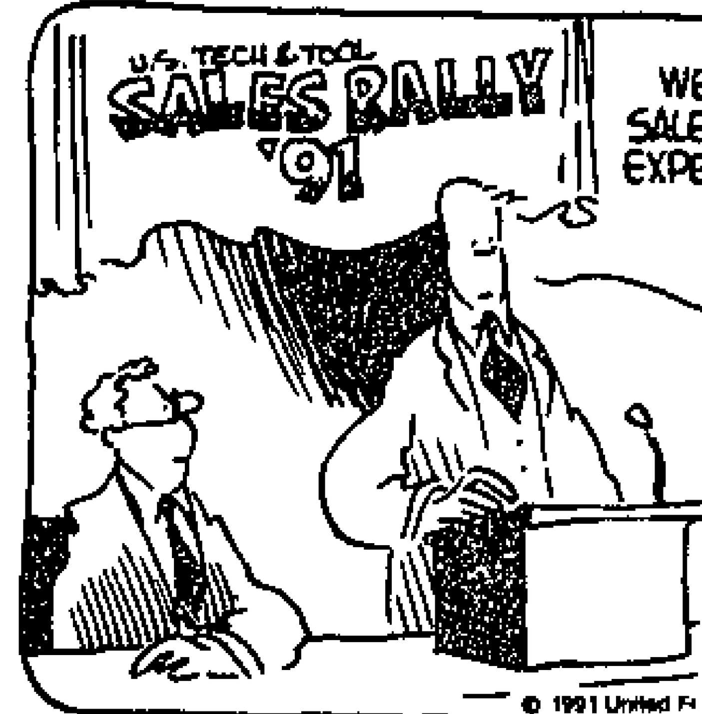
In line with the upturn in golds, the Gold Fund improved its performance, with a 29,99% gain — the best increase in this sector during the quarter.

A feature of the quarter was the record payout by the Income Fund, which made a 17,75c a unit distribution for the 12 months. Income Fund's cash holdings were boosted significantly to R9,9m largely due to the sale of R4m Landbank stocks and R7m NCDs. About R3m was put on six months' deposit.

Investors' Fund liquidity fell to 13,7%.

Industrial Fund's liquidity dropped from 17,5% to 7,9%, boosting the fund's performance during the quarter.

EXECUTIVE SUITE



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COMPANIES

Sanlam unit trust achieves 39% return

LINDA ENSOR

CAPE TOWN — Sanlam's Industrial Trust achieved a total return of 39,1% in the year to June, outstripping the industrial index's rise of 33,5% over this period.

Total market value of the life assurer's five unit trusts stood at R1,55bn at the end of the quarter.

The Industrial Trust generated a total return of 13,2% during the second quarter and will pay out 17,3c a unit in income distribution, bringing total income to 38,3c a unit for the year to end-June 1991. This is 31,6% higher than the amount paid in the previous year.

Sanlam's general fund produced a total return of 13,4% in the second quarter and 21,5% over the year to end-June. Its liquidity dropped dramatically to 9% (20%) with purchases being made in Mid Wits, Dries, Freegold, Keeley, Kelgran and Engen, among other stocks.

The Sanlam Mining Trust also dropped its liquidity to 9% (12%), generating a total return of 12,3% over the quarter and 3% over the year. An income distribution of 7,9c will be paid bringing total income for the year to end-June to 16,8c a unit.

The Index Trust, which generated a total quarterly return of 12,5% and an annual return of 16,3%, will pay out 28,1c a unit giving a total income for the year of 58,3c — 40,8% higher than the previous year.

The quarterly return of the Sanlam Dividend Trust was 17,1% and the annual return 32,8%. Liquidity was 6% (9%).

(58) BDay 10/7/91

Avins expected to yield much improved results

B/Day 10/7/91 (58)

SEAN VAN ZYL

LAST year's restructuring of AA Life and Crusader Life to forge Anglovaal's new financial services division under Anglovaal Insurance Holdings (Avins) had resulted in significant cost rationalisation, CE Brian Benfield said yesterday.

While Benfield would not divulge the group's performance figures for the trading year ended June, analysts expected earnings to be at least 24% up on the previous year, on a comparable basis.

Davis, Borkum, Hare & Co analyst Graham Baillie said that he expected a marked improvement on AVF Group and Avins' results: "I would be surprised if the group disclosed an earnings growth of less than 24%." He added attributable earnings could be up by 29%.

However, it would be hard to make a relative comparison with past performance as the group's year-end had been changed to June from December in line with Anglovaal. Results to June would therefore cover an 18-month period.

Baillie said the group's 35% stake in the Board of Executors (BoE), which was acquired for R57,2m earlier this year, would provide a meaningful contribution for AVF Group (AVF). AVF holds 86% of Avins' issued share capital.

Avins, in turn, holds the group's direct insurance interests including 95% of AA Life, 60% of Crusader Life and 100% of both AVF Asset Management and Avins Business Systems. Avins also holds the group's international insurance holdings of Pegasus Life (26%) and Atlantic Reassurance (100%).

Benfield said that the group's rationalised administrative infrastructure under Avins Business Systems had reduced operating expenses as a percentage of net premiums from 1989's 34,9% level to this year's 30% ratio. He expected the ratio to drop further to about 22% by 1994.

He also did not rule out acquisitional growth, suggesting that the group might be in the market to acquire a building society and an additional life office.

Council insurance disputed by firm

(58)

Sowetan. 11/7/91

By THAMI MAZWAI

AFSURE (Pty) Ltd, the first major black-controlled insurance broking company, has challenged the allocation of short-term insurance contracts by four black town councils to other companies.

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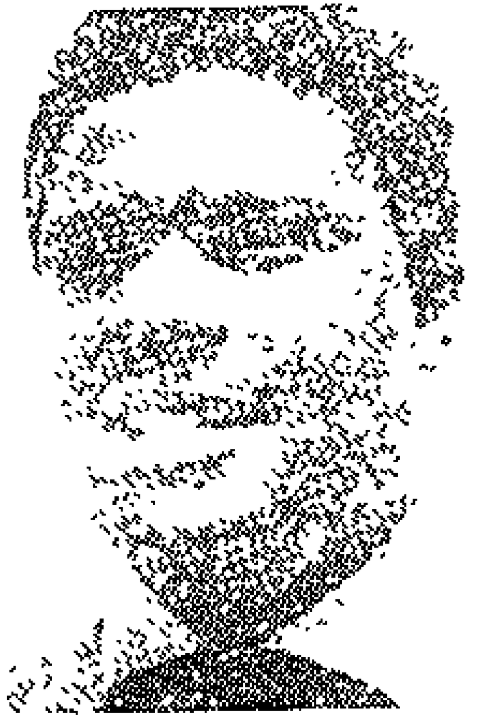


KHEHLA MTHEMBU

CIB was cleared despite financial problems

BDay 11/7/91

ROBERT GENTLE

(58)

CAPE Investment Bank (CIB) was given a clean bill of health on February 1 1991 by the Reserve Bank under the new Deposit Taking Institutions Act, despite public knowledge that it was in financial trouble.

This took the form of its re-registration as a deposit taking institution in terms of the new Act. Barely a month later, CIB was placed in provisional liquidation.

This came to light yesterday when Business Day was provided with a copy of CIB's re-registration certificate, number 9206, dated February 1, and signed by Deposit Taking Institutions Registrar Hennie van Greuning.

The Reserve Bank said yesterday it had automatically re-registered all existing banks when the Act came into effect

The certificate was granted in terms of section 20 of the Act which states that "the Registrar shall not grant an application" unless strict conditions are met.

More specifically, the Registrar "must be satisfied that the board of directors and the executive management of the institution concerned have during the period preceding the application .. demonstrated their integrity and their ability to conduct the business of a deposit taking institution successfully"

The Registrar must also be satisfied that "the business of a deposit taking institution conducted by the institution concerned is conducted in a prudent manner and without resort to undesirable practices"

A number of events in the run-up to February 1 suggest that CIB did not fulfill the criteria of Section 20·

□ On January 3, CIB's shares were sus-

To Page 2

CIB

BDay 11/7/91 (58)

□ From Page 1

pended to prevent speculation that it might be exposed to bad, possibly irrecoverable debts;

□ On the same date, it emerged that auditors were in the process of investigating CIB's records in order to determine the bank's net asset value;

□ Prima Bank, CIB's new owners, spoke of an initial investigation showing "certain areas of concern" and suggested CIB was not operating "on a sound basis"; and

□ Prima Bank had already started disposing of certain key CIB assets, placing a question mark over the basis on which re-registration was to be considered.

Approached for comment, former CIB MD Andy Swartz said: "By February 1 1991, the whole infrastructure and corporate memory of CIB had been destroyed. One wonders therefore what possible business the Registrar thought the bank was going to perform subsequent to its re-registration under the new Act."

Deposit Taking Institutions Deputy Registrar Christo Wiese said there was nothing strange about the final registration being granted to CIB because all existing financial institutions were automatically re-registered under the new Act which had just come into effect.

"It was a mechanical process and it was not considered necessary to again satisfy ourselves that CIB — or indeed any other bank — met the criteria of section 20."

Asked whether the Reserve Bank should not at least have waited until the investigations into the exact state of CIB's books were completed, Wiese said: "In our minds, at that time, it was a going concern. For us to have refused at that stage would have been improper. We would have needed positive proof and such proof only emerged much later, in March."

FM 12/7/91 (58)

INTEREST RATES (58)

COUNT THE COST

FM 12/7/91

Prevailing interest rates are not too high — if anything they are too low, says UBS chief economist Hans Falkena. In United's latest *Economic Perspective*, Falkena suggests that SA needs to maintain a real prime rate of at least 6% (compared with 7,6% in Germany).

Based on May inflation of 15,3%, this means a rate of over 21%, which is more than one percentage point higher than the existing prime rate of 20%.

He argues: "To combat double digit inflation the Bank rate should be set 1%-2% above the long bond rate and at such a level that the Reserve Bank makes a small profit on its forward book. This translates into a Bank rate of some 18% (prime of 21%). The current prime rate of 20% is, therefore, clearly not excessively high.

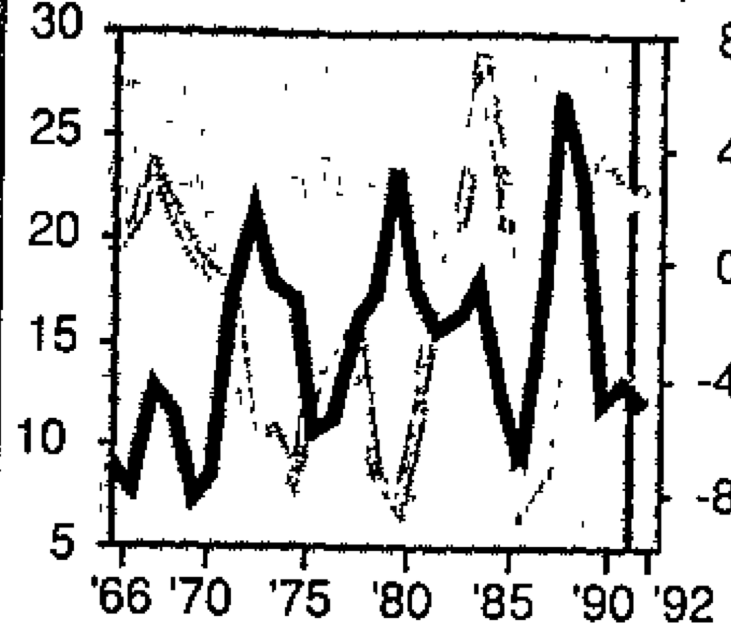
"If SA should reduce its rate of interest in real terms below those of its major trading partners by a too wide margin, the resulting losses on the forward book (already amounting to some R10bn) will fuel money supply growth and thus ultimately inflation."

Inflationary risks remain high in the present environment — "especially if one takes into account the possibility of a deficit before borrowing in excess of the budgeted 3,4%." Moreover: "A further drop in the real effective exchange rate of the rand could well supply the monetary authorities with a subsidiary motivation to tighten (rather than loosen) monetary policy."

He points to a consistent relationship between the level of interest rates and money supply growth (see graph) — despite a distortion in the early stage of the debt standstill — which shows that demand for money is generally dependent on the cost of credit. ■

In step

M3 money supply growth & real interest rates



Source: UBS

FM 12/7/91 (58)

JUSTICE FM 12/7/91

LIQUID ASSET (58)

The installation of an R8 000 bar — a donation from Volkskas Bank — at the new offices of the Witwatersrand Attorney-General (AG), in the Rand Supreme Court buildings, led to a directive from the Department of Justice prohibiting staff from accepting any donations in future. An application for a liquor licence by the AG's office was later turned down on the grounds that the office — unlike some other departmental offices — is situated in a court of law.

Various judges of the Court attended a function after the bar had been installed. Some court cases in session on that day were adjourned on the request of State prosecutors so that the function could be attended.

The donation was made after a request in November 1987 to Volkskas head office (which was still in Pretoria at that time) by the social club of the AG's office in Johannesburg to provide recreational facilities. Volkskas's chief of corporate communications, Jan Snyman, personally handled the matter.

After Snyman had discussed the request with senior bank personnel, it was decided to donate a bar counter to the conference facility of the AG's office.

In Volkskas circles the sponsorship was regarded as a mere promotional function aimed at A- and B-income groups — represented in this case by the legal fraternity. "It was a once-off donation, and I want to stress that we did not donate any liquor," Snyman says.

"We receive numerous requests for donations and in all cases we try to ascertain whether the people who would benefit from or use the facilities are Volkskas clients or potential clients. On those grounds a decision is taken."

Snyman says he attended the inaugural function after the bar had been installed. He was accompanied by the manager of the Volkskas Pritchard Street branch at the time, Pyp de Villiers, and recently appointed deputy MD of Volkskas, Hennie Diederichs.

Afterwards, when the department learnt of the sponsorship, there was great concern. It was feared that it could hurt the independence of the AG's office and that an impression of favouritism would be created. A directive from head office then prohibited the acceptance of any donations.

But Snyman says it was not a donation to a government department. "The request came from a social club. We often donate funds to organisations such as the SA Police Widows' & Orphans' Fund."

Volkskas's Diederichs ...
at the bar

It is not known whether the bar is still being used nor whether a liquor licence has been obtained.

On Tuesday morning the *FM* faxed questions related to the matter to the department. They were referred to Witwatersrand AG Klaus von Lieres und Wilkau and Deputy Minister of Justice Danie Schutte. At the time of going to press no response had been received.

Eddie Botha

ABSA
FM 12/7/91 (58)

STRENGTHENING FAMILY TIES

A single new bank will soon offer a helping hand, from people you can talk to for service excellence — all under one roof.

Once legalities are sorted out, assets and liabilities of Amalgamated Banks of SA (Absa)'s five wholly owned deposit-taking institutions (DTIs) — Volkskas, Allied Bank, Allied Building Society, United Bank and Absa Motorbank — will merge in a renamed bank.

The DTIs will become four divisions — United, Allied, Volkskas and Absa Motorbank. The registration of the last three as DTIs will be cancelled but the companies will remain dormant.

Absa's other two DTIs, Volkskas Merchant Bank and MLS Bank, will stay separate, as they are not wholly owned. The four divisions will continue to operate under their brand names "unless the divisional boards decide in the future to merge these into a single brand name entity," says Absa senior GM Bob Chester.

"Divisionalisation allows flexibility," Chester says. The biggest factor is the ability to spread capital among divisions. "If one division is undercapitalised, we don't have to go to the market for additional capital to meet the DTI regulations, as would have been the case had they remained separate legal entities." One division's stronger capital adequacy will now support others.

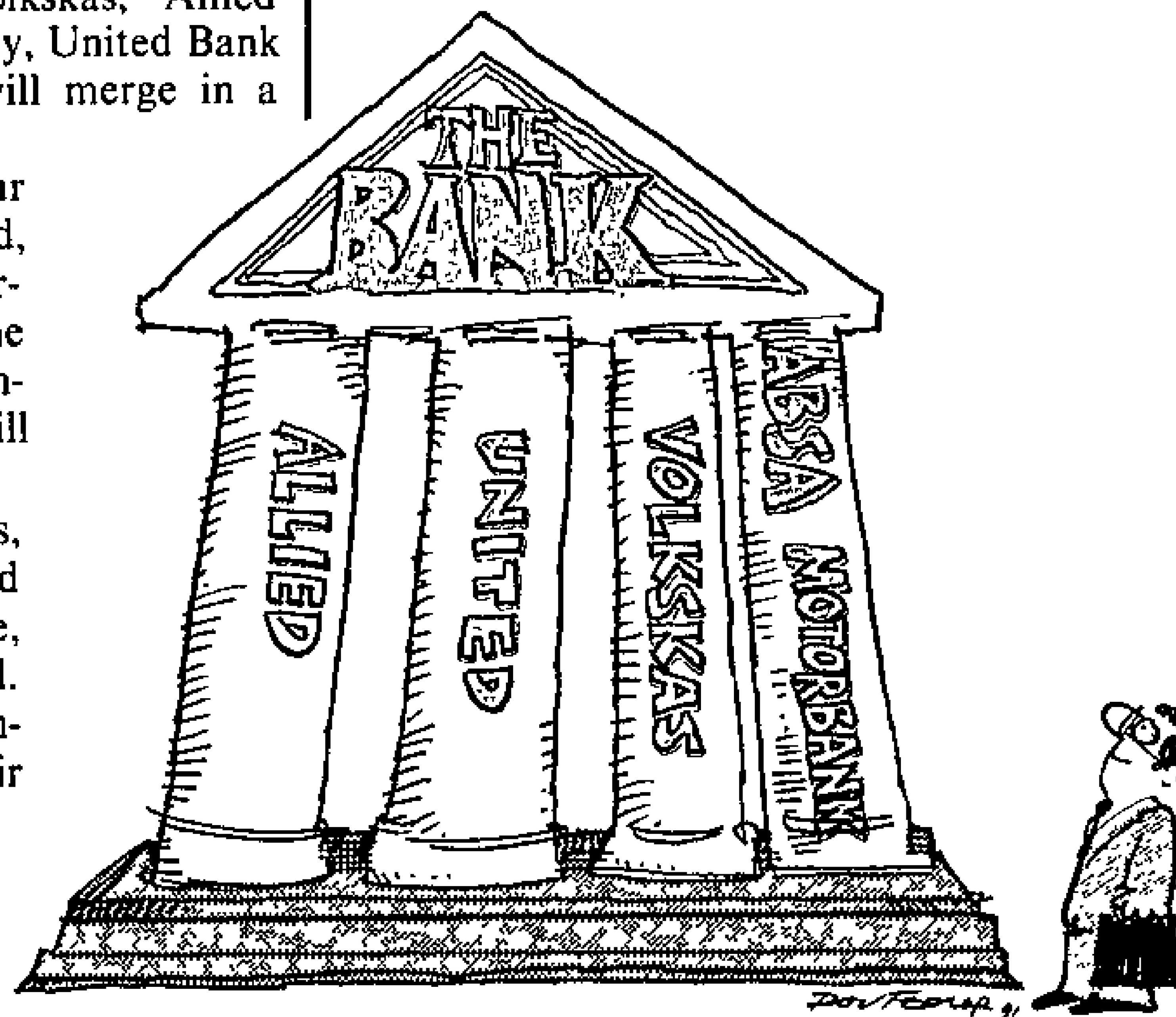
A larger capital and asset base will allow greater strength on foreign markets as well as better use of international credit lines.

There will also be tax advantages when turnover tax is introduced — interest on inter-division deposits won't attract turnover tax as they would if the companies were separate. And VAT, which is to be introduced on September 30, can't be charged on inter-department fees whereas it would be charged on inter-company fees.

Assets and liabilities reflected in the different books of the divisions can be better matched. United, for instance, is strong on the home loan side — long-term loans — while Volkskas has a large cheque account base. Credit risk can be better managed as exposure will be consolidated instead of fragmented — for example, only one foreclosure may be necessary instead of three. Divisionalisation also allows better management of liquidity and interest rate risk.

The move will cut three regional offices in an area down to one. This will add to cost savings generated by planned rationalisation of support services. Outlets can market the products of all three divisions and will be served by a single treasury and administration department.

The restructuring will resemble that of Bankorp which turned Senbank, Trust Bank



and Bankfin, into divisions of Bankorp (an operating company 100%-held by Bankorp Holdings) along with central treasury, services division and risk management.

A similar move was made by Nedcor recently, when it put the Perm, Nedbank, Nedfin and computer company Pyraned under Nedbank Banking.

And last week, Standard Bank Investment Corp announced that Standard Credit Corp, Standard Bank Corporate Finance and SBIC Management Services would become divisions of Standard Bank. Group MD Conrad Strauss says "the move was triggered by the impending introduction of VAT, which would be payable on various fees passed between independent group companies."

Heather Formby

FINANCIAL MARKETS FM 12/7/91

DISCOUNT TWIST (58)

The discount between the financial and commercial rands has been narrowing since September 1990, when it stood at 34%. By the end of June it amounted to only 13,99% and Tuesday afternoon it fell to 8,8% for the first time since September 1985, when the investment unit was reintroduced.

JSE statistics show net sales by non-residents of equities and gilts of little under R1m between January 1-June 14; calendar 1990

FM 12/7/91 (58)

net sales totalled R3,8bn. So fund inflows, tracked by the falling discount, are stemming foreign disinvestment from the JSE.

Financial rands are also, say dealers, being held in specially designated finrand accounts by speculators Latest Reserve Bank figures show non-bank foreigners' deposits with SA banks rose by R500m between January and end-April.

The JSE sell-off came almost entirely in shares — with net sales each week until July 5 Gilts, on the other hand, consistently attracted net purchases. The only week of net sales was that ending January 11.

Despite this offshore interest, the gilts market has been depressed, with rates rising since the Budget — though they have hesitated this week. It seems local investors have been putting funds into the equity and money markets, hence the continued surge in share prices.

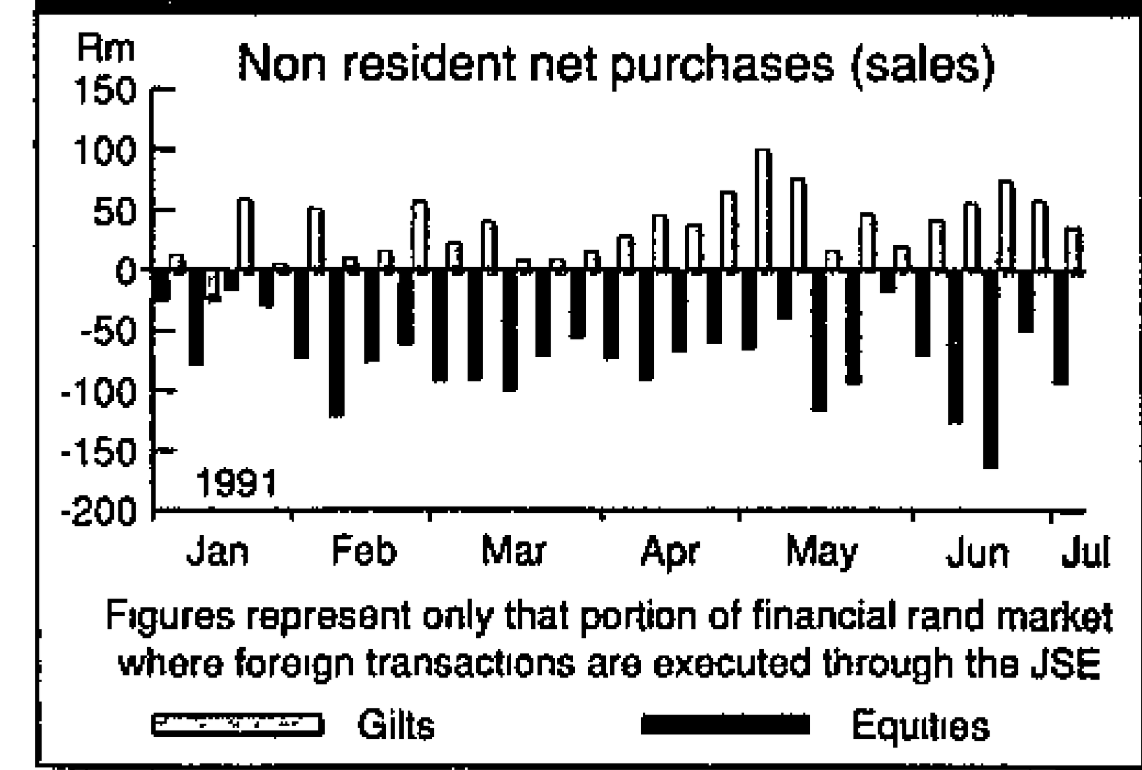
A dealer reports that local interest in gilts sagged in May when a major institution decided to sell long-dated stock. At that point, he says, many investors saw an arbitrage opportunity. They sold stock and simultaneously bought call options in expectation that rates would fall later this year.

Expiry dates are in November so, should a downward trend set in, the market could receive a big boost that month when options are exercised and writers have to buy stock to cover their positions.

Simpson McKie gilts analyst Marilyn Visser believes the potential of the gilts market has been under-exploited since insurers' prescribed asset requirements were replaced by investment guidelines in 1989. She argues that investors are not taking enough advantage of developments in the options market to "assist them in managing their risks." Well-publicised losses from speculative use of options, she says, have blinded people to their potential to minimise risk.

A number of reasons are offered for gilts'

Deal split



Figures represent only that portion of financial rand market where foreign transactions are executed through the JSE

P.T.O. continue →

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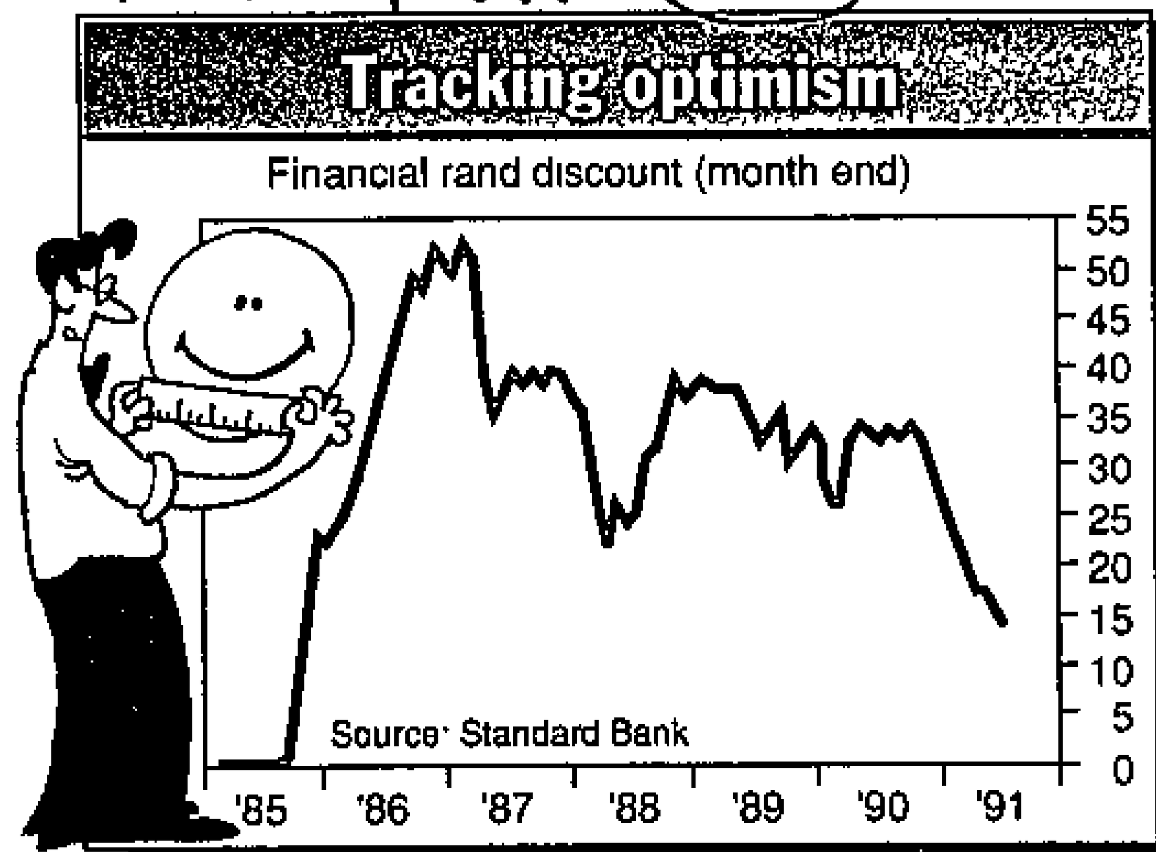


poor performance: political instability, pessimism about inflation, expectations that the financial rand will fall away, thereby discouraging overseas purchasers, rumours that government will issue paper to finance socio-economic projects and oblige insurers to buy and fears that when government pension funds are freed from statutory investment restraints they will become net sellers.

But Syfrets' Rob Nichol is bullish. He says many of these factors are fully discounted in prices, some funds are already in place for social spending and changes to government pension funds will be phased in.

He admits "cautionary factors" exist, so favours medium-dated stock. Visser agrees with this bullish view but is more confident about recommending long-dated stock, "particularly through the call option route." ■

JAPAN

SACKCLOTH AND ASHES

Japan's four *shogun* securities houses are wearing sackcloth with the ashes of shame heaped on their corporate images.

Punishment for the US$863m which Nomura, Nikko, Daiwa and Yamaichi paid to compensate big clients for stock market losses last year was meted out personally by Finance Minister Ryutaro Hashimoto. Calling the actions of the Big Four shameless and inexcusable, he suspended the firms — which account for 30% of Tokyo market turnover — from doing business for corporate clients for four days.

They will also have to pay $65m tax on undeclared profits, as the compensation to investors was shown as costs in their accounts. Tokyo Stock Exchange also administered a slap on the wrist by fining the four a total of $115 000. Nomura and Nikko must also stop all sales activities for the four days at their main offices.

Their other offence was to lend $260m to one of Japan's biggest crime syndicates against the security of golf club memberships and railway shares owned by the gangsters. Unproven, however, is the suspicion that Nomura used its vast sales force to ramp up the price of that security.

Before the announcement the Nikkei Dow index for the year fell 3,1% to a new low of 22 176 but, after briefly dipping below 22 000, reclaimed almost 2% to stand at 22 609 as the *FM* went to press. Since the scandal broke and the presidents of Nomura and Nikko resigned, the index has lost nearly 7%, in spite of the Bank of Japan's half-point cut in the discount rate to 5,5% last week.

Another cut may follow to staunch the ebb of investor confidence and damage to the assets of Japan's army of private shareholders.

Hashimoto has also stopped the operation of the *eigyo tokkin* funds, in which brokers have complete discretion over corporate clients' investments. It was investment guarantees — which are not illegal — issued by the four houses which led to the repayments.

Hashimoto admitted to laxness by his ministry in not enforcing a 1989 directive ordering an end to the practice. It was issued after 20 securities firms, including Daiwa and Yamaichi, paid compensation of $200m following the October 1987 crash.

Japan is taking the slur on its international reputation seriously. PM Toshiki Kaifu will try to reassure other leaders at the Group of Seven summit in London that what the four firms did "is not a true reflection" of Japanese business practices. "I will be doing my best to make sure this scandal is not repeated," he told the *Financial Times*.

The companies themselves put on a public display of flagellation. Nomura sacked four executives and announced unspecified salary cuts for another 30, including the president, chairman and his deputy.

At Nikko another two top men resigned, 17 will take 10% pay cuts for the gangster deals and three similar reductions over the investor pay-back. Daiwa took the same action against its four highest office bearers; Yamaichi was even more severe, docking the chairman and seven others 20%.

The final shame is that Japan may be forced to introduce legislation to prohibit compensation for valued investment clients — something which has not been found necessary in Occidental stock markets. Hashimoto says it's regrettable that, because Japan's securities industry lacks the maturity of its US and European counterparts, such a step need be considered.

Sophisticated markets

However, as Nomura, Daiwa, Nikko and Yamaichi all run large operations in sophisticated markets — notably London — there seems precious little reason for any implied naivety on their part. Ripples of the pay-back are being felt in London, where records are under scrutiny to see whether any of the compensation was clawed back as tax-deductible trading losses on the UK market.

To the average *gaijin* (foreigner), Japanese investment practice has always involved a cultural jump — from the way equities are valued to the acceptance of the use of insider knowledge as natural. The Finance Ministry's clear abandonment of its cosy relationship with the Tokyo Stock Exchange may help to clear away suspicions which have flared anew in the past fortnight. ■

TRAVEL ALLOWANCE

The recent Income Tax Amendment Act provided for the inclusion of 25% of any travel allowance in remuneration, making it subject to PAYE. This change, says KPMG Aitken & Peat senior tax consultant Noel de Charmoy, has attracted considerable media coverage. But not immediately noted was the effect on the Regional Services Council levy.

This levy, varying between 0,25%-0,31%, depending on the region in which the enterprise falls, is calculated on remuneration as defined in paragraph 1 of the Fourth Schedule to the Income Tax Act.

It is this paragraph that was amended by the 1991 Act. Taxpayers, says De Charmoy, should therefore ensure that calculations for RSC purposes for periods starting from August 1 — the effective date of the amendment — include 25% of travel allowances to employees.

AFRICA

BAD TERMS FM 12/7/91

Rising oil prices last year and the drop in prices of nonfuel primary commodities slowed growth in Africa. The latest IMF *World Economic Outlook* says commodities most affected were tropical beverages (coffee, cocoa and tea) which fell to their lowest since 1980

The IMF expects higher growth by 1992 — 4,75%, up from 2% in 1990.

But "little progress is expected to be made in alleviating poverty and real per capita GDP would remain near the level of 20 years ago The short-term outlook is particularly bleak in Ethiopia, Mozambique and Sudan, where drought, in conjunction with ongoing civil wars, threatens another episode of famine.

"In Ethiopia there will also be continued transitional costs, in 1991, associated with market-orientated economic reform and the suspension of economic support from Eastern Europe and the USSR."

Sluggish growth has been accompanied by average inflation of about 15%-20%. "In 1991 inflation is projected to increase to 22% from 16% in 1990, reflecting in part the lagged impact of higher oil prices, before falling to 10% in 1992."

The IMF says differences in policy stance have resulted in considerable variance in economic performance.

The inability of Cameroon, Liberia, Somalia, Sudan and Zaire to implement structural reforms, and social and political conflicts, have brought a deterioration in their economies. In contrast, in Ghana, Kenya, Nigeria, Togo and Tunisia, "structural re-

continued →

Standard's view of equities still cautious

(58)

B/Day 12/7/91

MERVYN HARRIS

STANDARD Bank Mutual Fund marginally increased its concentration in industrial and financial shares in the June quarter as investment managers continued to adopt a cautious approach to the equity market, which appeared fully priced.

Total investment in equities increased from 57% in March to 59% in June with industrials comprising 46% and financials 23% of the portfolio.

Total assets in the fund closed at a record R459m. The investment return over the past year was 22,2% and the fund lifted its income distribution for the year by 17,6% to 38,83c a unit.

The fund increased its holdings in Kloof, Amgold, Stanbic, Sasol and NEI Africa, with ABSA a new addition to tphe portfolio. Five largest holdings are Liberty Life, Richemont, Liberty Holdings, Edgars and Gencor

The quarter was active for the Standard Bank Gold Fund as gold shpares topped the performance log with sentiment aided by the apparent bottoming of the dollar price of gold.

This helped boost investment performance returns to 9% over the past five years.

Although the one year return was marginally negative at minus 2%, this was ahead of the near 6% negative return of the JSE all gold index during the past year.

The fund's income distribution declined 12,1% to 6c a unit.

Holdings which were increased included Winkelhaak, Kloof, Vaal Reefs and Elandsrand with Dabi a new addition.

Standard Bank Extra Income Fund performed well over the past year with the combination of high interest returns and capital gains on some convertible debentures taking the one year return to just over 20%. However, the fund reduced its income distribution for the year by 6,81% to 3,42c a unit.

Uncertainty

Investment managers said the fund's continued high weighting of assets in short-dated money market paper protected investors from the bearish climate in longer-dated investments.

"Political uncertainty and higher-than-expected increases in the consumer price index adversely affected domestic and foreign investor confidence, leading to comparatively weak demand for long-term gilts during the past quarter."

Major US bank to review SA loans policy

58

CT 12/7/91

From SIMON BARBER

WASHINGTON. — A major United States bank, J P Morgan and Co, said yesterday that it was "actively" reviewing its no new loans policy towards South Africa.

And a number of Wall Street brokerage houses, including Merrill Lynch and American Express Co, said they were considering reviving South Africa-related activities.

A spokesman for General Motors, which sold its South African operation to Delta in 1986, said that it was taking another look at South Africa's investment potential.

- **Denmark 'to block' lifting of sanctions — Page 5**
- **No US scramble to return — Page 8**

NBS/BARLOW FM 12/7/91

NEW LINKS (58)

There were indications several years ago that Barlow Rand wanted to expand into the financial services sector, when it acquired a 49% stake in French Bank, whose shares were then delisted. Barlow then remained enigmatic on the purpose, except to hint that French Bank — in which the international banking group Indosuez held 51% — could help Barlow in its international activities.

Now that Barlow has relinquished a 39% interest in French Bank and ended up with 18,7% of an enlarged NBS, it has secured a significant stake in a diversifying banking group whose main activities are focused firmly in the local economy. This also appears to be a final step in ensuring the independence of NBS.

Three months ago, Norwich Life wrapped up an effective holding of virtually 30% of NBS. It lifted its own shareholding from 10% to just under 20% and secured the voting rights on a further 9,9% of the equity held by Slany Limited, a trust based in Luxembourg. NBS already held a 30% interest in Norwich Life.

In exchange for 39% of French Bank, NBS will issue its own ordinary shares to Barlow at a price of 925c per share, giving Barlow a stake of 10%. To increase its total holding in NBS to 18%, Barlow has acquired further shares in NBS from major shareholders, based on an exchange of 23 Barlow shares for every 100 NBS held. After the additional shares have been issued by NBS, Norwich Life's holding will have been diluted to 26%, so Barlow and Norwich will have 44.6% of NBS between them.

"We believe the door to any attack by unwanted predators has been firmly closed," says Brian Short, public affairs GM at NBS. He says a shareholders' agreement has been struck with Barlow and NBS is happy it will not seek to disinvest. Two Barlow directors will be appointed to the NBS board and NBS will have two representatives on the French Bank board.

Barlow is retaining a 10% interest in French Bank, which is planning to raise additional capital through rights issues before the share acquisitions take effect. It will raise R25m by an issue of ordinary shares and R22,5m through issue of redeemable prefs. Indosuez will continue to manage the bank.

Continue →

FOX FM 12/7/91 (58)

NBS has expanded rapidly since its listing, with total assets growing by about 30% annually for the past three years. At March 31, it had total assets of R7,46bn, which compared with a figure of R9,75bn reported by Allied at March 31 last year. Profitability has been improving — return on assets was 0,75 in the year to March 1991, compared with 0,72 in 1988, and return on equity was 14,9%, compared with 9,4% in 1988. But these returns remain well below those of the leading banking groups such as SBIC, First National and Absa.

Short says management does not foresee any need to raise additional capital for the next few years. French Bank specialises in foreign exchange, trade finance and corporate finance. NBS hope to gain further opportunities for expansion through the link, though details have yet to be finalised.

Andrew McNulty

BANKING FM 12/7/91

INFORMAL ACT (58)

The concept of mutual building societies will live on in legislation. The Reserve Bank Department of Banking Supervision is discussing a Co-operative Banks Act, based on the Building Societies Act of 1965.

The proposed Act, which will be drafted in consultation with market participants, will cater for the growing number of stokvels, which a Markinor research report puts at around 24 000 in metropolitan areas. It says these attract contributions of about R52m a month. As it excluded rural areas, this is just the tip of the iceberg. The total could be as high as 800 000.

Marais

Bank supervision researcher Nico Marais says: "We need to create a framework in which informal banking can develop." He believes this should allow for continued self-regulation of stokvels and credit unions — which are similar to stokvels, but more formal — while minimum formal regulation is envisaged for co-operative banks.

FM 12/7/91 (58)

As stokvels grow, they will develop into co-operative banks. "We have to stimulate the informal financial market to ensure appropriate services are available at different levels." And, as the co-operative banks grow, they will provide finance for people who would not normally qualify for bank loans.

As with building societies, funds are built up by pooling resources. At some stage, members receive funds from the pool. Stokvel funds may be put into a savings account and eventually divided between members, or the kitty may be rotated. Payment depends on collective responsibility.

Marais says it is not intended to regulate informal financial structures but rather to "provide assistance in their development." He believes this will result in more efficient and comprehensive financial services becoming available, and also strengthen the contact between formal and informal institutions. ■

Company pensioners getting a better deal

Star 13/7/91

MAGNUS HEYSTEK
Finance Editor

THE pension fund industry has at long-last realised that South Africa has a high inflation rate.

Major employers are now increasingly adjusting pensions to the inflation rate.

This is the finding of the 1991 Survey of Major Employers' Benefit programmes done by consulting actuaries Alexander Forbes Shepley and Fitchett.

"Companies are increasingly turning their attention to the plight of early leavers and persons who have been on pension for some time. This is a marked departure from the attitude even five years ago and represents the beginning of voluntary preservation by private pension funds," the report says.

Findings

The important findings of the survey, which included 52 major employers, are:

- All the funds in the survey indicated that they reviewed pensions annually.
- Forty-four funds indicated that they had a defined pension increase philosophy.
- 39 granted increments on the basis of the increase in the Consumer Price Index over the previous year' and
- The remaining five funds based their decisions on the fund's return.

PENSIONERS: "I know we should be affluent but our pension hasn't kept up with inflation".

Pension funds were designed long before the advent of persistent double digit inflation which rapidly erodes pensioners' living standards unless inflation-related increases are granted.

Employees are able to fight the effects of inflation by negotiating regular salary increases. Now it seems, says Alexander Forbes, pension fund trustees are starting to come to terms with the necessity of affording their pensioners similar protection.

In another major development, the survey reveals that the pension funds are now accepting that a major number of their employees will be leaving the company before retirement age and are making provision to preserve some of the benfits after a mimimum period of service with their company.

Previously, early departing employees received a "raw deal", says the report.

At an annual inflation rate of 15 percent a fixed pension is halved after only five years and is worth only 6 percent of its original value after 20 years.

"In the early years of high inflation various spurious arguments were put forward to show that pensioners' cost of living was subject to less inflationary pressure than the rest of the community," says the report.

"In fact, with the rising cost of medical care as well as food at some 20 percent per annum, the reverse is true and the more enlightened pension fund trustees are seeking ways to push up pension increases to allow for the full effects of inflation."

Thirty-five funds indicated that it was their intention to increase pensions by at least 75 percent of the increase in the inflation rate, while nine intended to increase pensions at the inflation rate.

"The funds which base their decisions on investment return have been able to provide generous increases on the back of high real rates of investment return prevalent in the 1980s but their pensioners might come under pressure if investment earnings during the 1990s fail to match past performance, the survey warns.

Regarding benefits at early withdrawal from a pension fund the survey says: "In the past pension fund design has been controlled by employers with little concern for the interest of employees who leave before retirement. Major employers are now moving strongly towards giving early leavers a better deal.

The reason for this development is two-fold: member pressure and the growing realisation that a "golden handcuff" system of remuneration may ultimately be counter-productive to successful motivation.

No less than 19 of the funds in the survey had improved their withdrawal benefits since the last previous survey a year ago.

Improvement

Whereas a decade ago it was common for members to leave with their own contributions without interest or with a nominal provision for interest, the average rate of interest now provided by the 52 funds surveyed was 8 percent per annum compound.

While much higher rates have been available to individuals using independent saving schemes, current falling interest rate patterns could soon make a risk-free, tax-free return of 10 percent per annum reasonably competitive.

An even greater cause for concern in the past has been the fact that contributions made by the employer on behalf of the employee reverted back to the fund when the employee left before retirement. Now, there is a definite trend towards paying a withdrawal benefit greater than a return of contributions plus interest, finds the survey.

Banks still bend overdraft rules

Bus (Times) S Times 14/7/91

(58)

By DIRK TIEMANN

SEVERAL banks are breaking the overdraft rules and two out of five complaints a week received by the Registrar of Financial Institutions are referred to the Attorney-General.

TrustBank refunded one amount of nearly R12 000 in January — the sum had accumulated over three years. There was no explanation and merely a reverse charge for the amount after the Registrar had investigated.

TrustBank says there was a "difference in interpretation" of the agreement reached with the client. "We gave the client the benefit of the doubt and adjusted the account."

Standard, Nedbank, First National and Volkskas also had their share of "hiccups".

Groundless

The independent Financial Services Board's administration manager, Gerry Anderson, says his office, which recently took over the functions of the Registrar of Financial Institutions, must report any contravention of the Usury Act to the Attorney-General.

Mr Anderson says many complaints are groundless because customers do not read the small print in their agreements providing for penalties if the credit facilities are abused.

Interest-rate ceilings allowed by the Usury Act are 32% on overdrafts up to R6 000, 29% for between R6 000 and R500 000. Above that, there is no limit.

The Act also requires that banks tell customers in writing within three months of any change to the rate that was originally agreed on. Most customers are ignorant of the rates they pay.

Prime overdraft rate was reduced to 20% in March and many bank customers should check whether their charges have fallen accordingly.

Business Times has found that Standard and Nedbank inform customers of prime-rate changes on their statements. But they do not tell them if the rates they pay have been changed.

Those customers who are charged an agreed margin above prime are informed by letter.

First National and TrustBank do not disclose changes in the overdraft rate as a matter of course.

Banks say their computer systems warn them whenever a customer's interest rates exceed the usury ceiling. Nonetheless they admit that overcharging can occur because of "finger trouble".

...council meeting was the last before a ...ek summer break and, German infla... ...ving hit an 80-year high of 3,5% in June, ...uries favoured a hike in German rates.

...represent a US economy well set to emerge from a short and shallow recession, and they are likely to attract fresh support to the dollar once the economic summit disbands on Wednesday. Central banks may be reluctant to try and stand in the way.

THE MONEY MARKETS by Andrew Gill

Major events, but not a stir

B/Day 15/7/91.

IN THE week when sanctions crumbled, the finrand soared, the JSE roller-coastered and capital market rates dropped, the money market managed to maintain its state of suspended animation.

Its biggest reaction over the week, and probably the month, was a five-point drop in 90-day BA's to 16,80% following news of the scrapping of some US sanctions. Over the past two months the rate has not broken out of its 16,80% to 16,90% range.

To make things worse, the dearth is expected to continue for a long time to come, with little or no hope of volatility.

NCD rates at the six-, nine-, and 12-month level are at exactly the same point, indicating a stale outlook for prime rate and quiet times in the months ahead.

The excess liquidity that prevailed over the past two months, however, started disappearing and the Reserve Bank saw fit not to roll over the maturing special TB's through the week.

According to the Bank, the amount of TB's and special TB's currently in the market amount to R1,84bn, which makes up a large part of the R2,6bn shortage.

Also, with dollar swaps taking further cash out the system, a large portion of the shortage is seen as artificial.

However, current conditions are far less flush than they had been and analysts believe the removal of special issues and dollar swaps will not result in a surplus, as it would have done three weeks ago.

Tax cheques, which are traditionally bigger in June, apparently have been a major reason for the tighter conditions. Also, because of school holidays, more notes are out of the system.

One of the problems at the beginning of the month when the shortage climbed to R3,6bn had been the unexpected frugality of the homelands. They normally draw their payments the day they become available but this month decided to leave them with the Bank for a while.

Another "happening" during the week was the Bank's handing over of the responsibilities of the Land Bank tender to the Land Bank.

This apparently became possible because the Land Bank improved its infrastructure through the acquisition of a Reuter screen. The Reserve Bank is said to be happy with the new arrangements because it can no longer be accused of using the Land Bank tender as a policy tool.

New equity link with Barlows protects NBS

(54)

By David Canning Star 16/7/91

The combined equity stake in NBS of Barlows, Norwich Life and other friendly parties should preclude any possibility of a hostile takeover, says chairman Gordon Champan.He was referring to last week's share deal with French Bank and Barlows, which together with a share swop will see Barlows take 18 percent of NBS. Norwich Life holds 26 percent of the NBS equity.

In his recent chairman's statement in the NBS Holdings annual report — released prior to the French Bank-Barlows deal — Mr Chapman referred to "a certain amount of apprehension" among senior management who saw themselves as potentially vulnerable in the light of takeover speculation.

First National Bank, which has about 10,6 percent of NBS, is frequently cited in the Press as a potential bidder for NBS — but the new equity line-up is seen as a balwark against possible takeovers.

Speaking at yesterday's NBS annual meeting Mr Chapman added that the link with Barlows would present exciting business opportunities and Barlows was equally keen to explore these possibilities.

He said the new international link — the deal gives the NBS links with French-based banking giant Indosuez — was opportune in view of the ending of SA's isolation and opening of trade doors.

Answering queries from the floor, Mr Chapman said the board would investigate the possibilities of a shareholders' plea at the meeting for an increase in the the 0,5 percent additional interest paid to "over-60s" — a move which the NBS pioneered years ago.

While sympathetic to the needs of pensioners, it had to be borne in mind that the NBS was in a competitive situation and also had to "make the numbers work."

CBD thrusts into the future

Star 16/7/91 (58)

Central Johannesburg continues to be alive and well and all indications point to a long-term confidence and prosperity for the city.

This is the obvious conclusion arising from the latest surveys and letting review of the main central areas from the research department of Anglo American Property Services (Ampros).

The massive Bank City project, the R180 million Turbine Square redevelopment on the power station site and the planned pedestrianisation of Kerk Street, which is linked to the newly-completed Civic Spine project, will combine to thrust Johannesburg into the 21st century.

The main advantage of this revitalisation process is that people — a workforce of thousands, coupled with entertainment seekers — will not be lost to the surburbs.

Ampros says: "Bank City will not just keep thousands of its own employees in the city but the multiplier effect of this project, with its retail facilities, will draw associated services such as restaurants and financial operations."

The big projects fall within what Ampros calls the Exchange District (Bree Street to the north, Rissik to the east, Market to the south and Jeppe to the west) which has a total of more than 375 000 sq m of office space.

While lower demand for space at present in this "dynamic area" has put pressure on rentals, A grade offices command a rental range of R27 to R34 a sq m and B grade at R18 to R22.

South of Exchange is the Financial District which Ampros sees as equally exciting in the long-term.

Dominated by banks, insurance groups and mining houses, its rental structure is R28 to R33 for A grade and R20 to R28 for B grade.

Of the close to one million sq m of space — almost 30 percent of the total CBD letting area — there is a relatively high surplus. But Ampros expects this oversupply to be taken up soon.

The Commercial District (Bree, Albert, Delvers and Goud streets) covers a range of interests and activities which are vital to the CBD as a whole. A grade space rents from R26 to R35, while B grade is at the R17 to R21 level.

Africa eyes investment in SA property

Finance Staff

Affluent residents of other African countries are eyeing the South African residential property market as a potential investment, reports Ronald Ennik, director of Pam Golding Properties (Transvaal).

Mr Ennik says the organisation has already met a delegation from Kenya and has had enquiries from such countries as Zimbabwe, Ivory Coast and Nigeria. "South Africa is recognised as the powerhouse of Africa and, like Botswana, is one of the most successful economically.

"It therefore comes as no surprise that wealthy people in the rest of Africa will want to be part of this success story.

"Despite its present problems, this country and its economy are perceived as a sound long term investment."

Mr Ennik says an inflow of investment could have a significant impact on the local market.

Self-insurance seen as a threat

BDay 16/7/91 (58)

LINDA ENSOR

CAPE TOWN — Short-term insurers believe the biggest threat to their companies is the trend towards corporate self-insurance, a study of the short- and long-term insurance industries has found.

Competitive pressure from banks was seen as one of the threats facing the life companies.

The study, called South African Insurance into the 1990s, was undertaken by Andersen Consulting and was based on the detailed forecasts and opinions of over 100 top executives from the two sectors, as well as those of reinsurers and intermediaries.

"Self-insurance not only shrinks the size of the market, but also leaves it with the worst risks as companies tend to only self-insure their better risks," said Andersen consulting partner and head of the research team, Wally Strickland.

The study found that the majority of executives in the long- and short-term insurance industries did not believe in the likelihood of nationalisation by a future government.

The consensus view was that mutual societies were already owned by their policyholders while most assets of the "large public life companies were also owned by policyholders.

Short-term insurers were not seen as an attractive nationalisation proposition because they were not sufficiently profitable, Strickland said.

"Executives felt that nationalisation would be taking away from the man in the street in order to give to the man in the street," he said.

Leaders in the industry expect increased representation of black people on their boards and greater regulation in the interest of policyholders on matters such as commissions and "cooling down" periods.

Life companies generally expect favourable changes in their tax regime, especially the non-taxation of dividends and taxation at the average rate rather than the marginal one. Executives favoured less regulation over the prescribed assets of pension funds, and regarded the prudential investment guidelines as overly restrictive.

The study used the Delphi survey technique which is based on the assumption that a lot of what happens in an industry is a self-fulfilling prophecy of what executives in that industry expect to happen.

"By establishing the consensus view, you can establish future trends and produce a projection for use by executives in their strategic thinking," Strickland said.

Request to Nedbank sparks tax fears

B Day 16/7/91 (58)

ROBERT GENTLE

NEDBANK has been asked by the authorities for information on the earned interest of certain overseas clients, prompting speculation in the market that government is seeking to tax non-resident accounts.

Should this happen, tax might also be levied on interest earned by non-residents on securities like government or Eskom stock, said market sources yesterday.

This would be a coup for the taxman, who could reap millions in revenue from overseas holders of such securities.

In Eskom stock alone, an estimated 44% (or R10bn) is held by non-residents.

A Nedbank spokesman said: "Some of our overseas clients have been asked by the authorities to provide information on their earned interest, which would seem to indicate the Receiver may be seeking to tax interest."

However, Nedbank was not having discussions with the Receiver "at this stage" and had no knowledge of any intention to reinstate interest tax.

First National and Absa said they were not aware of any such moves either. Standard said it had heard rumours.

Ian Meiklejohn, director legal drafting at Inland Revenue in Pretoria, said that he had no knowledge of any move to reintroduce the tax on non-resident accounts, which was scrapped in 1988.

He ventured that the speculation in the market might relate to the fact that Section 10 (1) (h) of the Income Tax Act, which exempts foreigners from tax on their holdings in parastatals, is scheduled to be amended.

The amendment, which could result on interest from such holdings being taxed up to the maximum rate of 43%, is scheduled to come into effect on a date still to be decided by the Minister of Finance.

Meiklejohn said it would apply to stock or securities issued by government, local authorities, Eskom, SABC and Transnet.

On the Nedbank inquiry, he speculated that it might relate to inquiries by overseas banks on the 0,75% tax SA banks will soon have to pay on interest income.

Marilyn Visser, gilts trader at stockbroking firm Simpson McKie, said it was important that stability be maintained in the gilts market to ensure that foreign money already in such stock stayed there. Talk about taxation could "upset" that stability.

Shareholders pool their stake in Absa

BDay 16/7/91

GRETA STEYN

REMBRANDT, the Mines Pension Funds (MPF) and Sage Financial Services (SFS) have pooled their shareholding in Absa to protect their interests while giving them more investment flexibility.

The new pyramid company, Universa, holds 30% of Absa and is to be listed on the JSE, according to the SFS annual report.

MPF chairman Herc Hefer, who is also Absa chairman, said yesterday: "The formation of the new company safeguards the interests of Absa's major shareholders. An outsider would battle to gain control of Universa."

He indicated its formation would be the first step towards creating one listed vehicle for an investment in a number of financial services groups.

The decision to list Universa was taken partly because of the MPF's policy to invest in listed companies. As long as the major shareholders retained control of Universa, listing also gave them greater flexibility on investment strategies.

The SFS annual report says an objective of the formation of Universa is "to rationalise the interests of common major shareholders in both the Sage and Absa groups and to achieve an ultimate structure consistent with JSE requirements".

Analysts see this as an indication that Rembrandt and the MPF's shareholdings in Sage will eventually form part of Universa. Rembrandt and the MPF are major shareholders of both Absa and Sage. A Sage source said the two big shareholders wanted a "tidy" structure for their financial services investments.

Sage chairman Louis Shill declined to comment, referring to the annual report's statement that "in-depth discussions between Sage and its fellow shareholders in Universa were taking place on rationalising common interests".

SFS holds 6,5% of Absa and the latter holds 49% of SFS's insurance interests. These interests include life assurance, investment management, unit trusts, and a stake in Rand Merchant Bank.

SFS's holding company Sage's share price has recovered from its 625c low last year to a peak of 1 000c in June, but has slipped back to 920c. SFS rarely trades and was quoted at 410c yesterday.

Report on Nedbank incorrect

B Day 17/7/91

NEDBANK has asked Business Day to make it clear that it had not been "asked by the authorities for information on the earned interest of certain overseas clients", as reported yesterday.

The headline, "Request to Nedbank sparks tax fears", and opening paragraph of the report were thus incorrect.

The factual position, as stated later in the report, was that some of Nedbank's overseas clients had been asked by the authorities to provide information on their earned interest.

Nedbank said that any speculation in the market that government was seeking to tax non-resident accounts could not have been prompted by a "request to Nedbank".

Business Day regrets the error.

☐ Ian Meiklejohn, director legal drafting at Inland Revenue in Pretoria, was quoted in the report as saying he had no knowledge of any move to reintroduce the tax on non-resident accounts, which was scrapped in 1988.

Probe of 'blocked accounts'

ROBERT GENTLE

IN A move aimed at updating its statistics, the Reserve Bank has asked SA banks for details of the nature and value of locally held assets belonging to South Africans who have emigrated.

A circular was sent on May 30 to all banks concerned requesting information on these assets, which include cash, property and marketable securities. They are normally held in so-called blocked accounts.

The view in some quarters of the market was that the Bank's move was aimed at ascertaining the cash outflows that would arise if exchange control was lifted.

This prompted speculation that government was looking seriously at the abolition of the financial rand and examining the exchange control ramifications of such a move.

A Reserve Bank spokesman from the Exchange Control department dismissed talk of a link between the information it was seeking on blocked accounts and the lifting of exchange control.

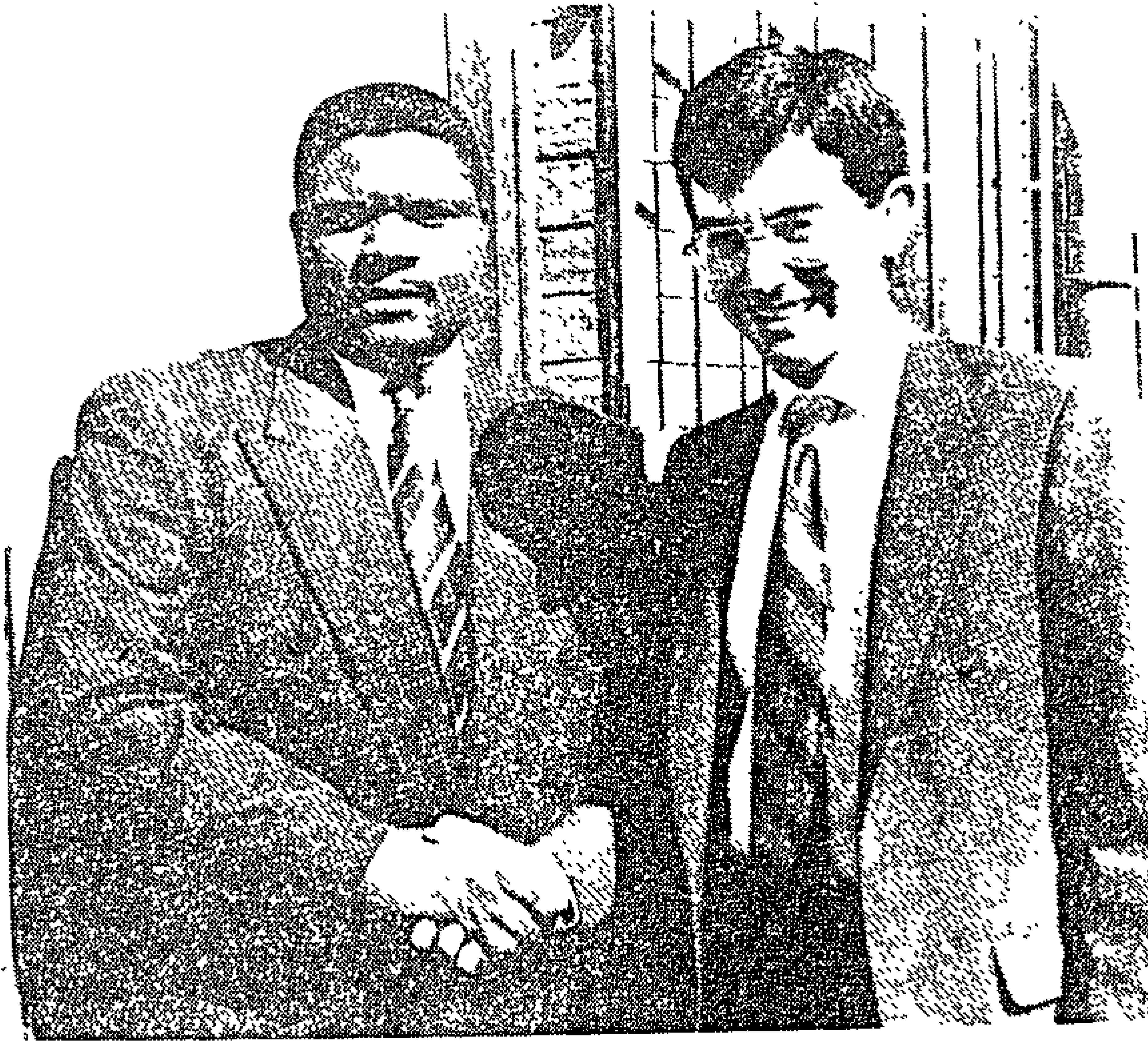
He said the information requested was purely in the nature of a survey aimed at updating the Bank's statistics in this area.

The last time such a survey had been done was "about 10 to 15 years ago". There had been a lot of emigration since then, and the nature and value of emigrants' assets had changed.

The spokesman said that information from the banks had already started to flow in. He was unable to provide an estimate of the amounts of money involved.

A Bankorp spokesman supported the Bank's view that the information requested was related to a need to update existing statistics.

USINESS



Mr Kehla Mthembu of Afsure and Martin Sweet of Charter Life.

New Charter plan for black brokers

Sowetan 18/7/91 (58)

By JOSHUA RABOROKO

CHARTER Life is spearheading a programme of building a sound skills base in black brokerage for the insurance industry.

The programme, which has the full support of Mr Mike Jackson, chief operating officer of Charter Life, is being initiated by Mr Martin Sweet, a senior manager with the organisation.

Sweet said: "Economic growth and prosperity will depend to a large extent on how well South Africa meets the illiteracy and skills crisis in this country."

The company focuses on two areas. The identification and development of new brokerage talent and secondly the empowering of existing black brokers through working with the emerging brokerage to develop their staff to a high level of competence and efficiency.

Great results have already been achieved. To mention one, Mr Dupreez Vilakazi, of Business Challenge, who, after an intensive two-month training period at Charter Life, is now enjoying great success in selling policies in a competitive market place.

The company investigated various training institutions before entering into an association with Parcon Pty Ltd, which has credibility in black empowerment - both within the corporate and social responsibility fields.

Initially, a two-day programme was designed to address staff knowledge and efficiency in order to comply with brokerage time constraints. The programme has been enthusiastically welcomed by black brokerages.

Mr Kehla Mthembu of Afsure, Mr Moss Nxumalo of XB Brokers and Mr Phil Khumalo of Business Challenge, are keen to support on the development of their staff and have committed themselves to the programme.

Estate agents will defy arson threat

By Al-Ameen Kafaar

Star 18/7/91

ALLE EIENDOMSAGENTE.

HIERDIE IS NIE N DREIGEMENT. DIT IS OORLOG. VERKOOP EEN HUIS IN STANDERTON AAN N ANDERSKLEURIGE EN ONS BRAND JOU HUIS EN KANTOOR AF.

Threatening note . . . sent to a Standerton estate agent.

Standerton estate agents say they will defy a threat to burn down their homes and offices if they sell any houses to blacks.

Four of the five agents in the town received a letter, handwritten in Afrikaans, on Monday warning them not to sell any houses in "white" residential areas to blacks.

An agent at the fifth, Heino Christo Agency, said the firm had not received the letter. He was unable to explain why they had been left out.

An eastern Transvaal police spokesman, Major Themba Mhlangu, said yesterday that Standerton police were investigating the matter.

The Star obtained a copy of the letter from Aida Holdings Ltd, which holds a franchise in Standerton.

The letter reads: "This is not a warning. It is war. Sell one house in Standerton to blacks (*anderskleuriges*) and we will burn down your houses and offices".

Aida Holdings managing director Aida Geffen yesterday strongly condemned the letter.

Mrs Geffen said her franchise holders had sold quite a number of homes to blacks in the Transvaal and Free State.

She said some of the houses belonged to very conservative people who requested that the sales not be made public until they had left town.

One man at Van Biljon agency said: "The letter was very childish and we don't take it seriously."

The other agents — who requested not to be identified — said the letter would not discourage them from selling houses to blacks.

They said a number of blacks had inquired about buying homes in "white" areas.

Eskel Jawitz, chairman of the Estates Agents Board , said the board would advise all estate agents to ignore similar threats.

"The board will take a very serious view if consumers bring complaints to us of estate agents refusing to deal with them because of threats like this," he said.

58

Perm chief aims at building bridges

By JOSHUA RABOROKO

SOUTH Africa stood on the threshold of historical changes in the social, political and economic spheres, according to the newly-appointed divisional director of the SA Perm, Mr Hugh MacLachlan.

MacLachalan, who succeeds former managing director Mr Bob Tucker, said Perm was uniquely placed to bridge the gap between the developments of South Africa's so-called third world components while continuing the service it had supplied for over a century.

He said: "My appointment at this time is therefore unquestionably not only the highlight of my career but presents me with one of the biggest challenges I have ever faced in the business environment.

"This is more so in the view of the fact that I am succeeding Bob Tucker who has been the pioneer in the development of the Perm as a financial institution which has a special relationship with a wide variety of communities and markets in our country.

He said he was convinced that Perm had a staff that was similarly committed to the institution's objectives.

New rules soon for prudential investment

B/Day 19/7/91 SEAN VAN ZYL (58)

PROPOSED legislative changes to the prudential investment guidelines are expected to be published by the end of this month, the Financial Services Board's Piet Badenhorst said yesterday.

The guidelines determine the investment exposure of the life and pension industries. The board is expected to lift the current top limit on equity exposure to 75% from the present 65% level.

Badenhorst said legal technicalities which had held up the adjustment should be finalised by end-July.

The present investment guidelines — which replaced the prescribed asset requirements in 1989 — allowed the pension and life industries to switch a larger portion of their investment funds from government stock into high return equity investments.

However, life and pension fund managers said the new "guidelines" were still too restrictive and limited their investment performance. B/Day 19/7/91

Anglovaal Insurance Holding CE Brian Benfield said yesterday the investment guidelines were more specific than the old.

"The prescribed asset requirements forced life and pension funds to invest a mininum of investment funds in government paper, whereas the replacement guidelines now effectively restrict life companies from increasing their exposure in any particular investment category" he said.

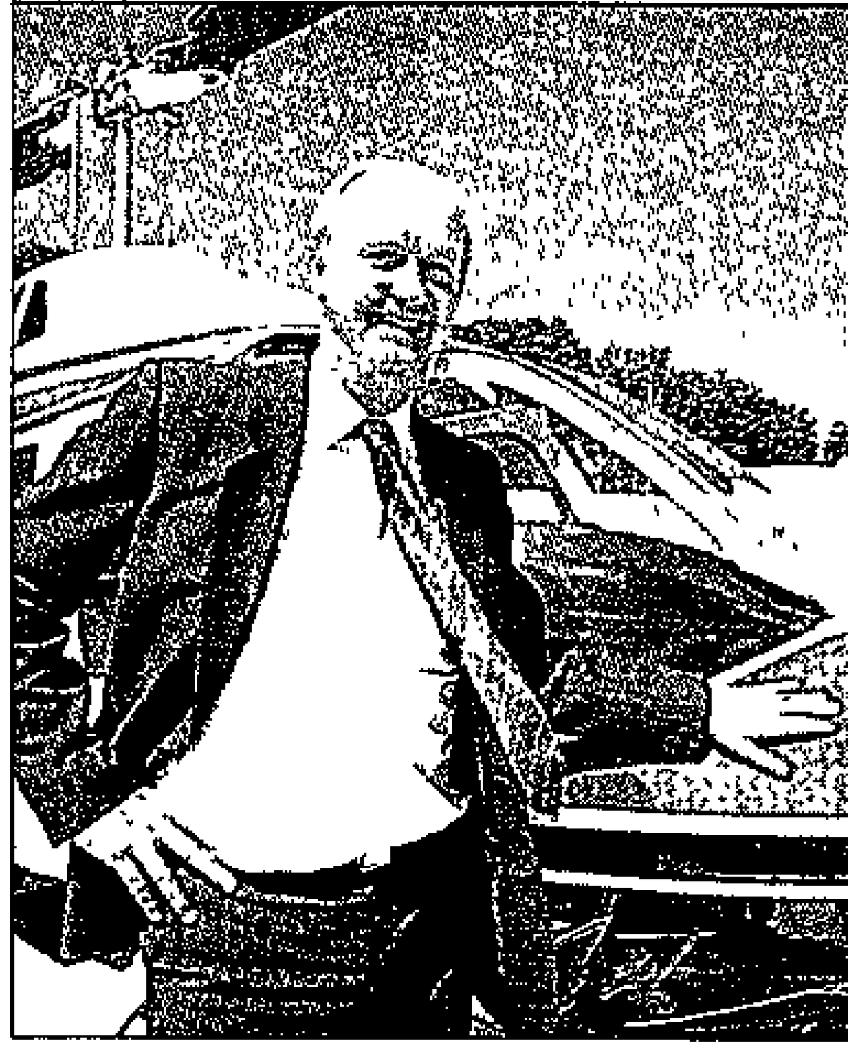
He said life companies should be treated like any industry determining its business dealings on free-market principles.

However, Old Mutual chief actuary Theo Hartwig said the investment guidelines were a major improvement on the old prescribed asset requirements. "The latest move appears to be a step in the right direction," he said.

But Hartwig said life and pension fund investment should ideally be determined according to the liabilities of each company, based on actuarial principles.

The Life Offices Association said it welcomed the fact that the issue was being addressed by the authorities.

Comments a Ketter spokesman: "Belfast Black is so highly sought-after that, in last year's depressed market, the major suppliers were insisting customers wanting Belfast Black take quotas of other granite types at the same time. We offered Belfast Black with no strings attached. After sending off test shipments our quality has been found acceptable and we are now a large supplier of the commodity."


Keeley . . . *market leader*

Demand has since improved, though higher inventories and debt in granite company balance sheets remain a legacy of the stodgy market. The price war in Rustenburg Grey, which saw prices drop from around $470/m³ to between $350-$370/m³, is over. Prices have returned to between $400 and $450, according to Marlin Corp MD Graham Treagus. Keeley says all the producers pushed up their prices in March and the new levels have stuck — with Rustenburg Grey increased by 20% and Belfast Black, along with African Red, up 10%.

The granite companies do not publish production figures, but Keeley — the largest — is planning to produce about 400 000 t of stone this year. The other three big producers, Marlin, Impala and Kudu, are in the 100 000 t to 200 000 t range. Treagus and Keeley say they were unwilling to cut production when the market turned down after Iraq's invasion of Kuwait because of the effect this would have on production costs. They felt the hiccup in the market would be short-lived and preferred to build up inventories which they are now running down. That should help profit margins.

Analysts are almost unanimous that Keeley's dominant position makes Kelgran the sector share to go for. Kelgran also runs its own stevedoring operation, which taps the profit to be made in the transport side of the business. Longer-term, the challenge for Gencor is to get the vast knowledge of the business inside Keeley's head firmly into those of its own executives' over the next five years.

Frankel Max Pollak Vinderine analyst Kevin Kartun prefers Marlin in the short term. He feels it has better earnings growth potential over the next six months. Apart from being in a recovery situation, it is more exposed to granite beneficiation, so it should benefit from government export incentives.

Kudu is also looking at recovery, but some analysts are wary of the effect on earnings of servicing its high debt which hit R20m at end-December Financial director André Dry says it has since dropped to R18m, and will be whittled down as the market improves.

Newly listed Petra Granite is an unknown quantity at this stage Minaco Granite (Mingran) achieved its prospectus forecast of a 3,5c a share dividend for the 10 months to December. However, investors should be aware of the track record of controlling shareholder and manager Cyril Heever's African Exploration (AECO), which has two failed gold mines to its credit. JSE analysts don't like that

Shareholders of Quagga Granite, listed through a private offer at 75c in April, have seen its price go straight down ever since. Bucking the sector recovery trend, it now stands at its all-time low of 15c Marlin last September acquired the rights to distribute Quagga's African Red granite.

Final words are from the granite company executive: "This is a terrifying business for a mining engineer. There are no rational numbers you can use to judge purity . . . The whole concept of a scientific ore reserve breaks down. The final decision on the success of a particular product rests with the consumer, and you need a feel for the market that comes only from long experience."

For those who have it, the potential rewards are large. *Brendan Ryan*

SAVINGS AND INVESTMENT

The quick-fix fallacy

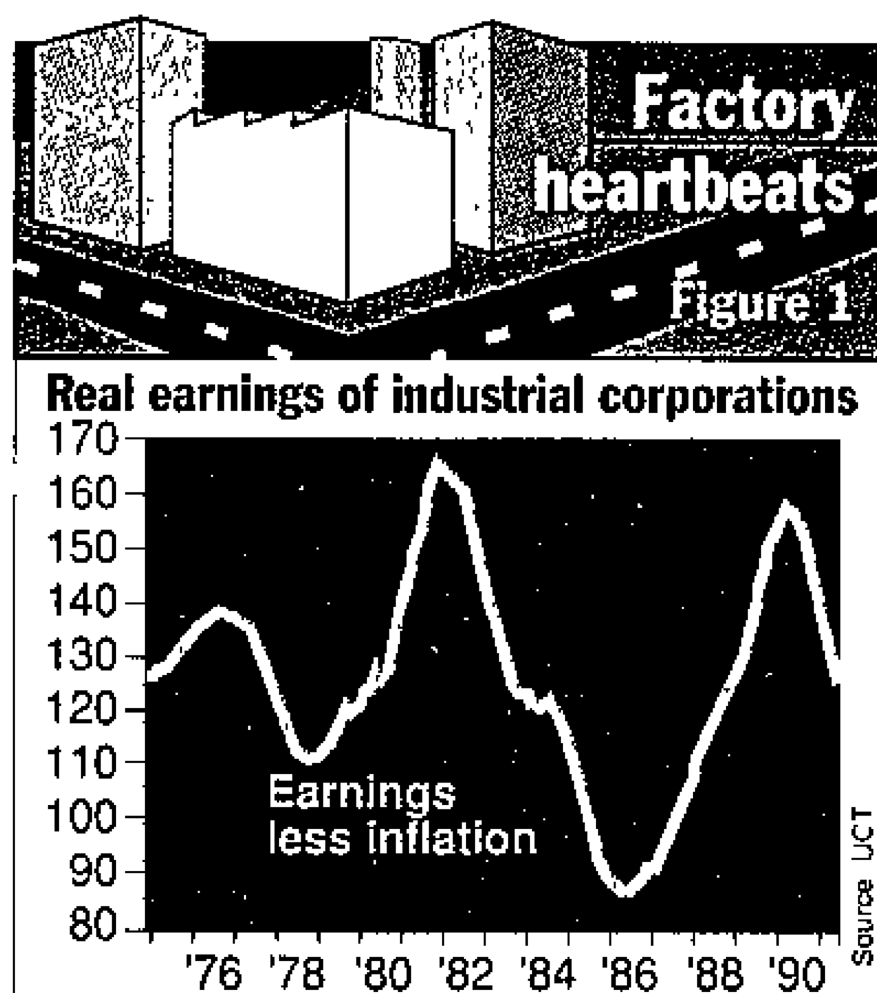
FM 19/7/91 (58)

Contractual savings should not be politically misappropriated

The enviable success of the life office and pension funds in attracting huge flows of cash from households (see figure 3, page 28) has inspired a number of ideas to use this wherewithal in ways other than those that would be preferred by savers themselves.

Finance Minister Barend du Plessis would like more taxes; President F W de Klerk, one understands, wants more real investment; and Independent Development Trust head Jan Steyn would like much more investment in housing to come from these retirement funds. Others would like to redistribute this wealth in more obvious ways.

A factor encouraging intervention in financial markets is that the return on savings made for the long run is difficult to predict since it is subject to many unknowns.



For example, the price of gold, inflation rates, world economic growth and changes in the corporate tax regime, among other forces, will all come to bear upon the after-tax incomes of corporations and thus the value of shares and other securities in which retirement funds are placed.

It is particularly attractive for politicians to force savers rather than taxpayers to pay for their favoured schemes to fix the economy, precisely because it is impossible to calculate with any degree of accuracy the cost to savers of denying them their freedom to seek the highest returns.

Despite the forces ranged against them, it may help savers and savings — and so the economy — if it could be demonstrated that our problems have had nothing to do with the successes of contractual savings plans managed by the life offices and pension funds, and especially the good returns obtained from their investments in shares.

Moreover, had their savings been forced to flow in different ways, it can be shown that our economic problems would have been compounded rather than relieved.

The first step in writing a freedom charter for savers would be to seek agreement on the nature of the economic crisis recently faced by South Africans. Figure 2 shows some of the key economic variables over the period 1970-1990 and indicates clearly that major difficulties for the economy emerged in 1985. Before then the economy might have been regarded as healthy.

Between 1970 and 1984 investment spending had grown by 4,25% a year on average; durable consumption by 5% a year and non-durable consumption by an average of 4% a year. Such real growth is hardly characteristic of an economy in crisis.

P.T.O.

The good times for investment and durable consumption in particular ended in mid-1984. In that year a self-inflicted wound of very high interest rates was followed in quick succession by a dramatic decline in spending on durables, a sharp increase in unemployment and widespread political unrest.

It was widely believed then that the economic infrastructure was about to be destroyed in the conflict between white and black. This led locals and foreigners to withdraw from SA as much of their wealth as they could.

The equivalent of four-fifths of all the foreign capital that had flowed to SA in the preceding 15 years flowed out between 1985 and 1989. Another R4bn flowed out last year, enough to make SA a net capital exporter for the period 1960-1990.

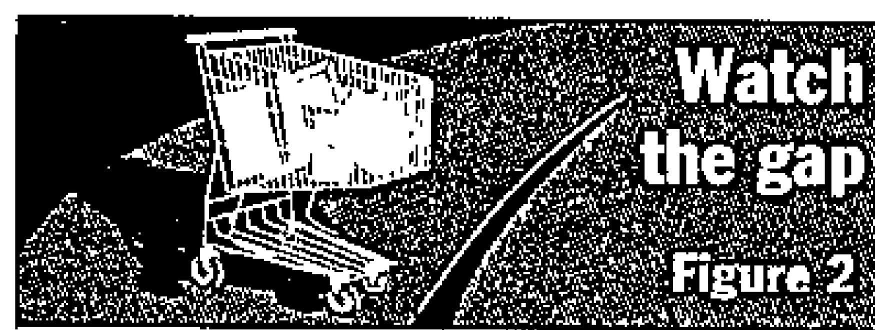
I believe economic historians will be concerned to explain not how poorly our economy performed in the period 1985-1990, but rather how well it coped with a blow to the capital account of the balance of payments of extraordinary proportions.

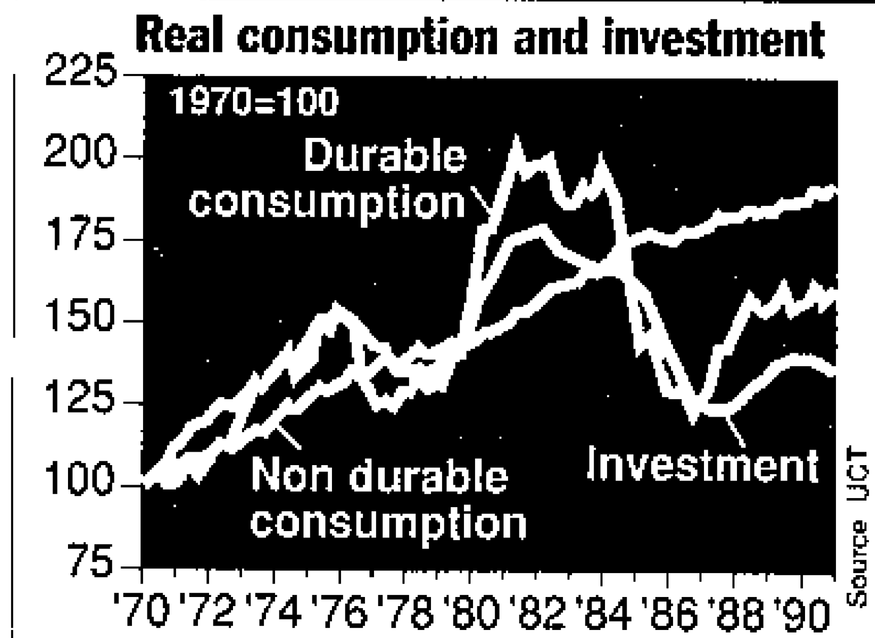
The issue of whether the SA financial system served us well or not over recent years can be resolved by way of an answer to the question: is it at all reasonable or realistic in these circumstances to have expected more investment over this period of crisis? Only if South Africans had saved more and consumed less since 1984.

Actual consumption spending over the period 1985-1990 grew very slowly. As may be seen in figure 2, nondurable consumption spending was more resilient than the other categories of demand and grew by some 1,7% a year on average between 1985 and 1990, while the consumption of durables declined markedly (by about 1% a year).

The retirement funds, which so successfully continued to attract savings over this period, cannot easily be held responsible for encouraging consumption spending by government or households. Nevertheless, had the returns from contractual savings schemes been inferior over recent years, it is likely that more rather than less household savings would have been forthcoming.

Yet if consumption spending had been even weaker, the profitability of industry and commerce would have declined. This would have led to a much lower level of corporate saving in the form of undistributed profits and other reserves. If so, given the dependence to some degree of investment spending on the availability of internal sources of cash, even less corporate investment would have been undertaken.





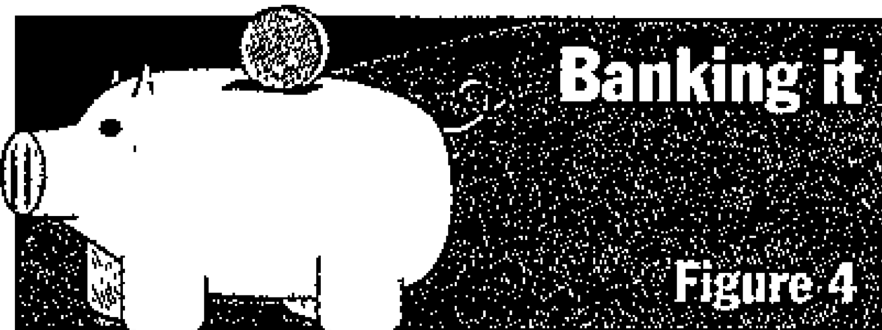
It should be recognised that it is individuals, through their rights to pensions and retirement annuities, who own corporations. Corporations save on their behalf and the return on savings is captured mostly in the form of capital gains registered on the share market, which provide security for the loans made to individuals, until they are cashed on retirement. Corporate and household savings are highly substitutable. More of one brings less of the other.

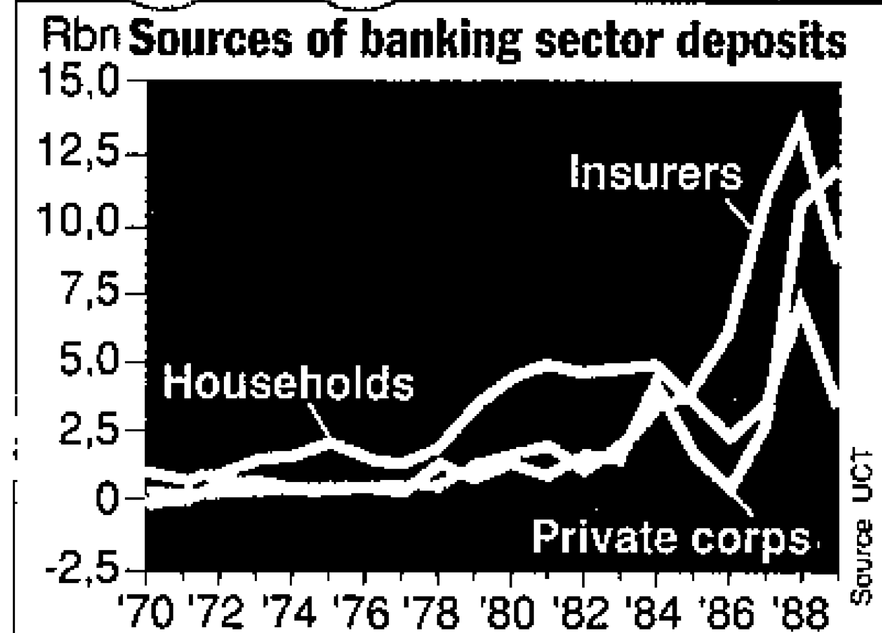
The pattern of saving in SA changed dramatically in the Seventies as inflation increased. Interest income received from banks continued to be taxed without allowance for the fact that the interest paid often did not compensate for the drop in purchasing power of the deposits or loans made.

While they therefore remitted increasing amounts of their cash by way of contractual savings schemes, households also came to borrow more from banks and corporations to finance their consumption spending.

The banks in turn have come to rely more on deposits from life funds and corporations than on deposits from households (figure 4). Thus after allowance for borrowing, the net contributions of the household sector to the pool of savings declined, while that of the corporate sector (also after borrowing) increased with minimal impact on the proportion of total output saved.

In the period 1985-1990, gross savings were on average equal to 23% of GDP, compared to an average ratio of 25% of GDP for the period 1960-1984.





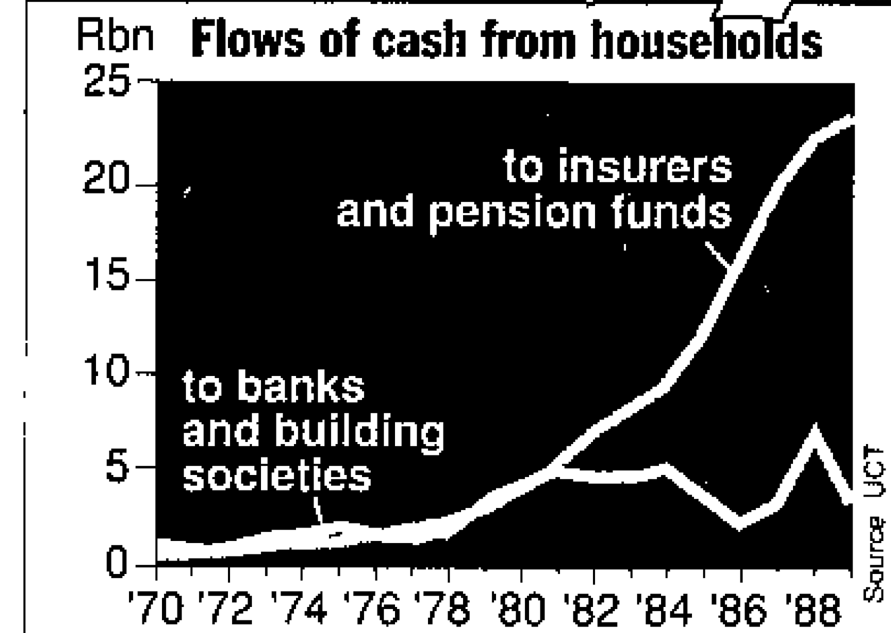
One of the less obvious combinations of events that occurred after 1986 was the strong recovery in industrial earnings, which took place despite a generally weak economy. This surge in profits came to an end only recently. The prices of industrial and other shares in part faithfully reflected this growth in the rand earnings of our corporations, which in turn improved the performance of the portfolios managed by the pension and life offices.

The fundamental influences that have always acted on the JSE — the earnings of and dividends paid by companies as well as contemporaneous value of the other stock exchanges worldwide — have applied normally over recent years.

Over the past few months, it has been the very impressive performance of the New York Stock Exchange that has been responsible for much of the improvement on the JSE. This effect has strongly countered declining earnings and dividends.

It can be easily demonstrated that the retirement fund managers were not engaged in an irrational chase after shares at the expense of real investment. The JSE by the same token, therefore, provided no abnormal incentives for shareholders to issue more capital on highly favourable terms in order to finance more real investment. Much of the extra cash attracted by retirement funds found its way back to the banking system.

Thus the problem was not with our financial system, nor that South Africans were saving too little or too much, nor saving and investing in the wrong ways. Much of our savings had to be used to repay those abroad who were exercising their claims on our wealth and savings.



The decline in investment spending, and so the stagnation in the stock of productive capital at our disposal, was the inevitable real counterpart of this capital flight. The behaviour of our financial markets during this period of economic stress has been entirely consistent with these realities.

The solution to too little investment is obvious — to set about reducing the risks of investing here Less risk will mean lower required returns and more investment. To finance more of this investment we will need to attract savings from off- and onshore. Less risk will require the adoption of the right kinds of political and economic policies.

The much more widespread ownership of shares through pension funds and insurers that transpired after 1970 represented a highly developed form of people's capitalism. The right lesson to draw from these developments is to encourage many more to share in the benefits of saving and having their savings well managed for them.

To attempt any quick fix for the economy, at the expense of politically and highly vulnerable savers, is precisely the wrong way to reduce the risks required to encourage much more real investment and the savings necessary to finance them. *Brian Kantor*

□ *Brian Kantor is director of the school of economics at UCT, a member of the FM's Board of Economists and chairman of the Victoria & Alfred Waterfront*

SHORT-TERM INSURANCE

FM 19/7/91 (58)

TENACIOUS CLAIMANT

An insurance claim of more than R2m is usually strong inducement for a claimant. But the liquidators of RTS Techniques & Planning are having little joy in their claim against General Accident (GA) and evidence now emerging seems to explain GA's stance.

Disputes over claims, particularly fire damage, are not unusual. Invariably investigations are thorough unless the circumstances are clear-cut — as in the case of the Durban Country Club, which is now being rebuilt on GA's agreement. According to *Fire Protection* magazine, of 10 049 fire claims last year, arson (1 585) and undetermined causes (1 558) outnumbered even electrical fires (2 520).

So GA's caution was normal, even though a forensic investigation in the RTS case found no evidence of arson. What may make the case a benchmark is the way in which it is apparently being orchestrated to gain maximum sympathy for RTS and paint GA as the villain.

In the latest development, GA — which has never formally repudiated the RTS claim — has declared void the policies under which the claim was made. The apparent reason is that an investigation by a leading accountancy firm has shown RTS's financial records to be in a mess. It also discloses the financial stress under which the major shareholder, Bernard Cutler, had been labouring for two years.

Peter Soller, attorney to RTS, comments that looking behind a fire to the injured company's financial state might imply that any insurance contract could be voided and a return of premiums tendered in any case where a company's books are not pristine.

Were Soller correct it would, of course, mean that most private companies, whose accounts are often in a mess, are technically not covered. But he is not.

In signing an insurance contract, the proposer must disclose anything that could influence whether the insurer accepts the risk. Voidance of the policies by GA was almost certainly on the ground that the accountants found so many matters remiss that the claim could not be substantiated. Whether that is so, will presumably be decided in court.

The background to the dispute, as reported in the *FM* on May 31 and June 21, is that there was a fire at RTS's premises soon after RTS increased its insurance cover with GA.

GA engaged a loss adjuster and a forensic expert to determine the cause. No evidence of arson was found, but GA declined to pay out pending further investigations involving an examination of available records by accountancy firm, Coopers Theron du Toit.

GA's attorney, Deneys Reitz, sent Coopers' report and a letter voiding the contracts to Soller and the liquidators on July 10.

Meanwhile, RTS's advisers had adopted some unusual ploys. First, RTS was put into liquidation by a friendly creditor. It was stated at the liquidation proceedings that liquidation was necessary because GA had not at that stage (some six weeks after the fire) paid out. Coopers' report states that the accountants were unable to verify that the creditor who instigated the proceedings was indeed owed money by RTS.

RTS (in liquidation) also retained loss adjusters to verify its claim: though use of a loss adjuster by the claimant is common in some countries, it is rare in SA.

Then Soller pressed for an inquiry into why the claim had not been paid, using Section 417 of the Companies Act. The hearing took place in the Johannesburg Magistrate's Court, in camera, from May 28. Evidence presented at such hearings may not be reported without the court's consent.

Twice, the *FM* was approached anonymously with offers to cede an RTS debt so that the *FM* could attend the hearing. From two sources, also, the *FM* was sent selective portions of the accountants' report (Deneys Reitz had taken the unusual step of providing RTS's advisers with Coopers' entire report of 50 pages and appendices).

Legally, the *FM* may not quote the transcript of the Section 417 hearing. To quote at length Coopers' findings would also not be equitable. For, following the "voidance" letter from Deneys Reitz, with which Coopers' report is associated, advisers for RTS have applied for a resumption of the Section 417 hearing. It has been set down for July 26.

Cutler has not responded to repeated attempts by the *FM* to contact him.

☐ GA, through its public relations adviser, has suggested the *FM* is pursuing a vendetta in publicising the case. This is not so. The *FM* has pointed out that GA has substantial shareholders and a good claims record. This case is newsworthy because it includes unusual elements that could influence insurance practice.

Bryan Deans

FM 19/7/91 (58)

RAND'S PRICE

Jul 16 1991	R1 equals	One foreign unit equals (R)
SDR	**0,263**	**3,803**
	0,283	3,536
ECU	**0,303**	**3,302**
	0,302	3,313
UK £	**0,210**	**4,770**
	0,209	4,793
US $	**0,346**	**2,890**
	0,377	2,650
Canada $	**0,395**	**2,532**
	0,436	2,294
Switzerland Fr	**0,537**	**1,862**
	0,532	1,880
France Fr	**2,104**	**0,475**
	2,094	0,478
Germany DM	**0,620**	**1,613**
	0,623	1,605
Japan Yen	**47,240**	**0,021**
	55,830	0,018
Italy Lira	**461,775**	**0,002**
	456,805	0,002
Zimbabwe $	**1,125**	**0,889**
	0,920	1,087
Austria Schil	**4,356**	**0,230**
	4,390	0,228
Holland Guilder	**0,698**	**1,433**
	0,702	1,425
US $ value of SDR	1,340	**1,321**
US $ value of ECU	1,257	**1,146**
Financial Rand		
Cost per US $	3,988	**3,157**
Discount (%)	33,487	**8,452**

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

REINSURANCE 1 FM 19/7/91 (58)

FOLLOWING FORTUNES

Reinsurers, of which seven are registered as local professional operators in SA, are said to follow the fortunes of primary insurers. Results from Swiss Re, largest locally registered composite reinsurer, shows it is sometimes possible to remain isolated from the misfortunes which have dogged the short-term industry for the past year.

Zurich's Bahnhofstrasse ... *heart of the financial district*

The Swiss showed a R4,2m underwriting loss on a net premium flow of R134,4m for short-term business in 1990. As there was a 15% increase in premium income on life business and investment income was up 24,6% to R63m, the reinsurer, overall, enjoyed a reasonable year.

There are some warning signs, which the Swiss has identified. In fire, accident, marine and general business, the combined ratio of claims to premiums earned (plus commissions and expenses) deteriorated from 97,5% to 100,5%. That reflects inadequate rates rather than unusual claims frequency, directors say.

Re-insurers carry few risks involving personal lines — vehicle and household risks, which have recently caused so many problems for direct insurers. Nor were there any significant catastrophes. So a break-even or small short-term underwriting profit might have been expected.

But locally registered reinsurers are not isolated from the international market. They write only part of the SA business available (estimates of market share vary). The rest goes to international operators who are free to take SA business without being incorporated or registered here.

During 1990, large over-capacity depressed rates internationally. Local reinsurers were almost obliged to take business on similar terms. It followed that results from corporate business were not satisfactory.

The Swiss directors' report confirms the situation and predicts further deterioration in reinsurers' results. It also sounds a cautionary note about the profitable life business. Aids will affect SA materially but, say the Swiss, "some direct insurers have not reacted meaningfully." ■

FOREIGN BORROWING

LOW-KEY PROGRESS

FM 19/7/91 (58)

SA borrowers have been making a steady but low-key return to international bond markets. So far, activity has been restricted to the private bond markets of Germany and Switzerland. However, gradual rehabilitation with international investors should soften the austerity enforced by more than five years in the financial wilderness.

Few details are made public by either borrowers or banks. Fragmentary evidence suggests that borrowing by companies and government bodies has been increasing since 1988 and accelerated sharply this year.

Many bonds issued in the early Eighties are being successfully refinanced. In the first half of 1991, 10 international bond issues fell due for redemption, totalling US$600m equivalent, according to figures compiled by the Centre for the Study of the SA Economy & International Finance at the LSE. The centre estimates that about half of this was refinanced.

A breakthrough came in May, when Eskom placed a US$50m bond with international investors. The proceeds were not used to refinance maturing debt — the first "new money" raised by an SA borrower since the 1985 debt standstill.

"A gradual rehabilitation began in late 1988, but SA is still a long way from the levels of borrowing which characterised the early Seventies and early Eighties," says Jonathan Leape, director of the centre.

As well as privately placed bond issues, there is also evidence of small-scale bilateral lending by Swiss banks in the late Eighties. Swiss central bank data suggest it was in the region of $50m. However, there is no way of knowing which banks lent to whom.

There have also been a few trade-linked financings. The largest identifiable operation this year is a $60m loan from the Export-Import Bank of Taiwan to the Industrial Development Corp. The facility was signed by the Taiwanese foreign minister during a visit to SA in January. But, though export credit cover is available from several countries, the lead does not appear to have been followed by other governments.

Commercial banks are unlikely to lend again until existing loans are freed and provisioning requirements eased. For example, Bank of England guidelines suggest that UK banks provide about 20% against SA loans.

So the international bond market offers the best chance of raising long-term international finance. The appetite of continental European retail investors, who were big buyers of SA paper in the Seventies and early Eighties, is reviving. In April, Crédit Suisse added a selection of rand-denominated SA

(58)

bonds to its "buy list".

Stockbrokers say the level of buying of government bonds by foreign investors is closely linked to political stability. Deepening economic or political gloom could quickly derail the process for rehabilitation in international debt markets. And foreign borrowings still do not come cheap.

Eskom's DM120m ($65,5m) four-year private placement completed in March pays an interest rate of 10,75%. By comparison, around the same time Mexico was borrowing in D-mark over five years at 10,5%.

But pricing is getting progressively easier, says Eskom finance director Mick Davis. Its $50m bond placement in May offered a yield of 2,4 percentage points more than US Treasury securities, 0,4 percentage points better than the rate paid by government on a three-year bond issue in April.

Other borrowers include Transnet, which placed DM50m four-year bonds in June and the Department of Posts & Telecommunications, which arranged a four-year DM150m private placement in May.

BHF Bank, which lead-managed both deals, is reluctant to give details. However, an official comments that most of the bonds in the second deal were placed with retail investors looking for high-yielding assets, rather than big investment institutions.

Lack of institutional participation limits the amount of fresh money that can be raised. If SA borrowers are to make bigger, public bond issues, pension funds and insurance companies will have to participate.

"Our being able to launch a public issue depends on the way investors perceive the risk of SA borrowers, the external view of sanctions and the direction of bond prices at any given moment," says Davis. "But my guess is that it will come quite soon. Perhaps six months, perhaps a year, but it will come." ■

REINSURANCE — 2 (58) 19/7/91

THE SPIRAL UNWINDS

FM

Insuring against catastrophes used to be the most popular game in London.

Attracted by handsome profits, Lloyd's syndicates and specialist companies piled into the reinsurance business in the Seventies and Eighties, assuming and laying off risk to each other through a complex spiral.

But overcapacity and competition depressed premiums and many risks were rated unrealistically. In 1988 and 1989 the market was submerged by catastrophes.

The market has begun to disintegrate. As accountants calculate the costs of expansion, many names who joined catastrophe syndicates are bearing the brunt of the crisis.

Companies such as Cigna Re of the US have withdrawn from the market while others, such as Victory Re, Mercantile and General Re, have cut their commitments. Prices have risen to unprecedented highs and capacity has shrunk by 75% in 18 months.

Continue →

FM 19/7/91 (58)

Though there are hopes of recovery in some quarters, critics believe that the market is on the road to extinction by more efficient and better capitalised competitors, such as the large Continental reinsurers, Munich Re, Swiss Re and Cologne Re.

The sudden demise is partially explained by the unusual number of catastrophe claims between 1987 and 1990. But it is not just the volume and size of claims. The way they hit the market exposed the shortcomings of the way London insures disasters.

Typically reinsurers — syndicates or companies — divide a risk into horizontal layers. A typical (excess of loss) reinsurance contract would insure all losses above £1m up to £50m, but be broken into as many as 25 individual layers of, say, £2m each. These in turn would be broken up vertically, with perhaps three dozen syndicates and companies participating in each layer.

These reinsurers, in turn, would reinsure their exposures. A spiral of reinsurance arrangements is created with many players cropping up again at different points in the chain — sometimes as reinsurers assuming risk, sometimes as reinsurers ceding risk.

During the Seventies and Eighties, the spiral diluted the impact of individual catastrophes on the market by spreading claims through time. Jonathan Marland, a director with broker Lloyd Thompson, says he is still handling spiral claims from a fire in Avondale Shipyards in the US in 1979.

The spiral is now unwinding. Electronic claims settlement systems have accelerated the speed with which claims are processed. Even reinsurers at high points in the chain are being asked to settle recent claims much quicker than older claims.

The impact has been even worse where underwriters failed to buy sufficient reinsurance cover of their own.

Some critics argue that the experience shows syndicates and small companies are too small to write catastrophe insurance. Lloyd's syndicates are especially vulnerable because they are dissolved at the end of each year and can't build up reserves.

German and Swiss reinsurers are also sceptical about the London catastrophe market's future. "Some syndicates have written business without really assessing the risks," says Cologne Re CE Jurgen Zech. ■

BOLAND BANK FM 19/7/91

STUDYING OPTIONS (58)

Activities: *General bank; provides comprehensive range of banking and trust services.*
Control: *No shareholder owns more than 9,9%.*
Chairman: *P P B Hugo; MD: G Z Liebenberg.*
Capital structure: *13,45m ords. Market capitalisation: R124m.*
Share market: *Price: 925c. Yields: 5,2% on dividend; 13,7% on earnings; p:e ratio, 7,3; cover, 2,6. 12-month high, 925c; low, 370c. Trading volume last quarter, 417 000 shares.*

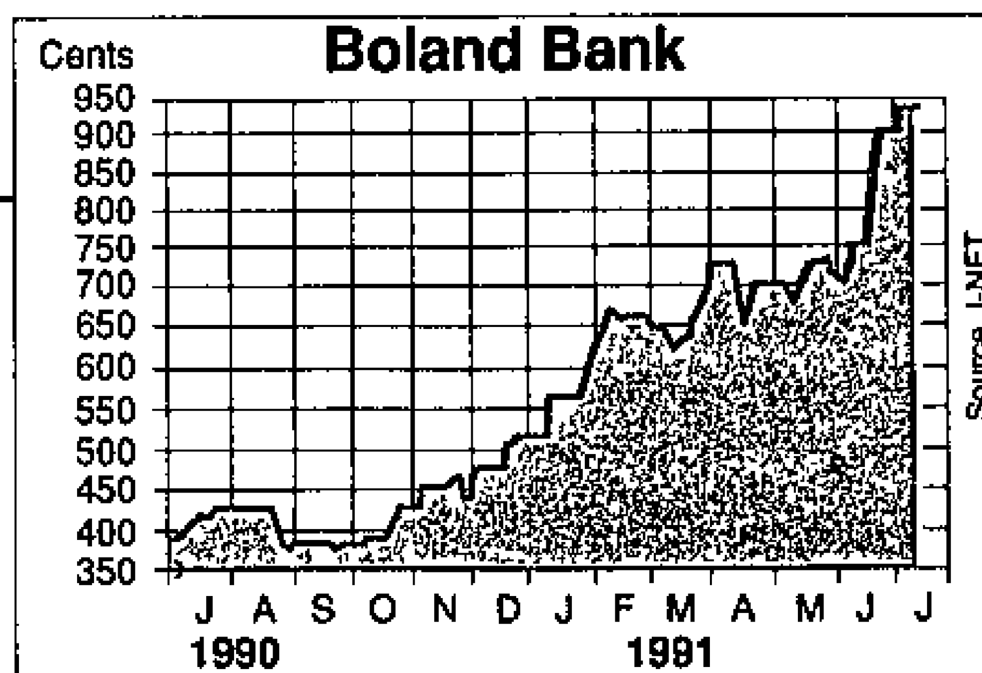
Year to March	'88	'89	'90	'91
Total deposits (Rm)	1 558	2 166	2 811	2 741
Total assets (Rm)	1 770	2 423	3 057*	3 293
Taxed profit (Rm)	11,7	13,6	14,9	17,0
Earnings (c)	87	101,4	110,8	126,4
Dividends (c)	42	46	46	48
Net worth (c)	752	848	917	995

* Understated by R148,3m: liability of clients under acceptances and promissory notes adjusted to read R214,8m in 1990 from previously reported R67,5m.

Boland Bank is being squeezed by its large rivals. It is at a competitive disadvantage because of the minor-league size of its capital base. This limits the client risk profile it can reasonably accept and will continue to restrain Boland's growth.

When the Deposit-Taking Institutions Act replaced the Banks Act on February 1, it introduced a new definition of capital as well as a new method of calculating minimum capital requirements. The capital a bank is required to hold is now a function of its mix of assets and the exposures measured against the risks attached to them. New capital adequacy requirements are being phased in from 1991 to 1995, with a prescribed risk-weighted capital:asset ratio of 4,5% in 1991, rising to 8% in 1995.

These requirements, says chairman Pietman Hugo, "foretell certain problems for the bank in the years ahead. Fundamentally, the bank will have to strengthen its capital base by increased profitability." But, he adds, "upward potential of the bank's profitability is limited. Alternative options for supplementing capital will have to be investigated in depth."



There was a marked downturn in the rate of increase in bank credit to the private sector in the year under review. Boland's financing portfolio grew by only 5% during the period, compared with 25% in the previous year. As a result, the bank focused mainly on financing assets, which yielded returns more quickly. Risk management became even more important than in the past and this trend will continue.

Boland thus did well to raise attributable earnings and EPS by 14,1%, especially in view of the forecasts, made earlier in the financial year, that profitability would just be maintained. Even so, once again (*FM* July 27 1990), no real growth has been achieved (unless undisclosed amounts have been transferred to inner reserves — which should be made public). No material changes appear in the balance sheet.

Boland has not been excluded from speculation about rationalisation in the banking sector. This is the only explanation for the continued upward movement in the share price, which has climbed from 380c at the beginning of July last year. It is now about equal to net worth.

Hugo talks freely about the advantages rationalisation would bring for Boland in terms of solving its capital problem, creating economies of scale and doing more business because a larger entity could absorb greater risk. Though Rembrandt holds 10%, the bank has not been included in Absa; perhaps that will happen later. But the share appears to be fully priced on fundamentals.

Gerald Hirshon

SOUTHERN LIFE FM 19/7/91 (58)

WEAKER INVESTMENT RETURNS

Activities: *Southern Life Association.*
Control: *SA's fourth largest life assurer.*
Chairman: *T N Chapman; MD: J R Calitz.*
Capital structure: *168,7m ords. Market capitalisation: R3,12bn.*
Share market: *Price: 1 850c. Yields: 2,9% on dividend; 4,4% on earnings; p:e ratio, 22,6; cover, 1,5. 12-month high, 1 850c; low, 1 075c. Trading volume last quarter, 602 423 shares.*

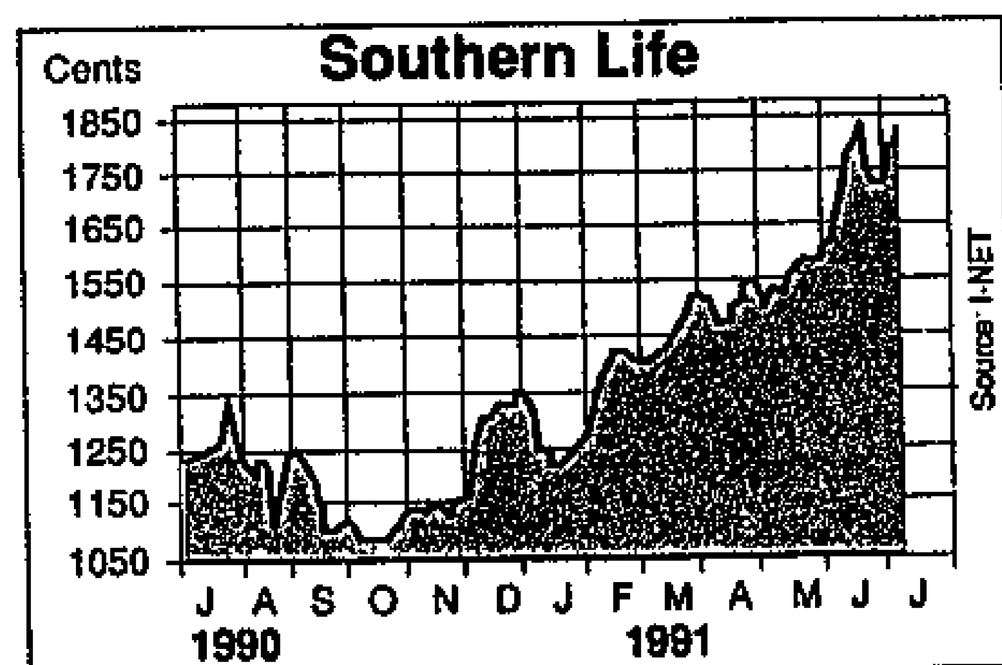
Year to March 31	'88	'89	'90	'91
Total assets (Rbn) ...	7,8	10,7	14,0	14,9
Premium income (Rm)	1 214	1 388	1 596	1 853
Invest income (Rm) .	582	740	879	940
Taxed profit (Rm)	78,8	94,9	115,2	138,2
Earnings (c)	48,0	56,3	68,3	81,9
Dividends (c)	31,5	37,6	45,5	54,5

Southern Life's total income growth has declined for the third consecutive year. In 1988 income grew by 31% compared with the year-ago figure. In the years since then there has been growth of 18,4%, 16,3% and 12,8%. Still, EPS rose 19,9% last year.

Because of its relatively heavy investment in gold mining and mining financial shares during the 1991 year, Southern Life's investment record suffered. A comparison with similar competitive portfolios shows that over the 10 calendar year period to December 1990, Southern's ranking was reduced to number two from one the year before.

In the 1990 rankings (determined by brokers Alexander Forbes), which ranks the six funds with market values exceeding R600m, only Liberty Life has outperformed Southern — but not by much. Total returns for each last year were 19,4% vs 19,2% a year respectively for the previous 10 years. (In 1989, Southern was first with 20,9% and Liberty second with 20,7%.) Southern's ranking over the 1990 year shows how the investment in gold shares affected what was an exemplary record, and pulled down performance to rank the organisation sixth out of seven for the single year.

Largely because of this poor showing, net investment revenue rose only 6,9%. Premium income, however, posted a 16,1% rise. Chairman Neal Chapman says group recurring premium income was 124% of the figure



Southern Life's Calitz ... *building reserves*

achieved for the previous year, while the life and employee benefit sections were 122% and 127% of the 1990 figures.

Single premium business reduced growth of aggregated premium income. It mustered a smaller increase of 14% in a difficult year, especially for this type of insurance business.

The balance sheet shows a 3,2% reduction in the value of equity investments, which stood at R7,6bn at year-end. Considering that new funds were invested in the market during the year, the value of the existing portfolio dropped by considerably more than is indicated. Government and public authority stocks show a 60% increase, as cash was channelled in this direction to take advantage of high interest rates.

As is customary, attributable earnings were reduced by the transfer of funds to inner reserves held within the life funds. Jan Calitz, appointed MD since year-end, cites two reasons for this: to create an earnings stabilisation reserve to protect shareholders from fluctuations in share prices; and to build up a contingency reserve to cushion policyholders against unexpected disasters.

Referring to the nondisclosure, Calitz says no uniform standard of disclosure of these reserves exists in the life assurance industry. The Actuarial Society and the Institute of Chartered Accountants are working towards a solution.

Earnings prospects for the 1992 year seem encouraging. Calitz says that, in the first three months of the period, new recurring premium income figures are ahead of the 24% improvement seen in the 1991 year. Thanks to the recent rise in the value of mining and industrial shares, investment results have been good. Gold-based equities represent about 4% of the asset base — about R600m — and roughly 8% of equity investments. Expenses against budget have been well contained. Indications are that EPS this year will show real growth

Calitz says Southern's long-term capital position is comfortable, with no new-business strain expected in the near future. Shareholders can look forward to a real return, in terms of earnings and dividends. without being asked to contribute equity capital.

In any event, the difference between year-by-year earnings growth of major life companies is a fine one, with almost as much depending on the performance of their investments as on the efficiency of the assurance operations. On current yields, the share represents fair value. *Gerald Hirshon*

Pro status for insurance vendors

THE "watchdog" of the life insurance industry has launched a new accreditation scheme for insurance representatives.

The Life Underwriters' Association of South Africa (Luasa), was started 30 years ago by members of the industry who realised life assurance salespeople were seen in a bad light.

There is still suspicion of salespeople and the new accreditation scheme is another step towards improving their status.

Luasa national president Syd Abraham said: "The accreditation scheme was introduced to enable the public to assess life assurance agents or brokers who approached them, by asking for credentials.

"Accredition by Luasa would mean the person has complied with strict criteria, of which a test on an ethics course, is one.

"We aim to achieve a new professional status for our members, as well as renewed recognition of ethical standards and a new commitment to excellence."

Luasa has had positive reaction from the majority of life officers and full endorsement from the Registrar of Financial Institutions, PJ Badenhorst.

He said the public had a right to expect and receive competent advice from people who not only had an impeccable record of ethical behaviour, but who also had equipped themselves for the task.

The accreditation scheme is not in competition with any formal educational qualification or other credentials that a life assurance salesperson may achieve through another body – such as ILPA qualifications.

It is, however, an indication of the professional maturity of the accredited member.

Criteria for accreditation include academic qualifications, experience and achievement in the life assurance industry.

Abraham said an enthusiastic response from Luasa members showed that the life assurance industry was ready for this kind of accreditation scheme. Luasa had already received many applications, which were being reviewed by the accreditation board.

Foreigners muscle in on SA bank turf

By DIRK TIEMANN

A TOTAL of 32 foreign banks have opened representative offices in South Africa, raising fears of even more intense competition for domestic operators.

SA banks have suffered from eroded margins in the fight for top-quality business in the economic downturn. They also face demands to build up reserves to comply with new legislation.

They fear the new entrants may "pick the cherries" out of the lucrative trade finance business with major industrial groups which are increasing their dealings with the rest of the world.

At least three foreign banks want to set up subsidiaries offering the full range of services. France's Societe Generale, Bank of Taiwan and UK merchant bank Robert Fleming have set up or plan to start branches.

Biggest

Some of the biggest names in banking are among those that have opened representative offices. They include Banco Espanol De Credito, Deutsche Bank, Bank of Tokyo, Chase Manhattan, Standard Chartered, Commerzbank, Banco Portugues Do Atlantico and Credit Suisse.

Foreign representative offices serve as a liaison with SA banks and provide information about theit home markets.

Standard Bank senior general manager Graeme Bell says some of the newcomers have provided trade and working capital finance to SA corporations for several years.

Mr Bell says foreign banks can come in with cheaper funds:

"Direct lending is cheaper. We act as an intermediatary when we borrow and have to keep capital, reserve and liquid asset requirements and add a margin to the transaction.

"Most foreign banks have large dealing rooms. Apart from losing asset business, we could forfeit foreign-currency business arising from that. We are not squealing because Standard has always accepted competition.

"Many Spanish and Portuguese banks are coming to SA because it brings them closer to the Angolan and Mozambican market."

A Nedcor spokesman says SA banks have an advantage in being on their home ground.

He says "Competition for short-term finance business will intensify, but we have a good relationship with our major customers and know their business.

"We provide long-term finance to help clients set up plant. This gives us a foot in the door when it comes to trade finance."

Absa international division chief Malcolm Chapman says customers will benefit from the lower cost of funds.

But if SA borrowers cover their forex risk, which they must do through a domestic bank, this cost could negate the cheaper foreign money.

While foreigners are moving into the market, SA banks have not been idle in exploiting opportunities abroad.

First National intends applying for a banking licence in the UK and in Switzerland before the yearend. Senior general manager Neil Swart says the Bank of England is favourably disposed to a First National subsidiary in the UK.

First National also has a third stake in a Malawian leasing and instalment finance company and a full licence in Botswana. A branch will be opened there early next year.

Namibia

Standard has representative offices in London, Zurich and Hong Kong and a subsidiary in Taipei. It also has a Namibian subsidiary and management control in Swaziland.

Absa has a full banking operation in London and has extended its correspondent network to Eastern Europe

Nedcor has branches in Hong Kong and London. The annual report says the presence in Europe, the Far East and Africa is being expanded.

Nedbank's network of correspondent banks is being expanded as SA enters markets in Eastern Europe and the Pacific Rim.

Japanese tycoons to visit

ROBERT GENTLE

SENIOR representatives from Yamaichi, one of Japan's largest securities houses, will be visiting SA in early August in the first manifestation of interest in SA by the Japanese financial markets.

It follows on the heels of last week's visit by Deputy Japanese Foreign Minister Muneo Suzuki — the first time in 69 years a Japanese official of that stature has visited.

The Yamaichi visit was disclosed yesterday by Christopher Beatty, new head of NedPerm's asset-based funding division. Beatty will be briefing the visitors.

The five-strong party, from Yamaichi's London and Tokyo offices, will include three MDs and an executive in charge of the firm's mergers and acquisitions portfolio. They hope to meet a cross-section of business and political leaders.

While declining to speculate on the specific areas Yamaichi was interested in, Beatty said such a senior party would hardly be sent to SA unless the firm was weighing investment prospects or considering setting up here.

"The fact that such a visit is to take place within weeks of the American and Japanese decisions to ease sanctions, and so soon after the G-7 summit in London, suggests an irreversible change of perceptions in international investment circles," he said.

It was vital that SA bankers developed relationships with overseas groups so that additional investment channels could be opened up, he said.

DET pledge 'not kept'

56

CT 24/7/91

THE Congress of South African Students (Cosas) will meet soon to discuss the Department of Education and Training (DET) failure to provide desks and textbooks which it promised for this school term, a Cosas spokesman said yesterday.

Cosas and the DET held a meeting in June and promises stemming from that meeting effectively ended a four-week boycott at Peninsula high schools.

Cosas regional president Mr Baba Dantile said his organisation would hold a meeting soon to discuss the broken promises.

'Go-ahead for rights issue'

B Day 25/7/91 (58)

SEAN VAN ZYL

THE successful placing of 10-million Metropolitan Life shares by Sankorp with various financial institutions signalled the go-ahead for the insurance company's R190m rights issue, brokers said.

Metropolitan yesterday released the finer details of its 22-million share rights issue, pitched at 850c to raise approximately R190m.

It said the new shares were being made available at a "substantial discount" to the ruling price of 1 000c. The issue, based on 50 new shares for every 100 held by the close of business on August 2, would be underwritten by Sankorp which recently lowered its stake in Metropolitan via a private placing of shares.

Metropolitan, in its monthly newsletter said while the new shares would "rank equally" with the existing ordinary shares in issue, the former would not qualify for the special interim dividend of 18c a share declared on June 28. The special dividend on existing ordinary shares would be paid to shareholders registered by August 2.

Analysts suggested the Sankorp placement was pitched at a discount to encourage buyers to take up additional shares through the rights issue.

Metropolitan's newsletter said 1-million Sankorp shares had been offered to Metropolitan shareholders at 950c — at a minimum subscription of 100 shares each.

Metropolitan directors said the primary reason for the Sankorp placement and the rights issue was to broaden the shareholding base and marketability of the share. "The decision ... arose primarily ... to address the issue often raised by institutional investors that there was little point in them acquiring an interest in Metropolitan because of the limited number of shares available for trading on the JSE."

While analysts conceded that this was "part of the reason", they suggested Metropolitan was also showing the strain of funding new business growth. Metropolitan's new business growth in the 1990 financial year was about 26%, MD Marius Smith said yesterday. However, he added that the company was not experiencing any financial problems funding the new business.

Metropolitan chairman Willem Pretorius said in the company's July newsletter that the new capital raised would be ploughed into Metropolitan's investment fund pool.

Developing comunities — anywhere

By Louise Burgers

Star 25/7/91

The Development Bank of Southern Africa has contributed to the improved living conditions in many communities, but this was still only a drop in the ocean as far as the national need was concerned, says chief executive Dr Simon Brand.

The bank made about R1 billion available to projects in the 1991/92 financial year and in the past eight years it spent some R4 billion on 750 projects.

The largest project the bank is involved in is the provision of R600 million worth of infrastructure for the Lesotho Highlands Water project. In KwaZulu and Natal, it is providing about R70 million towards industrial infrastructure.

Dr Brand said the Development Bank had often faced the criticism that it was seen to be supporting apartheid structures by providing assistance in the homelands and TBVC-states. "The money is there for the upliftment of communities," he said, adding that the Bank was prepared to help regardless of political affiliation.

The bank has also played an important role in changing the approach to agricultural development in black areas.

"We have shifted it away from a situation where you have the development corporations farming on a large scale with the local people involved as labour — and shifting that towards an approach where one supports the small farmer to get a more meaningful involvement of people in agricultural development."

Important to the bank is its support of education and training and health care facilities — such as technikons and teacher and nursing training colleges.

The bank has also acted as a facilitator in getting the private sector involved with the provision of housing and commercial facilities in disadvantaged areas.

With promises of a huge influx of foreign funding, the bank stands poised to redress the multi-billion rand backlog in development.

This is the scenario Dr Brand sees evolving as overseas governments shift their emphasis from funding traditional "apartheid victims" to funding development projects in Southern Africa.

"We have been discussing co-operation between the bank and Western European governments and multi-national institutions such as the United Nations development programme and the World Bank.

"The work of the bank is well-known and appreciated in many of these institutions and our impression is that there is quite a keen interest. They (developed countries) are all looking at their involvement in Southern Africa and also South Africa."

However, the bank did not want to enter into any international agreements on foreign funding until it had the support of extra-parliamentary movements and other institutions in the country. "We keep the extra-parliamentary movements informed about what we see as the future of development.

The Development Bank was established on June 30 1983 by the governments of South Africa, Tanskei, Bophuthatswana, Venda and Ciskei to mobilise and provide loan finance, technical assistance and advice for sustainable development projects. It has increasingly become involved in economic reform issues.

During the eight years of its existence, services have been extended to neighbouring countries such as Lesotho, Mozambique and Namibia.

The ultimate clients of the bank are the economically disadvantaged people in Southern Africa. Its direct borrowers are central, regional and local governments, their development agencies and non-governmental agencies fulfilling a developmental role.

Funding is from parliamentary grants and the capital markets.

Dr Brand said that increasingly, in the past few years, the bank had not always been able to identify the technical capacity of the borrower to implement projects — whether it be a homeland authority, local authority, para-statal body or non-governmental organisation.

When the bank was first approached to provide assistance in Soweto, it was clear that the town councils did not have sufficient support from the community.

"Therefore, before we could get involved in a project, one had to work towards establishing more legitimate, representative structures with which we could co-operate. We suggested to the Transvaal Provincial Administration that they had to be prepared to bring the civic associations in."

This is how the Development Bank got involved in the Soweto Accord and the Witwatersrand Metropolitan Chamber where it has observer status and provides technical assistance.

Metpol sets offer at 850c a share

(58) Star 25/7/91

By Jabulani Sikhakhane

Metropolitan Life (Metpol) has pitched its R190 million rights offer at 850c a share, giving a discount of 17 percent to the ruling market price of 1025c, the life assurer has announced.

Metropolitan shareholders are being offered 50 new shares for every 100 shares held at the close of business on August 2.

They are also being given an opportunity to apply for more than their entitlements.

Peter Doyle, senior general manager (financial and information services) told analysts at a presentantion yesterday that the R190 million from the rights offer would place Metropolitan in a comfortable financial position to accommodate projected growth in new business in the group's traditional markets.

Of the new business written in 1990, 76 percent came from blacks, 16 percent from coloureds and the rest from whites and Asians.

A large percentage of the new business written came from civil and semi-civil servants — 20 percent of the occupation profile are teachers, 13 percent in protection services, 10 percent are clerical and six percent in nursing.

As a result, Metropolitan should benefit from the expected government investment in education and health-care services.

The number of affluent blacks is growing faster than the average black population growth as a whole.

Managing director Marius Smith said Metropolitan was a joint leader with Old Mutual in the black market, sharing 60 percent to 70 percent of that market.

He said the increase in the issued share capital from 44 million to 67 million should not reduce earnings or dividends for the current year.

The offer follows a major restructuring exercise by Metropolitan to improve the marketability of its shares.

In the first leg, controlling shareholder Sanlam/Sankorp placed 10 million shares through various pension funds, fund administrators, other institutional investors, policyholders and employees at 950c per share.

Political changes open new vistas for Development Bank

Star 26/7/91 (58)

By Barney Mthombothi
Star Africa Service

The Development Bank of Southern Africa (DBSA) is looking forward with undisguised relish to developments on the continent.

Since President FW de Klerk fired his starting gun on February 2 last year, political developments have been flitting past at bewildering speed.

New vistas are opening up, doors that were firmly shut for years are opening, some admittedly reluctantly, and foes are suddenly discovering they have had lots in common all these years.

No institution has metamorphised as rapidly in the eyes of its critics as the DBSA.

Misfortune

Founded eight years ago by the South African government and its satellite homeland states, it soon received a reputation as an apartheid bank.

It was also the bank's misfortune that its launch coincided with the heat generated by P W Botha's tricameral constitution and such government initiatives as the Koornhof Bills.

To government critics, therefore, the bank was indistinguishable from the nuts and bolts of Mr Botha's total strategy.

General manager Nick Christodoulou . . . EC is saying "Please talk to each other."

February 2 1990 changed all that. Senior bank officials now talk enthusiastically, and openly, about its projects in neighbouring countries.

Two of its officials a few weeks ago returned from the annual meeting of the African Development Bank (AFDB) in Abidjan, Ivory Coast, elated by their reception.

The thaw here also co-incides with a new realism in Africa and an emphasis on economic integration.

Regional institutions like the Economic Community of West Africa (ECOWAS) are being strengthened and are playing an increasingly important role in foreign policy and security matters. There are also attempts to resuscitate the East African Community.

It is expected that these regional organisations will form a firm foundation for the new African Economic Community (AEC) launched at the OAU summit in Nigeria.

Co-operation

These developments therefore augur well for future co-operation between the DBSA and other institutions on the continent. The key is the normalisation of political life within SA.

Within the country itself foes are becoming friends. The bank is discussing with Kagiso Trust co-operation in rural development projects.

Kagiso Trust, funnellers of EC funds to help victims of apartheid, would not have touched the bank with a barge pole two years ago.

"Isn't that amazing?" says Nick Christodoulou, one of DBSA's general managers.

"We have lunch together nowadays with Eric Molobi and Achmat Dangor (Kagiso officials) and we laugh about it because it's crazy. We were doing the same thing all along.

"But now the EC is saying, 'The DBSA and Kagiso are doing the same thing, please talk to each other,' and we are."

Even before the thaw flowing from Mr de Klerk's reforms, the bank was already involved in projects in Mozambique, Lesotho (mainly to do with the Lesotho Highlands Water Project) and Namibia.

In fact, the bank has had approaches from almost all southern African countries, except Zimbabwe.

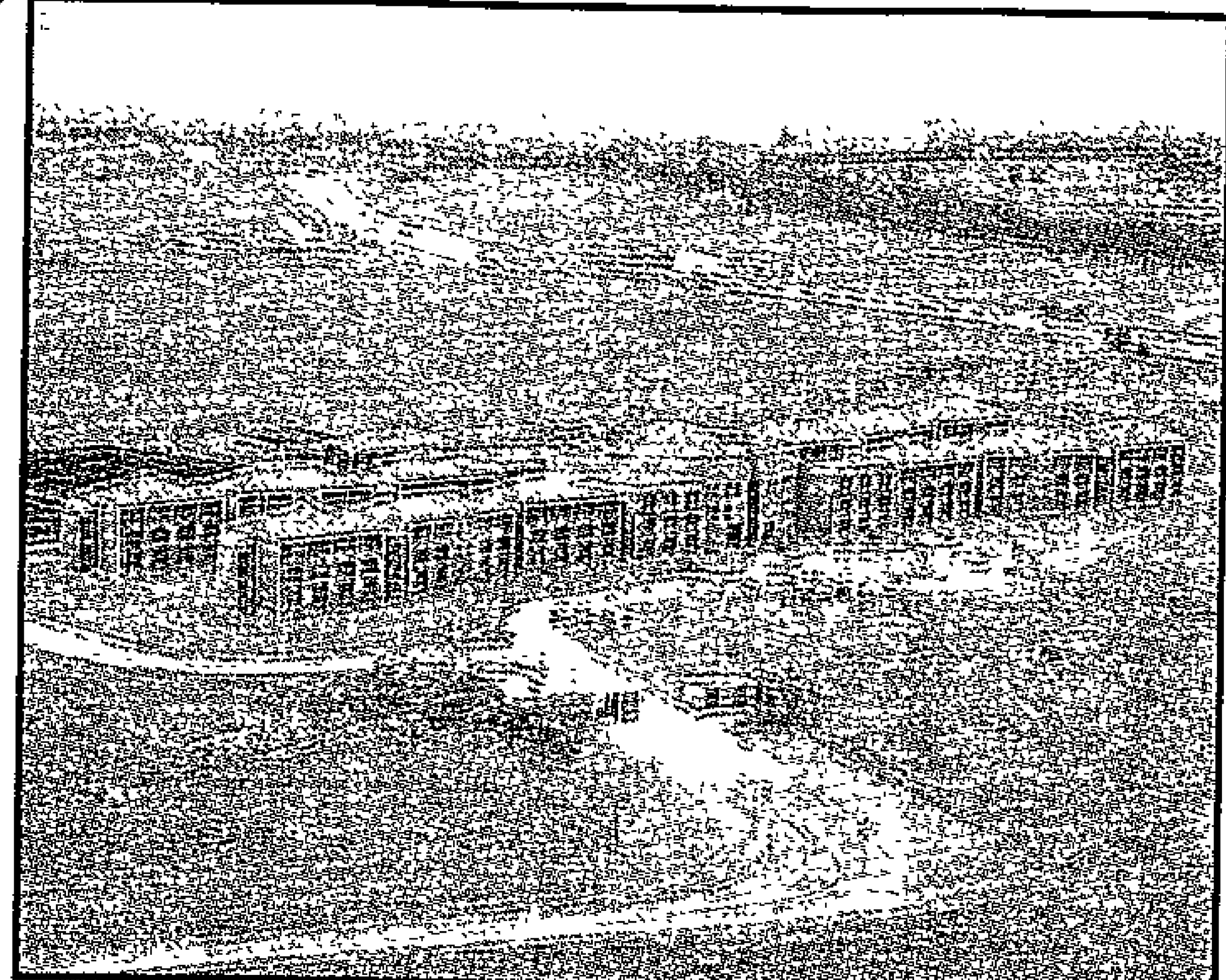
The bank's chief executive, Dr Simon Brand, is now having talks with the new administration in Windhoek to see what role it could play in the changed environment there.

"We could be funding projects in Zaire tomorrow if we had the resources," Mr Christodoulou says.

Were hostile

In most of these projects the bank has found itself in parallel funding arrangements with agencies like the World Bank, the African Development Bank, the Commonwealth Development Corporation and the Southern African Development Co-ordinating Conference (SADCC).

This therefore allowed the bank an opportunity to establish contact with institutions it would not normally meet and which in the main were hostile towards the Republic.



On almost virgin land . . . the Midrand headquarters of the Development Bank of Southern Africa lie alongside the Pretoria-Johannesburg highway, probably the busiest road in southern Africa.

"There was always clearly a strong argument for economic co-operation. But it was impaired by the political situation. The moment that some relaxation on the political front takes place, the economic co-operation will take a leap forward."

So far there has been limited contact with SADCC but as events continue to unfold, the two organisations may find themselves covering pretty much the same patch in future. This may require some rationalisation or one being swallowed up by the other.

But Mr Christodoulou says the functions are so broad and the geographic area so vast that the resources of both organisations put together may not be enough to address the region's problems.

The belief also that South Africa will be the engine that would revitalise the entire continent — which seems to be behind the stampede by some African countries to establish contact with SA despite sanctions — is also misplaced.

South Africa simply does not have the resources to play such a role and, secondly, a new majority rule government will have its own backyard to sweep first.

Basic needs

DBSA's Johan C van Zyl says in a discussion paper: "A post-apartheid SA would have to pay serious attention to the alleviation of poverty at home and the elimination of major socio-economic backlogs in education, health, welfare and housing.

"In fact, to stand any kind of chance of meeting these basic needs, SA would have to improve its own recent poor economic performance very significantly."

It's a point that seems to have been well-taken by SADCC's senior officers. Kgosukwe Moesi, of SADCC, said in an interview recently the advent of majority rule in SA would not necessarily change the unequal relationship between SA and SADCC countries.

"The new government will obviously pursue policies that in its opinion best serve the national interests of the country," Mr Moesi said.

"With the complexity of socio-economic problems that will confront a post-apartheid SA, it is likely that the country will be a competitor for aid, and not a donor."

Takeover

The exaggerated perception of SA's economic might is also linked to the fear among SADCC countries of an economic takeover of the region by the Republic, flooding the markets with its products.

"That's not true," Mr Christodoulou says. "But where SA and organisations like the DBSA could be of enormous assistance is in acting as a channel for international aid to all countries in southern Africa."

FM 26/7/91 (58)

BANKING FM 26/7/91

RATING RISK (58)

Recent failures of Alpha Bank, Cape Investment Bank and Pretoria Bank have highlighted the unknown risk depositors and investors take when placing funds in a bank. Despite legislation which requires greater disclosure the public still does not have access to enough financial and risk-related information.

The new bank returns to the Deposit-Taking Institution (DTI) Office demand a detailed analysis of the risk management of each bank but most of these are not available to the public. Only Form DI 310, which reveals minimum reserve balance and liquid assets of the bank, and the Form DI 900, the institutional and maturity breakdown of liabilities and assets, are public documents.

Ratings indicate the risk:return profile of a bank. An investor attracted by a better return from a bank which has only a B-rating will know the risk is higher.

There are benefits for banks, too. A bank with a higher rating will be able to fund itself at better rates. It may also attract more favourable allocation of dealing lines by corporates and other institutions.

Republic Ratings, which opened its doors in June last year, is an independent agency with chairman Dave King as major shareholder. It has rated some major institutions, including Eskom and First National Bank (FNB), and Discount House's Sasfin securitisation issue.

Its methods are open to public scrutiny — poor criteria could cause enormous commercial harm. Ratings of banks are done at their own request. They are prepared to disclose information not available to shareholders as they believe it is in their own interest. If there is demand from the market for a specific bank to be rated, and the bank refuses, the agency could perform a *hostile* rating. In that case, it would be identified as such to make clear to the public it has been completed without all information necessary.

It could be argued that only banks with nothing to hide would want to be rated but, equally, it could be argued that, once a number of banks has been rated, the rest would be left with no alternative.

FNB is the only DTI rated so far. It has a double-A. A "number of banks" is now being rated, says director Leon Claassen, who won't specify which because of "internal policy on ratings in progress."

DTIs are monitored quarterly from the statutory returns. If something material happens to influence the rating, a rating alert is issued. Claassen concedes one transaction could change a bank's profile dramatically overnight, especially those with smaller capital and asset bases.

The agency has access to confidential information, including the statutory returns. A rating depends on several criteria. The diversity of the funding base is considered, as are the mix of retail and wholesale deposits and short-, medium- and long-term funding and lending criteria, including underwriting standards, provisioning for bad debts and any concentrated exposure to one sector or one depositor.

A bank's policies and management of investment and currency risk are evaluated, as are any off-balance sheet exposures. Compliance with the capital adequacy requirements of the DTI Act is also investigated.

Profitability is taken into consideration and the dependence on one particular source — interest- or fee-based income, for example — is assessed.

The agency then looks at the bank's infrastructure, such as branch network and electronic delivery facilities. It also assesses the quality of internal controls, the external auditors' report, strategic planning, accounting policies and financial ratios. Management is rated by its record of achievement, commitment, consistency and credibility.

Claassen says the industry risk is also taken into account. "We have to assess what external factors, both local and international, will affect the bank."

SA's second debt rating agency is due to start issuing ratings in a few months' time. According to MD Pippa Levin, it is building its ratings criteria. She says ratings have to be proved to be reliable and this can be done only over time. ■

Plan to redirect life assurers' funds

By MONDLI MAKHANYA (58)

A POST-APARTHEID government should establish a National Investment Board (NIB) to direct life and pension funds into growth promoting projects.

This is the proposal in a document prepared by the Labour Research Service(LRS), which recently raised a storm after revealing the high salaries received by company directors.

The LRS proposes that the NIB act as an intermediary between financial institutions and projects seeking long term funding.

This organ of state intervention — board members would be appointed by cabinet and would include private sector and trade union representatives — will "see to it that the savings of the nation are used for economic development". W/Mail 26/7-1/8/91

Doubtless spurred by a desire in left wing circles to harness the capital locked up in life offices, retirement funds and unit trust into "socially desirable investment" the document targets these funds, suggesting assurers should invest 80 percent of their annual investment flow — estimated at R22-billion — through the NIB.

It says: "Directing the annual investment flow of these financial institutions towards productive assets, while at the same time ensuring proper returns and protection of savers assets, should form part of a development strategy."

The NIB, the documents continue, would approve projects applied for provided they were job creative, helped boost export and complied with the government's industrial development strategy.

This proposal comes in the midst of a debate within the life assurance industry about socially desirable investments. Some major life offices — notably industry giants Sanlam and Old Mutual — are in favour of directing five percent of their investment in this direction. However, others feel that their duty is to generate the highest return for their members and any such investment would be betraying this.

But, as if to allay these fears, the LRS document warns "that misdirected government interference in the proper running of retirement funds is self defeating, as it increases the eventual burden on the government's welfare budget".

NOT PRICEY BY WORLD STANDARDS

Johannes van der Horst is GM Investments at Old Mutual

FM 26/7/91

***FM:* To what extent has foreign buying helped to push up prices on the JSE?**

Van der Horst: The interest being displayed in SA by foreign investors is surprisingly large — something that was unthinkable a year ago. We are being visited by numerous foreigners, including some Japanese, all of whom are seeking information about SA conditions.

There has been some concentrated buying in certain shares which, it seems, are being marked up almost indiscriminately for no apparent reason. These are the blue chips which are now on relatively high multiples and are appearing over-bought. But buying has not been broad. The rise in prices smacks of overseas buying which is insensitive to price and which is directed at about half a dozen "blue chips". It only needs one or two buyers determined to invest R20m into the market today to influence prices of even our most marketable securities.

At what point will prices represent poor value for overseas and local investors?

A snapshot of the industrial market shows average earnings multiples of more than 12 and a dividend yield of less than 3%. Taking averages over the past 10 years, including the bombed out markets of 1982 and 1987, the market is certainly looking pricey in terms of its own history.

But the index is composed of stocks weighted by market capitalisation and consists of a few big stocks in each category. In saying that the market looks pricey is a reflection of these big-cap stocks — the ones that have been chased. Dozens of second-tier stocks have not really moved and, at current prices, are not expensive.

How does our market look relative to the international markets?

It is relatively expensive compared to the UK, which is reflecting the nasty recession there. But by world standards we are about average and not expensive. Many other markets — Germany, Switzerland and some of the recovering countries in the world — are on lower yields than ours.

Why should foreigners invest in SA shares, in a potentially volatile market with a high risk profile? There are far safer havens offering better value.

Many international investors are playing in markets like Mexico, Chile, Thailand and India. They are prepared to back investments in these places, even in Australia which has got itself into a lot of debt trouble, because on a relative value basis, the risks don't seem so bad.

Most of these investors have, say, 90% of their assets in secure situations. They are prepared to play with the other 10% in higher risk areas to maximise returns on that 10%. SA has cleaned up its balance sheet by eliminating a lot of debt and we have been growing at the same time. If you compare us with other Third-World countries — some of which have stock markets — and you relate the size of our debt burden to GNP compared with theirs, then on that analysis we are beginning to look very good.

How important is the marketability of a share to a big institution?

Many of these second-tier stocks are not readily marketable in bigger lines. But I don't mind owning an illiquid stock, provided I have confidence that profitability will hold up and that it represented good value when it was bought. By implication, these stocks have more generous yields and lower multiples that indicate bigger downside risk. Admittedly, if profits decline, then you are vulnerable because if you move the stock out the price could adjust in a free fall.

This emphasises the basic point that you need to do a lot of homework before buying a share. If you have large holdings of shares, you cannot readily change your position, even in the blue chips, without influencing the price.

In these circumstances, how do you invest your large daily cash inflows?

Investing is a game that deals with relatives. We are always driven by the need to invest; it then becomes a question of preference. Would the people I represent be better served by holding cash, or by putting it into something else? Do you stay in the market, or out of the market? A few years ago, value in the market was easy to find. Now you have to work hard to find it.

How do you view the fundamental SA economic situation from the aspect of equity investment?

In the Eighties we suffered two very painful V-shaped recessions, in which private consumption expenditure just collapsed. We have now had a prolonged recession for the better part of two years, but it has been saucer shaped. Company results on the mining and the manufacturing side have been poor. But the consumer side, involving durables, semi-durables and food has, on the whole, held up well. So it has been a very different recession. Perhaps now the consumer is pulling in his belt, but it is almost a tail-end thing.

This has been an inventory recession. Retailers have run down stocks even while sales at the tills maintained momentum, hence the good results from some major retailers. Inventories are low, so it should be expected the manufacturing sector will shortly start to pick up again, to bolster these.

We reckon interest rates are in the down phase of the cycle, and are not nearly as pessimistic as the consensus view. Exports should fare well. Japan and Germany are pulling back, but off a very high rate of growth. So there is still respectable growth occurring in the major economies. It is not unrealistic for SA to resume real growth of 2,5%-3% and to sustain it for a few years.

Our ability to finance this is good and will improve if we can again draw from the IMF. Company balance sheets are more sound than in 1985/1986 We are in a bottoming period and will see an improvement in earnings growth. The stock market is telling me that scarcity of scrip is forcing investors to look further ahead than six to nine months. It is just discounting this growth further ahead. If it comes through, then those companies that look so expensive today will look considerably better value.

Say, I want to be an owner of these shares three years out. If I want to buy them a year from now, they could be even more expensive. This comes back to the point of relative value. It is elementary in principle, but very difficult to put into practice.

State pension funds are soon to invest in equities for the first time. How will this affect the market?

These pension funds are very large players. They are measured in tens of billions of rands. They are not likely to try to channel all their available funds and their very large cash flows into the market at once. It's probable there will be a phasing in period of 10 to 15 years. But their entrance will certainly add to the scarcity value of acceptable real estate and equities. *Gerald Hirshon*

MARKET RATINGS

Dividend yields (%)*

Country	Yield
New Zealand	7,8
Australia	5,2
Belgium	5,1
UK	5,0
Hong Kong	5,0
Netherlands	4,3
Spain	4,3
Ireland	3,7
France	3,7
Canada	3,4
SA	3,3
Italy	3,2
USA	3,2
Finland	2,9
Malaysia	2,6
Sweden	2,4
Germany	2,3
Switzerland	2,2
Singapore	2,1
Austria	1,7
Norway	1,6
Mexico	1,6
Denmark	1,5
Japan	0,7

* At July 2. Source: Old Mutual

BCCI's CHAIN OF FRAUD

(58) FM 26/7/91.

With the closure of the US$20bn Bank of Credit & Commerce International, regulators worldwide are asking whether there needs to be a radical shake up in the way banks are operated and controlled.

The UK Serious Fraud office is asking who perpetrated alleged frauds within the bank. Accountants at Price Waterhouse, BCCI's auditor, are asking whether they should have been aware earlier of the extent of the problems.

Depositors are asking whether they will get their money back. US congressional hearings will investigate the fate of hundreds of millions of dollars deposited by Third-World central banks.

Why did it take the authorities so long to deal with an institution with well-known criminal connections and in a parlous financial condition.

For the past three years BCCI's sprawling worldwide operations were supervised by a *college* of supervisors from the countries in which it had its main businesses. These included the Cayman Islands, base of a $7bn subsidiary. Cayman Superintendent of Banks John Atkinson says the first time the college discussed possible fraud in BCCI was on July 2 when it received the results of an investigation by Price Waterhouse. It immediately decided to shut the bank.

The Cayman Islands are used by banks as a booking centre with bookkeeper bankers — the $340bn booked in the islands in 1989 is nothing more than a ledger entry.

Grand Cayman, the main island, markets itself as a tax haven and BCCI was able to exploit its strong bank secrecy laws to hide many of its most dubious transactions and bad loans.

Price Waterhouse wrote no fewer than 10 special reports on BCCI since it took over as auditor in 1988, but these dealt mainly with technical matters to do with control systems. "It was seen to be a bad bank but not a crooked bank," says an official.

Yet several former BCCI executives say the existence of unusual practices was well known within the bank. Some bank officials deceived auditors for many years by falsifying accounts, around September, before they came in and reversed the figures in December. This creative accounting allowed the bank to show more profitable commissions on its books during the last quarter.

Bank of England investigators now allege that BCCI was riddled with fraud. Several types are being investigated.

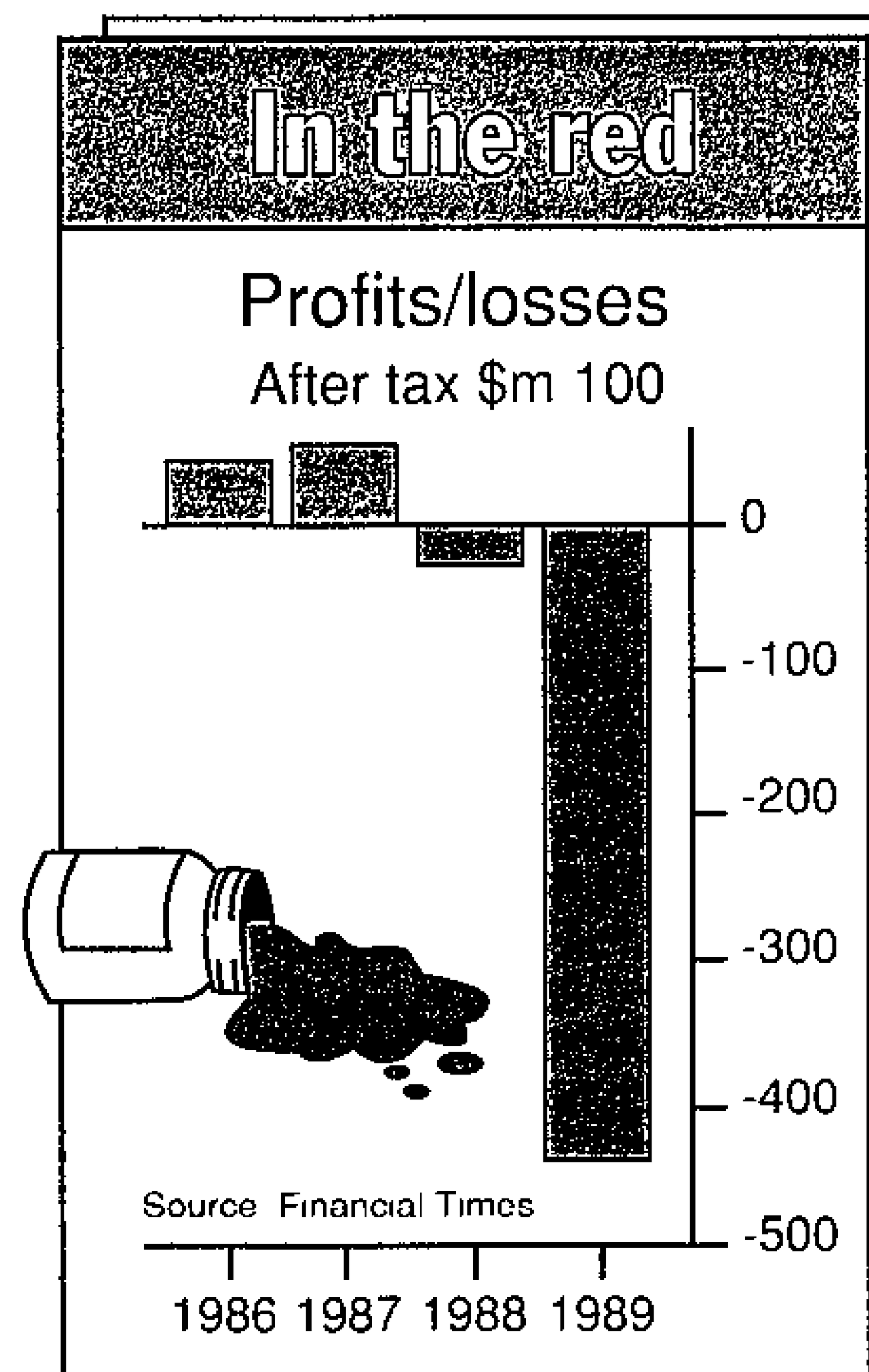
The most serious was an attempt by some senior management officials to disguise losses from bad loans and speculation in the money markets.

Deposits were allegedly taken in and not entered on the books, but used to plug losses. This meant the deposit became a loss, too, and further deposits had to be obtained to pay off the original depositor. This created a never-ending spiral of lost deposits.

Bad loans were said to have been paid when in reality they were transferred to a different part of the bank. BCCI would allegedly use its 69-country network to shuffle assets into subsidiaries, which were only lightly supervised, and transfer capital into countries that were closely supervised.

Investigators found evidence that some officers may have siphoned money out of the bank into their own pockets. Other kinds of fraud have also been uncovered.

The extent of the fraud, and even the closure, might have been averted if supervisors had acted sooner. Several former BCCI executives have asserted that reports detailing evidence of fraud were passed to the authorities last year, but not acted upon. However, Bank of England officials are adamant that they did not receive convincing indications of fraud until the beginning of this year when BCCI's new management alerted them.



Even so, a further question is why officials did not clamp down when BCCI was convicted in the US last year of laundering drug money — a case that occurred just after the Basle Committee, the top international banking watchdog, had issued new rules to combat money laundering.

Officials reply that the bank was being restructured and Abu Dhabi and its ruler were preparing to inject $1bn of new money. Observers suggest that the college was able to move only at the pace of its slowest member and some countries where BCCI is located vetoed a crackdown because they wanted to avoid a scandal

What the total bill for the closure will be is far from clear. The liquidators won't put a figure on it yet. Bank of England Governor Robin Leigh-Pemberton says losses for the European arm could be several hundred million dollars.

When the Luxembourg subsidiary, which includes the UK branches, was ordered to be wound up it had resources of $368m and losses of $527m, implying a deficit of $159m. This subsidiary accounts for just over a third of the total BCCI group.

One outstanding matter is whether the unrecorded deposits will be rated as legal liabilities. If they are not it would be bad news for depositors, but would mean more was left in the company.

While European banks are examining the financial repercussions of the action to close BCCI, the US is concentrating on the political considerations.

Founder Agha Hasan Abedi had always played politics. For years he courted Third-World leaders. Son of one of Lucknow's most influential families, Abedi joined the Habib Bank in Bombay, which moved to the new state of Pakistan in 1947.

He befriended some of the 22 families who ran Pakistan's economy, including the Saigols, who drew on his expertise to set up United Bank, and also became friendly with some of the richest Middle Eastern Arabs.

To win Western confidence, Abedi needed the support of a well-known banking institution. This he obtained in 1972 when Bank of America agreed to take a large stake in BCCI. Bank of America's early connections with BCCI were much more critical than that of stakeholder.

It lent some big names to the board, who were to stay until last year's losses were announced. It also gave advice on the bank's corporate structure.

In late 1973, when Opec reduced oil output, leading to escalating oil prices, BCCI was in a position to expand on a breathtaking scale. Its Green Park branch in London was opened almost entirely for the benefit and deposits of a single Persian Gulf client.

Until this month there was a general perception that banks regulated by the Bank of England could not fail, though this view had been dented somewhat by the 1984 collapse of Johnson Matthey Bankers and the placing of British & Commonwealth Merchant Bank in the hands of receivers last year.

Neither of them underpinned the UK banking system. The same could be said of BCCI. But while it had little exposure to other banks, the knock-on effects of the collapse are still being felt in several Third-World central banks and by a number of UK local authorities and depositors worldwide.

The BCCI affair is far from over.

3)

TILL SAGGING

three years.

These production restraints helped curb volume throughput — and AECI's operating margins are highly sensitive to volumes. The group is particularly capital intensive. Last year it turned over fixed assets — worth R2,6bn at cost or valuation — just 1,9 times. Returns could improve appreciably with just a small increase in volumes and that will hinge largely on the economy. "We are a pervasive industry," says Sander. "There is scarcely a sector of the economy which does not use chemicals."

He adds that management is assuming the economic downturn has bottomed out, so production capacity will not be scaled back much further. The interim dividend cover was reduced to 1,8 from 2,4 last year.

Speciality products, which are less volume sensitive, are still doing well, as was shown by the 17% earnings advance reported last week by Chemical Services, a 65%-held AECI subsidiary. Plastics for packaging and fibre from SA Nylon Spinners are also holding up well. Consumer demand for paint has been sustained, but this has not compensated for the decline in paint demand from the construction and automotive industry.

An increased working capital requirement and the reduced cash flow pushed gearing up to 0,70, from 0,57 at year-end. Financing costs were R20m higher, at R68m.

Frankel Max Pollak Vinderine analyst Mike Haworth says AECI is looking more like a full-blown cyclical chemical company — and these operations do not enjoy high ratings internationally. He expects the share will be accorded a less favourable rating after these figures.

At R13, the share stands on an earnings multiple of 11,5 when adjusted for the interims. That compares with 8,4 based on the last full-year figures. Even allowing for the recovery potential, it would not be surprising to see the price drop to about R10. At that level it would provide good capital growth prospects.

Stephen Cranston

UNIVERSA/ABSA FM 26/7/91

NOT THERE YET (58)

A cleaner shareholding structure for the financial services interests held by Rembrandt, Mines Pension Fund and Sage was one of the objectives behind the formation of Amalgamated Banks of SA (Absa).

The advent of Absa is a big step towards that end, but there is more to come. Aspects still to be dealt with fully include the control structure, as well as some related interests not yet held by Absa. When Universa, holder

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of 30,4% of Absa, is listed it will provide an opportunity to resolve some of these.

Universa is now simply an unlisted pyramid company, held 39,4% by Rembrandt; 39,4% by Mines Pension Funds (MPF); and 21,2% by Sage Financial Services (SFS). When the Absa merger was agreed upon, these holders formed Universa to protect their control position. Should a bid be made for Universa, Securities Panel regulations would require a full bid for Absa. MPF prefers to hold investments only in listed companies, but agreed to have an unlisted stake for a year or so.

Flotation of Universa in this form would mean a listing of yet another pyramid company holding only one asset. That should be opposed by the JSE, which has claimed it wants a more liquid market. Though there are many precedents on the JSE of such pyramids — Bevcon, with 34% of SA Breweries, was a recent example — it is time the practice was stopped. This sort of listing certainly would not be allowed in London.

But a simple pyramid listing is not necessarily intended. Herc Hefer, chairman of both Absa and MPF, says other options may be preferred. "In my opinion the stock exchange would not allow a listing of Universa if Absa was its only interest," he says. "They seem to be turning against listings of new pyramids."

Also, a straight pyramid listing would dilute the effective shareholdings of the major holders in Absa. Rembrandt and MPF now have an effective 12% each, while SFS has 6,5%. That could be overcome by placing other operating assets directly under Universa.

There are many possible permutations. But two things could evidently be done, probably not all at once. One would be to streamline the control lines of the various Sage interests, possibly placing all these into a single pot.

Sage Holdings is now held 10,2% by Rembrandt, while MPF has 29,6%; Absa has 4,8%, which was held by Allied. Sage Holdings controls SFS, which also holds 51% of Amalgamated Insurance Holdings, of which Absa has the remaining 49%.

Bringing all the Sage interests under Universa could achieve several things. It could make provision for the succession problem that may arise at Sage when chairman Louis Shill is no longer there. Consolidating the Sage interests together could also produce greater financial strength and improve the financial efficiency of the holdings by removing dividend traps.

All this would help lay the groundwork for a broader reshuffle of insurance interests related to Absa and its shareholders. The

continue →

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Absa merger announcement said Absa and SFS would "investigate the rationalisation of their respective insurance interests in due course."

Aside from the stake in the former Sage insurance companies, Absa holds 30% of Momentum Life (with Rembrandt directly holding another 28,7%), 100% of Volkskas Insurance Investments; 7% of Aegis Insurance, 100% of Allied Insurance, 100% of UBS Insurance and 30% of Commercial Union. According to the Absa annual report (see *Companies*), the insurance and related interests "will be restructured and rationalised where possible and feasible," to simplify holdings and cross-holdings. There could be logic in eventually placing these too directly under Universa.

Andrew McNulty

FNB FM 26/7/91 (58)

NO SKIN OFF THEIR NOSE

Spare a thought for First National Bank's chief executive Barry Swart. Ever since he took over from the luckless Chris Ball, he's had to turn awkward situations to good account. Financially he's done quite well. But in recent weeks, faced with his bank's involvement with a fancy golf "skins" competition abroad, he's up against what might have been called a few years ago another Barclays' boob.

FNB involved 10 other companies as joint advertisers and hole sponsors in Europe's first and the world's most highly prized skins competition, organised by US promotor Mark McCormack in Malaga, at a substantial cost to the taxpayer. In a special booklet the bank points out this can all be done at no cost to the advertiser as a 200% tax write-off is a certainty.

Swart says the scheme is designed to promote FNB's expansion internationally, a course that was precluded when Barclays was controlling shareholder. So, in recent months, he has had discussions with the Governor of the Bank of England about FNB trading in Britain. And the bank is expanding into neighbouring countries.

Another reason is that FNB wishes to promote trade with SA so that investment will revive the economy and help uplift the poor. According to Swart's colleague, the ubiquitous Jimmy McKenzie, overseas sports promotions have been successfully used by other companies to sell abroad.

Nobody can quarrel with all of that, even if it involved some entertainment of associates and customers abroad and some rest and recreation for FNB senior executives. That is all in the normal course of business. But there are other aspects. First, FNB has pushed sponsorships hard as it tried to polish its domestic image, tarnished over the years by an unfortunate woman executive and a vindictive State President.

Whether this has been to much avail is a moot point. The good FNB results Swart has produced came from squeezing reducing assets, not increasing market share, which is what sponsorships are expected to do.

Second, to describe nine days watching golf in Malaga and various fashionable courses in Britain, with a single "investors" dinner in London, as "the most high-powered trade delegation Europe has ever seen from SA" is stretching credulity. Certainly the event was extensively televised — much more than FNB and its co-advertisers could have purchased in television advertising. But whether this sells SA goods and procures foreign investment is another matter. It is closer to fantasy than actuality.

Third, given the shortage of housing and other essential services, was the lavish nature of this commercial celebration — though well meant — not politically insensitive? Could it not be seen as a white business celebration of this country's re-acceptance into world sport while the lot of the black masses remains appalling.

Swart says the skins will bring investment to help uplift blacks. We hope he is right. He adds that FNB has at other times and in other ways contributed directly to black domestic upliftment. He claims the bank's involvement had prior ANC approval.

Only four senior FNB executives attended the tournament — without their wives. FNB rejects the suggestion that there was the slightest intention to confer a benefit on them. It is true a brochure advertising the tournament said those participating would travel by Concorde to other events, but economy in the end prevailed.

Among the SA companies which sponsored a hole at the tournament was Sasol. Spokesman Jan Krynauw says Sasol's latest expansion programme is aimed to a large extent at exports. It regards the tournament as an excellent and well-timed opportunity to promote both SA and its products internationally. The 200% tax incentive made the proposal even more attractive. This was by no means the first time Sasol has made use of the export incentive, which was created specifically to promote SA products internationally. Sasol considers participation in the tournament "an excellent, well-timed opportunity" to do this.

Commercially sound

Another sponsor was Keeley Granite. Chairman Fred Keeley says he regards his company's participation in the tournament as commercially sound, especially as many of its important European customers attended. Commissioner for Inland Revenue's Hennie Smit explains basic tax principles that might apply. (He is at pains to emphasise that he is strictly forbidden, by Section 4 of the Income Tax Act, to disclose or comment on the affairs of an individual taxpayer and his general comments are not intended to imply anything of the sort.)

Sponsorship of a sporting tournament would fall under the general heading of advertising and the costs would be deductible in principle. If the expenditure were incurred in the Republic, the provision allowing the deduction would be Section 11(a) of the Income Tax Act. With the enactment of the 1991 Income Tax Amendment Act, expenditure outside the Republic is now allowed as of right by Section 11(b). (Previously, expenditure outside the Republic was allowed at the discretion of the commissioner.)

Of course, says Smit, general criteria for allowing a deduction would have to be met. The expenditure must be incurred in the production of income and, if it appears to the Receiver to be excessive, he can disallow it in part. The expenditure must not be of a capital nature.

As for export promotion, the position until the end of March 1992 is governed by Section 11*bis* of the Act. This allows a maximum 200% deduction for marketing expenditure directed at export promotion. Though expenditure to promote the export of services is permitted under Section 11*bis*(4B), subject to approval by the Minister of Finance, banking business is expressly excluded. So it is FNB's customers and fellow advertisers who benefit rather than the bank.

Section 11*bis* has been repealed with effect from April 1992, to be replaced by a complex export incentive scheme to be administered by the Department of Trade, Industry and Tourism.

A further requirement is compliance with Section 23(g) of the Act — that the expenditure must have been incurred entirely for purposes of trade. This section was interpreted in the recent Solaglass case, which held that the holding of dual motive by a group finance company disqualified it from claiming a deduction. The additional motive was to assist other group companies — not merely to earn interest by lending money borrowed from other group companies.

In the case of corporate promotion of a sporting event, a possible second motive which might bring a taxpayer foul of Section 23(g) would be to confer a benefit on executives. If more executives attended an event than business purposes would justify, the implications of that section might have to be considered. The existence of a second motive would disqualify the expenditure.

If an executive's air tickets and hotel bills were paid for by the company and it was felt a motive was to confer a benefit, the transaction would fall under the Seventh Schedule of the Act. It might be appropriate to raise an assessment against the executive for receipt of a fringe benefit.

In general terms, the *FM* strongly endorses the repeal of Section 11*bis* of the Act, as a provision which certainly was open to abuse. The *FM* also considers that all companies contemplating promotional schemes of one sort or another should remain acutely sensitive to social concerns and resentments.

It is too easy to rationalise extravagance as being in the interests of a company when, in fact, they produce negative perceptions. These can do a great deal of harm to the wider acceptance of the very real benefits that democratic capitalism brings to all members of the SA community. ■

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AA LIFE/AVINS FM 26/7/91

NEW PASTURES (58)

What Anglovaal Insurance Holdings (Avins) will lose in terms of entrepreneurial flair and marketing knowledge, it will gain in financial acumen. When CE Brian Benfield leaves at the end of July, he will be succeeded by Volkskas Merchant Bank (VMB) senior GM David de Beer (**see *People***).

Benfield's departure comes as a surprise to many, as his name became synonymous with Avins' subsidiary, AA Life, company known for marketing and innovative product development. Once he was appointed head of Avins, marketing skills were no longer needed and his work was largely administrative.

Insiders say his departure was to be expected because the formal structures of major shareholder, Anglovaal, were too restrictive and frustrating for his entrepreneurial style. Benfield denies this. He says he expressed a desire to relinquish his executive posts late last year.

"After 10 years, it's time for some fresh blood," Benfield says. "A new man is needed to take the executive reins."

Benfield will remain a non-executive director of AA Life, Crusader Life, Avins and AVF Group and act as marketing consultant to the group. His interests are also personal, as he has a 4% shareholding in AVF Group.

In the past 10 years, the life assurer has grown significantly. Assets have increased from a mere R20m in 1982 to R350m; R6m new business is written in a month compared to R1m during the entire 1981 year; and net recurring income has shot up to over R90m, compared with just R2m in 1982. According to *FM Top Companies* life assurers' league, it has grown from 24th position in 1982 to 12th place.

But it has taken heavy new business strain, which has put its financial standing under pressure. Consulting actuary Ron Howroyd questioned the prudence of the payment of a R6,5m dividend in February. Irregularities were however denied *(FM* March 1).

In addition, since 1987, investment performance has been poor — it has bought mostly second-liners on the equity market. AA Life's R170m investment assets are now managed by the Board of Executors (BoE), in which AVF Group acquired a 35% shareholding earlier this year.

More stringent controls

Anglovaal's appointment of De Beer is seen as a step towards more stringent financial controls. A chartered accountant, De Beer says he can make "a significant contribution" in terms of financial controls, programmed growth and cost controls.

Though not a life assurance man — some say his appointment was a surprise — he has been involved with AA Life since the AA Mutual collapsed in 1986 and has been a non-executive director since Natie Kirsh's share was taken out in February 1988. That transaction was financed by VMB, leaving the merchant bank with a 30% stake in the assurer.

This shareholding has since been diluted by the Anglovaal involvement. (Anglovaal holds 60% in AVF Group which owns 86% of Avins which has 95% of AA Life.) The subsequent BoE transaction further diluted VMB's shareholding, now around 20%.

De Beer has experience in takeovers, which will help Avins fulfil its goals of becoming a holding company for a number of other life assurers who will share the same computer, actuarial, investment, underwriting and administrative systems.

Benfield will move to Wits University, where he has accepted a post as visiting professor in the department of business economics. There he will complement Professor Robert Vivian — who lectures on the short-term insurance industry — with his knowledge of the life and pensions industries.

Vivian says that this year, the current course will have a life and pensions component added to it; next year, a separate course on this will possibly be introduced Benfield has lectured at Wits since 1989 and is one of two who hold a Wits PhD in insurance. ■

NBS HOLDINGS FM 26/7/91

EVENTFUL YEAR (58)

Activities: *Provides housing finance and instalment lending, and a wide range of financial services through a national network of branches and agencies. Holds 30% of Norwich Life and 39% of French Bank.*

Control: *Norwich Life 26%; Barlow Rand 18,2%.*

Chairman: *H G Chapman; MD: J W Gafney.*

Capital structure: *58,8m ords. Market capitalisation: R606m.*

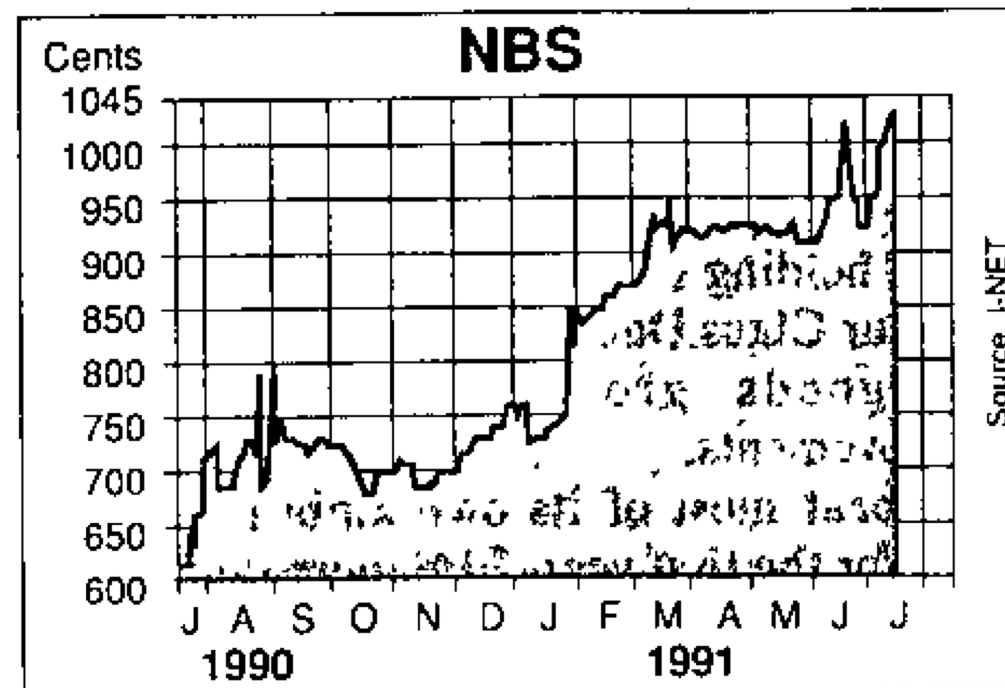
Share market: *Price: 1 030c. Yields: 3,4% on dividend; 9,4% on earnings; p:e ratio, 29,9; cover, 2,8. 12-month high, 1 045c; low, 515c. Trading volume last quarter, 1m shares.*

Year to Mar	'88	'89	'90	'91
Total assets (Rbn) ..	3,39	4,46	5,76	7,46
Total advances (Rbn) .	2,70	3,48	4,62	6,00
Attrib income (Rm) ..	24,2	31,9	44,6	56,3
Earnings (c)	42,0	55,2	76,6	96,6
Dividend (c)	18,5	23,0	29,0	34,5
Net worth (c)	457	524	616	712
Return on equity (%) ..	8,0	12,1	12,4	13,6

The period since the listing in 1987 has been one of rapid change for NBS Holdings. Total assets have been growing at about 30% annually, the sources of income have diversified and new, major shareholders have entered the picture.

Banking activities remain the major contributor to earnings but the proportion from these operations has dropped from four-fifths in 1990 to just less than two-thirds in the 1991 financial year. There has been strong growth — off a low base — in income from insurance and other activities; these two areas together contributed 35% of attributable income.

As MD John Gafney notes, the operating



FM 26/7/91 (58)

results were achieved through maintaining high asset growth in the areas of mortgage advances and instalment lending. Mortgage advances rose by a quarter to R5bn at the year-end. Instalment lending under the umbrella of the corporate bank saw advances increase by two-thirds to R700m.

Assistant GM Paul Leaf-Wright says margins are looking "slightly more favourable" for the current financial year but competition is also becoming stiffer, particularly for quality business. The rate of repossessions on mortgages has almost doubled from R34m to R67m owing to continuing high interest rates.

Following promulgation of the Deposit-Taking Institutions Act, the operations of Natal Building Society and NBS Bank were merged with effect from April 1, and these entities are operating as NBS Bank. At year-end, the banking subsidiaries had a total capital ratio of 8,3%, well above the minimum 4,5% now required under the Act.

Management feels that, should the asset base continue to expand at above 20% a year, with growth maintained in the mortgage advances, there should be no difficulty in meeting the capital ratio requirements over the next three to five years. And, with the computer equipment having been upgraded over the past few years, a major capital spending programme should not be needed. Even so, there will be some restraint on dividends, as the board wants to lift the dividend cover from the present 2,8 to three times over the next couple of years.

Returns on assets and equity, at 0,75 and 13,6 respectively, have improved but still lag

FM 26/7/91 (58)

those of the major banking groups. Considering the competitive conditions, Leaf-Wright reckons NBS will do well to maintain these returns this year but a more active economy should enable improved profitability in the 1993 year. The stakes taken by Norwich and Barlow Rand (*Fox* July 12) appear to ensure the independence of NBS but the returns will have to improve further to justify the investments.

French Bank, in which NBS now has 39%, is mainly in trade finance, foreign exchange and securities. This could prove useful for the corporate division. The cross-holding with Norwich Life — whose contribution to NBS's attributable earnings rose 28% to R2,8m last year — has apparently enabled both companies to generate business they would not otherwise have acquired.

Earnings grew by 26% last year but a slower pace is forecast for this year. On the fundamentals the share looks expensive at 1 030c, with the dividend yield at 3,3%. This is similar to the yield on banking groups like First National (3,4%), Absa (3,8%), Nedcor (3,7%) and SBIC (2,9%).

Andrew McNulty

AÏDA HOLDINGS FM 26/7/91

TAXMAN'S TOLL (58)

Activities: *Operates and franchises residential estate agencies.*
Control: *Directors 63%.*
Chairman: *A Geffen.*
Capital structure: *14,28m ords. Market capitalisation: R3,1m.*
Share market: *Price: 22c. Yields: 6,8% on dividend; 3,2% on earnings; p:e ratio, 14,7; cover, 0,5. 12-month high, 35c; low, 18c. Trading volume last quarter, 106 000 shares.*

Year to Feb 28	'88	'89	'90	'91
LT debt (R000)	—	30	188	150
Shareholders' interest	0,25	0,28	0,26	0,32
Int & leasing cover	9,5	9,8	7,8	13,5
Return on cap (%)	21,7	18,4	10,0	8,2
Turnover (Rm)	7,0	7,9	7,7	10,0
Pre-int profit (R000)	1 400	1 364	897	803
Pre-int margin (%)	19,9	17,4	11,7	8,0
Earnings (c)	5,9	6,4	4,3	0,7
Dividends (c)	1,3	2,6	1,5	1,5
Net worth (c)	13	17	20	22

It is scarcely credible that neither the chairman nor the directors of a public company feel any need to refer in their annual statements to a previous year's tax charge that eroded earnings almost to vanishing point. One has to read the notes to learn that this relates to disallowed training expenditure and that an objection has been lodged.

But then it was not a terribly good year for estate agent Aïda, even apart from this dispute. While the number of franchised offices rose from 60 to 77 (according to the preliminary report) or 78 (the annual report) and national turnover under the Aïda name grew to R944m (1990: R758m), from 7 700 units (6 450), higher costs trimmed pre-tax profit by 8,6%.

Diluted by a rights issue, EPS without the previous tax charge would still have been only 2,6c — by far the lowest since the DCM listing in 1987.

The May 1990 rights issue, incidentally, was at 45c, a price that has not been seen since. It was only 26% subscribed, though this is not a fair reflection of its success, as chairman and MD Aïda Geffen waived her

Aïda's Geffen ... *staying in front*

(58)

rights in favour of UBS, which underwrote the issue in the process of acquiring a 25% stake at what now looks an expensive price. Let's hope UBS gets more joy out of this investment than the UK institutions which bought into estate agencies in the Eighties.

Geffen justifiably takes pride in the group's ranking, for the second year running, as SA's largest real estate organisation in the Stefan Swanepoel survey.

The determination to remain in front is shown by the emphasis on training, establishment of a financial services division and the launch of a continuing corporate TV campaign, which she says is already producing benefits.

Another small but welcome advance is that publication of the annual report has been brought forward by about three weeks.

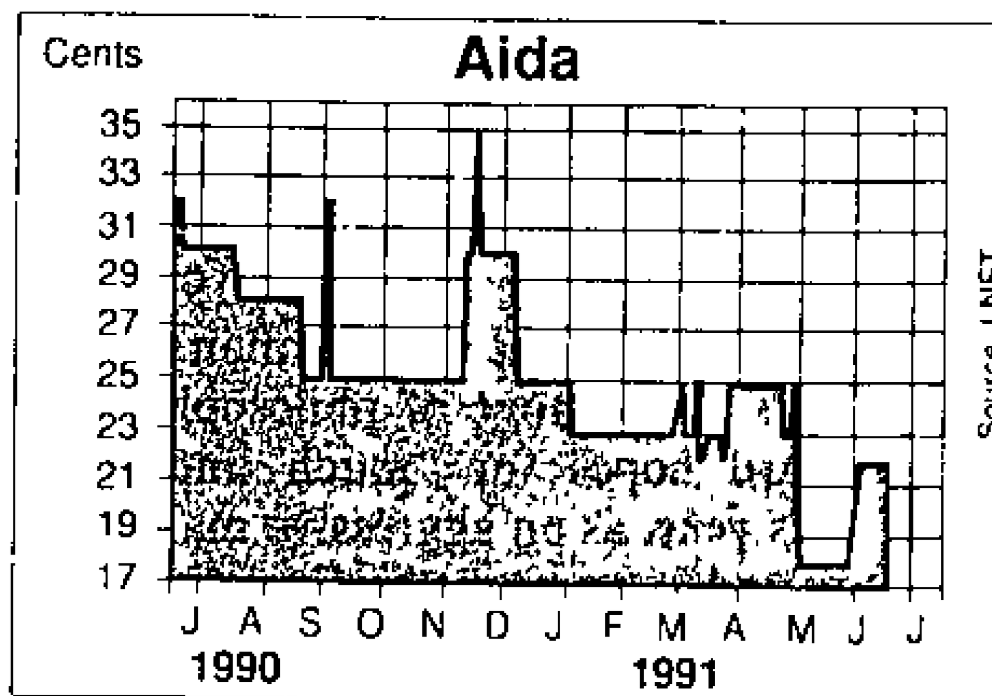
Broadly optimistic

Geffen is broadly optimistic about the residential property market, though it is taking longer to sell individual properties and believes that results in this and future years will reflect "the steps taken to sustain the positive growth of the group."

The group has since announced that the rand value of sales rose 20,2% in the first quarter of this year, the rate of increase improving progressively from 9,5% in March to 23% in April and 28,4% in May. Unit sales were 9% up in the quarter.

Investors, however, may be more concerned about the cut-throat competition in the estate agency business, as shown by the steady decline in pre-tax margin and return on capital employed.

Michael Coulson



AMALGAMATED BANKS OF SA FM 26/7/91

PLANS UNFOLDING (58)

Activities: *Wide range of financial services. Interests include 100% of United; 100% of Volkskas; 100% of Allied; 49% of Amalgamated Insurance Holdings (formerly Sage's insurance interests); 30% of Momentum Life; 30% of Commercial Union and 26% of Rand Merchant Bank.*

Control: *Universa holds 30,4% and is in turn held 39,4% by Rembrandt, 39,4% by Mines Pension Fund and 21,2% by Sage Financial Services.*

Chairman: *H V Hefer; CE: P J Badenhorst.*

Capital structure: *456,7m ords. Market capitalisation: R4,34bn.*

Share market: *Price: 950c. Yields: 3,8% on dividend; 9,8% on earnings; p:e ratio, 10,2; cover, 2,6. 12-month high, 965c; low, 650c. Trading volume last quarter, 11,8m shares.*

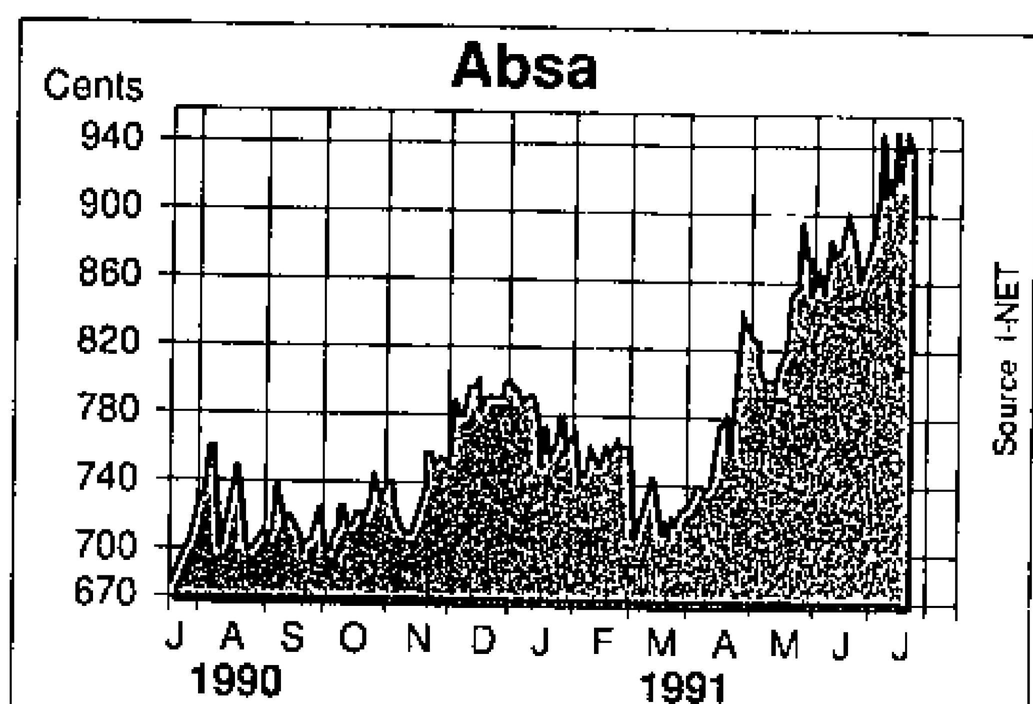
Year to Mar	'90	'91
Total assets (Rbn)	15,84	51,83
Total advances (Rbn)	12,07	38,17
Attributable income (Rm)	197,5	321,3
Earnings (c)	82,1	93,4
Dividend (c)	32,0	36,0
Net worth (c)	578	652

Two points are immediately apparent from the first annual report issued by Amalgamated Banks of SA (Absa). One is that the statistics are of only limited value in evaluating immediate profitability.

The other is that detailed plans for the rationalisation of the operations have taken shape — though it is obvious this process will continue to unfold well into the future. It will take years to bring the banking merger to its ultimate conclusion, and the insurance interests have yet to be dealt with.

With total assets of R51,83bn, Absa is the largest diversified financial services group in the country. Shareholders' funds at March 31 totalled R2,84bn, after the write-off in full of goodwill and trademarks valued at R391,1m. Also written off against the share premium, on issue of the new Absa shares, was the R49m cost of the merger, including a provision for up to R16,8m payable to First National. At March 31 Absa had 26 583 employees, though rationalisation will lead to reduction of staff, partly through attrition.

Return on average assets is stated as



Absa's Hefer . . . *exceptionally strong capital base*

1,01%, based on the weighted average assets of R31,88bn, and return on shareholders' funds was 15,4%. However, all such statistics are affected by the merger and the differing financial periods of the entities involved. The accounts incorporate financial results of Absa and the United subsidiaries from April 1 1990, the Allied and Volkskas subsidiaries from October 1 1990 and the interests acquired from Sage Financial Services from January 1 1991.

Chairman Herc Hefer says the merged group will retain an exceptionally strong capital base of about 5,7% — compared with the present requirement of 4,5% — and this will provide substantial scope to expand operations.

But for now the emphasis will obviously be on making the merger work. That evidently involves pressing ahead with rationalisation as rapidly as possible. Since the year-end, says Hefer, it became apparent that it would be more efficient and cost effective to operate as many of the banking businesses through a single company.

It was thus decided to merge the assets, liabilities and reserves of the existing wholly owned deposit-taking institutions (DTI) in Absa in one of the DTI companies. Allied, United and Volkskas will operate as trading divisions in this company, under the direction of divisional boards comprising directors of the former wholly owned operating subsidiaries, which will be deregistered as DTIs.

Advantages envisaged include further cost savings from rationalisation of support services, optimum application of capital, more effective tax management, greater flexibility in interest rate and liquidity risk management, greater trading strength in the international market and better use of international credit lines, as well as a single statutory reporting structure.

CE Piet Badenhorst and deputy CE Danie Cronje note that a new management services division has been established to provide all divisions with efficient and cost-effective computer and management services

Absa has six computer centres, of which two are owned by each banking group. The plan is to reduce the six to two by the end of 1991. One of these will run all branch automation while the other will serve as a disaster recovery centre and program development facility

Though it is not stated, there will presumably be some rationalisation of the branch network. Aside from the 903 agencies and 1 237 ATMs, Absa has 694 branches — 161 Allied Bank, 228 United Bank and 305 Volkskas Bank. Such steps would help in an attack on non-interest expenses. Last year this figure totalled just under R1,3bn, though unfortunately no breakdown is given.

The portfolio of insurance and related interests will be restructured and rationalised where possible and feasible, to simplify the structure of holdings and cross-holdings.

This includes the merger of the two insurance subsidiaries — Allied Insurance and UBS Insurance — so that separate life assurance and short-term companies will operate in accordance with the proposed new insurance acts. This, however, will obviously be part of the groundwork for a larger shuffling of insurance interests, when Momentum may be taken fully into Absa.

About two-thirds of total income is now derived from banking activities. Mortgages, at R22,67bn, represent 60% of total advances. An aggressive stance has been maintained in the home loan market, with Allied's book growing during the year by more than R1bn, while United lent R3,86bn.

United last year acquired interests ranging from 25,1% to 29,2% in Aida Holdings, J H Isaacs, Wakefields and De Huizemark. Since year-end, negotiations to acquire a 25,1% stake in Seeff Property Organisation were concluded. Badenhorst and Cronje say these investments have proved to be "an invaluable aid in the intense competition for mortgage business," and are expected to play a major role in the provision of mortgage finance by Absa

Hefer believes the economic stagnation of the past year will continue and operating conditions will remain very difficult. He expects demand for credit will slow further, while the number of defaulting borrowers

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will remain high, despite possible further declines in interest rates in the latter part of 1991.

That underscores the emphasis management is likely to place on controlling costs. Hefer is forecasting a further improvement in EPS. It is also likely that the return on assets will look better after all the operations have been in place for a full year. At 950c, the share already trades on a demanding rating, though benefits of the merger — assuming they materialise as envisaged — will come through over several years.

Andrew McNulty

INSURANCE FM 26/7/91 (58)

REFORMING BROKERS

Declining fortunes in the short-term insurance industry have hit brokers. Realignments and concentrations are taking place with some carving out a future as niche players.

PFV Insurance Brokers MD Mike Hofmeyr identifies four reasons why brokers are under pressure:

☐ A soft market, characterised by five years of rates which have declined in real terms;
☐ Increasing sophistication in risk management by major clients;
☐ High levels of technology needed for a fully competent broking operation; and

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☐ A need for specialist graduates to advise on insurance programmes.

Hofmeyr says the continuing soft market is driving brokers into niche positions. "All brokers will no longer be equal, nor perceived to be equal." It is possible, he adds, that the local industry may never again experience a hard market, so the present repositioning and realignment is likely to be permanent.

Insurance pricing has traditionally been cyclical but Hofmeyr suspects the pattern of soft-hard-soft rates has been broken. If so, businesses that operate within the cycles also have to change to meet new situations.

Typical of the change, he says, is risk management by major industries. "As risk management becomes more sophisticated, customer expectations rise proportionately. It's no longer sufficient for brokers to offer knowledge of insurance principles — they must offer expertise in risk management."

That ultimately diminishes the amount of business offered for insurance. And it means brokers need to introduce engineers, lawyers and other professionals to their teams of advisers. Also, the technology needed to support their services is expensive.

"Entry barriers are being created as a result," Hofmeyr notes. Fewer brokers will have the expertise and technology to handle highly specialised industrial megarisks. So others are turning to specialised niche markets where entry barriers are less formidable.

MIB MD David Harpur agrees that few brokers can respond to the demands of major clients. But he does not perceive risk management as a threat. "The challenge to brokers is to tailor costs to these requirements." Harpur notes the trend to self-insurance. Some foreign studies suggest major corporations self-insure or use alternative funding for 30% of their total exposures.

Harpur expects that trend to be worsened by a hardening in rates. "Insurers' results have been horrific, not only here but abroad. That usually presages a change in rating patterns. The difficulty locally is that losses have been crime-related rather than in the area of catastrophe." Had catastrophe been involved, reinsurers would have been affected and forced an upward swing in rates already. "At the moment," Harpur says, "we still find it possible to do deals in the market, though the rating trend is upward." ■

Metpol policyholders lose out in share issue

(58)

S/Times (Bus Times) 28/7/91.

By JULIE WALKER

METROPOLITAN LIFE policyholders were invited to buy shares from offloading Sanlam at 950c, but shareholders can subscribe for new shares at 850c.

The market price is 1 025c. Shareholders are offered 50 shares for every 100 held by the close of Friday's trade. The offer will raise R190-million.

Listed in 1986, Metpol has not been one of the greatest performers in terms of share-price appreciation although earnings have grown well.

The lack of tradeability and the low profile outside its target market were given as reasons for the share price's poor performance by Metpol's Peter Doyle at a presentation to the Investment Analysts Society in Johannesburg this week.

Mr Doyle says the issue of poor tradeability has been considered and major shareholder Sanlam has sold 10-million shares to other institutions, staff and policyholders. Five stockbrokers placed 2-million of those shares.

As a result of those sales and new scrip to be issued to shareholders, the combined holding of Sanlam and Sankorp will fall from 72% of 44-million shares in issue to 49% of 67-million.

Mr Doyle says market research shows that both it and Old Mutual have almost equal slices of the black market with about a third each.

Metpol's assets are R2-billion, and it has set aside an AIDS reserve of R70-million.

It is believed that Old Mutual has set aside R450-million for AIDS claims, but its asset base is R60-billion.

Death

Mr Doyle says the biggest risk presented by AIDS is whether the group's research is accurate or way out.

No carrier of the virus may become a policyholder. There is an incubation period of perhaps 10 or more years between contracting HIV and death.

After 15 years, policyholders make a profit for an insurer, so Mr Doyle does not quantify the risk as too alarming.

He says Metpol's profile in its target market is high and the name has good acceptance among blacks.

Mr Doyle asked analysts not to lump together the black market in one. He gave occupational and racial breakdowns of policyholders signed up in 1990.

More than 75% of new business came from blacks, 16% from coloureds, 6% from whites and 2% Asians.

New black business at listing was about 55%. It is a high-growth sector.

Teachers accounted for 20% of the new business, nurses 6%, clerks 10%, members of the protection services 13%, tradesmen and apprentices 7% and production workers 14%.

Mr Doyle says the person who takes out life assurance is a stable, regular earner. Stop-order payments are made on 85% of premiums, bank orders 9% and only 5% in cash is brought to Metpol.

Recurring premiums made up most of the new business written last year. Only 5% was single-premium income compared with assurance's 33%.

Individual business accounted for 73% of Metpol's 1990 business compared with the average of 64%.

Mr Doyle says this does not necessarily mean that Metpol's administration costs are higher. Each policy bears its own costs.

Operating costs as a percentage of total income fell from 13% in 1981 to below 11% in 1990.

Asset distribution at March 31 was 42% equity, 20% property, 7% in bonds and 28% cash.

Mr Doyle says cash content has fallen greatly since then. The proceeds of the rights offer will swell the general coffer.

Turmoil

He showed Metpol's investment performance relative to the industry average in pension and managed funds. The pension fund management was tops in two of the past three years, but was generally in the lower half.

Mr Doyle says two pension funds moved from Metpol to other management last year.

The investment performance of managed funds looks much better.

Mr Doyle outlined some of the risks facing assurers. He does not expect socio-economic turmoil to have too bad an effect on premium collections, but violence has a negative effect on sales.

He believes that the person who buys life assurance is not the type to seek trouble. He does not expect an increase in claims resulting from violence.

PETER DOYLE: Stable customers

Metpol's funeral business will be helped with more marketing.

AIDS is the biggie, but Mr Doyle does not believe the notion of refusing to pay AIDS-related death claims is a good one. People expect the life business to pay out and it would not be a workable solution.

He advocates tightening of the quality of business written. AIDS research, the reserve, stricter underwriting and product design with a bonus policy would help to pre-empt difficulty.

Managing director Marius Smith says Metpol has good growth prospects because of its infrastructure, 4 000 trained staff members, its strong image and dominant position in the target market and its expected growth of disposable income and of education and health care.

BUSINESS DAY, Monday, July 29 1991

W&A plans to be 'open and frank' with investors

B/Day 29/7/91

BRENT VON MELVILLE

RECENT market talk that W & A was not popular with its bankers was untrue and initiated by "rumour mongers", says recently installed joint deputy chairman of W & A Investment Corporation Hennie van der Merwe.

Van der Merwe, who joined W & A less than a month ago from his position as Senbank MD, said W & A's banking relationships were on a firm footing and banks were eager to do more business.

In an interview, he also scoffed at suggestions he had been installed as a "watchdog" by Bankorp.

Van der Merwe insisted his switch to W & A was a permanent career move.

W & A's high level of debt and low level of profit retention has sparked concern on the market, and was rumoured to have led certain bankers to reduce their exposure to the group. W & A has denied this.

Van der Merwe said W & A would deal with this poor perception through open and frank discussion with the investment community.

He did not envisage any significant shift in direction for the group, but said it would now be settling down by concentrating on the development of its core businesses and optimising cash-flow.

"A reduction in the level of gearing will, in the medium term, be an automatic consequence," he said.

Van der Merwe said the fundamental strengths of the group were not reflected in its market rating in the past year.

A recent analysis by Davis Borkum Hare's Pierre Greyvensteyn seems to support that view.

Greyvensteyn said that although a much higher market rating would depend on the successful conclusion of an improved funding structure, the dismal rating awarded to the share seemed overdone.

In addition, Greyvensteyn said the group was particularly well positioned to benefit from political change in the new SA — in offshore markets following the lifting of sanctions, in the domestic market and in the southern African region, targeting the middle to lower growth income groups.

Van der Merwe said that while the group welcomed the lifting of sanctions, it would be cautious about disclosing its overseas holdings.

He said the policy was to wait for SA to settle down firmly into international trade before the group would show its hand.

● VAN DER MERWE

Inkatha threat to close FNB account

WILSON ZWANE

INKATHA yesterday threatened to transfer more than R3bn in KwaZulu government business away from FNB after accusing the bank of not exercising sufficient control over information on its account holders. (58)

Inkatha central committee member Musa Myeni said FNB should investigate the leak of confidential information on account holders. B/Day 29/7/91

He was responding to a Sunday Times report that Inkatha had repaid government R250 000 it received for two rallies out of a R1,3m account set up for its president Mangosuthu Buthelezi's personal use.

The failure on the part of the bank to exercise control and to guarantee it would take appropriate "security measures" to safeguard the privacy of its clients could cost it clients in the KwaZulu government, Inkatha and Inkatha-supporting business fraternities, Myeni said.

The KwaZulu government deposited "well over R3bn a year" with FNB, Myeni said, adding that "this could be business lost to the bank unless it comes clean on this apparent collusion between some of its staffers and anti-Inkatha journalists".

FNB spokesmen were unavailable for comment yesterday.

● See Page 2

Inkatha lashes out at FNB

(58) CT 29/7/91

Own Correspondent

JOHANNESBURG. — Inkatha yesterday threatened to take more than R3bn in KwaZulu government business away from First National Bank after accusing the bank of not exercising sufficient control over information on account holders.

Inkatha central committee member Mr Musa Myeni said FNB should investigate the leaking of confidential details about its clients' accounts.

He was responding to a Sunday Times report that the R250 000 Inkatha repaid to the SA government last week came from a R1.3m account set up for Chief Mangosuthu Buthelezi's personal use.

However, FNB has denied it leaked any information on personal accounts.

FNB senior general manager Mr Jimmy McKenzie said the bank had never made public any information on personal accounts. "We guard these accounts jealously and divulge information only on a court order. We hotly deny that we gave information to anyone."

Mr Myeni had said the apparent failure on the part of the bank to take appropriate "security measures" to guarantee confidentiality could cost it clients in the KwaZulu government, Inkatha and Inkatha-supporting business fraternities.

The KwaZulu government deposited "well over R3bn a year" with FNB, Mr Myeni said, adding that "this could be business lost to the bank unless it comes clean on this apparent collusion between some of its staffers and anti-Inkatha journalists".

Mr McKenzie said if Chief Buthelezi had had a problem with the FNB, "he would have phoned me. If there is evidence of any staff member colluding with any party, that person will be dismissed."

Inkatha repaid the R250 000 following the row over disclosures that the government channelled the amount to the organisation to pay for anti-sanctions rallies.

An Inkatha spokesman confirmed to the Sunday Times that the money was withdrawn from Chief Buthelezi's account and deposited in an Inkatha account before being handed over to Foreign Minister Pik Botha.

The spokesman also confirmed that the R1.3m Buthelezi account was set up for personal use with funds provided by "international friends".

Analysts predict more joint finance companies

(58)

BDay 29/7/91

MARCIA KLEIN

MORE joint finance companies, in which banks take some of the debt burden away from credit-reliant retailers, could soon be established.

Analysts expect the J D Group and possibly Rusfurn could soon follow SA Breweries (SAB) and Prefcor, which have both set up joint finance companies in association with banks.

An announcement from J D Group could be expected "in the near future", they said, and Rusfurn might be considering a similar venture with Senbank following recent developments in the group — including a proposed rights offer — which arose from its funding problems.

The new trend has arisen from the realisation by credit-orientated companies that they were traders and not financial managers, an analyst said, and this was a way of ditching debtors and releasing cash.

A few companies have been involved in similar ventures in the past, including Amrel through Amretfin, the OK through Okfin, and Russells through Rusfin, prior to the creation of Rusfurn. But an analyst said that in these cases the finance company managed the group's debt, but was not a bank.

Prefcor recently said Firstpref, a joint venture between Prefcor and First National Bank, had reduced gearing substantially, shared the risk and allowed the company to grow.

Edgars also recently announced an agreement to facilitate the sale of its debtors' book to the Advantage group, formed by SAB and Nedcor in November. It was believed Amrel and the OK would follow the same route.

Analysts said the Advantage venture could involve SAB companies selling off their entire books. The finance company would look after debtors and collections while the day to day management of the operation would be left to the company.

They suggested that Morkels, Truworths and Foschini could follow the same route, while Ellerine would not need to as it was debt-free.

An analyst said the implications of the joint ventures would differ from company to company, depending on how much of the debt burden was taken over by the finance company.

Govt plans big AIDS project

TANIA LEVY

GOVERNMENT will launch a R1,5m mass publicity campaign against AIDS next month.

A spokesman for the National Health Department's AIDS Unit said yesterday the campaign was aimed at bringing home the fact that 300 people were being infected with the disease every day in SA.

The message would be spread by TV, radio and newspapers, as well as billboards, pamphlets and workshops. BDay 30/7/91

It is believed the campaign will be government's largest single anti-AIDS media campaign to date.

The spokesman said R1,5m had been budgeted for the first part of the campaign, which would last about four months.

The contract for this had been awarded to Sandton-based advertising company The Agency.

The second part of the campaign would be put out to tender at a later stage and more money would be allocated, she said.

Groups which would be targeted by the campaign included opinion makers and community leaders, parents and their children, people with sexually transmitted diseases and health care workers.

The campaign would urge parents to support safe sexual behaviour and teach interpersonal skills.

The public would be reminded that sexually transmitted diseases made people more susceptible to HIV infection.

FNB to probe 'Buthelezi leak'

58

BDay 30/7/91

WILSON ZWANE

FIRST National Bank was probing allegations that it had not exercised sufficient control over information relating to its account holders, senior GM Jimmy McKenzie said yesterday.

He was speaking after Inkatha central committee member Musa Myeni warned at the weekend that R3bn in KwaZulu government business could be removed from FNB.

Myeni made his statement after it was reported that Inkatha had repaid R250 000 it received from government for two political rallies from a personal account of its president Mangosuthu Buthelezi.

Secrecy

Myeni called on FNB to investigate the leaking of confidential details about its clients' accounts.

McKenzie said discussions "with our clients" on Myeni's allegations of collusion between some staff members and "anti-Inkatha" journalists were in progress.

"Every staff member signs a declaration of secrecy and should there be evidence of any of our staff anywhere in the country colluding with any party, that person will be dismissed," he said.

He would not say with whom FNB was holding discussions, saying "we respect the confidentiality of our clients".

Myeni said at the weekend the "ball is now in FNB's court". The bank should approach the Sunday Times and The Independent of London for their sources of information, he said.

An Inkatha spokesman told the Sunday Times that the money was withdrawn from Buthelezi's account and deposited in an Inkatha account before being given to Foreign Minister Pik Botha last Wednesday.

The spokesman also confirmed that the R1,3m Buthelezi account was set up for his personal use with funds provided by international friends, which included British casino boss John Aspinall and Australian television mogul Kerry Packer.

Myeni said the KwaZulu government deposited "well over R3bn a year" with FNB, adding "this could be business lost to the bank unless it comes clean on this apparent collusion between some of its staffers and anti-Inkatha journalists".

It was reported at the weekend that the R1,3m account was opened for Buthelezi's personal use in September last year and that it would earn R182 000 interest a year.

Until July 23 when the R250 000 was withdrawn, only one small withdrawal had been made, reports said.

SA banks want UK licences

GRETA STEYN

FIRST National Bank (FNB) and Standard Bank want British banking licences now that international attitudes towards SA have softened.

The banks are branching out internationally at a time when overseas operations are coming back to the country — a move that could help them face the new competition on the home front.

FNB MD Barry Swart said: "The climate is right for SA banks to apply for new licences in London. We have representative offices there, but the business they are allowed to do is severely limited. We want a full banking licence in a major financial centre."

He said the Bank of England had "ostensibly" placed a moratorium on granting banking licences to countries with foreign debt standstills. This had left FNB and Standard at a disadvantage compared with other SA banks that had set up full banking operations before the 1985 debt standstill. FNB and Standard were represented by their parents at the time, Barclays and Standard Chartered.

The Bank of England had not yet confirmed that it would grant FNB a licence, but Swart was confident it would. The advantages of having a London banking licence included being able "to look after our multinational customers". He noted that London banks opening representative offices in SA did not face the same constraints as SA representatives in London.

Standard Bank senior GM Graeme Bell

☐ To Page 2

Banks

☐ From Page 1

said: "The climate has improved sufficiently for us to look at upgrading our London representative office." But the bank had not yet formally applied for a London banking licence.

"One of the advantages will be the development of sophisticated treasury products. Also, as a bank in London, we will be allowed to take foreign currency deposits. But it will take time to build up substantial foreign currency balances."

Because of this time factor, the upgrading of the London office was not seen as making a major direct contribution in countering the competition when British banks open in SA. But both FNB and Standard felt there were substantial advantages in being a "player" in a major financial centre.

Banks scrutinise moves over JSE

ROBERT GENTLE

BANKERS are poised to exploit the legislative door opened by Pretoria at the weekend and are considering what role they could play in an open share market without barriers to entry or membership restrictions.

This emerged yesterday following moves by Financial Services Board head Piet Badenhorst to propose to government the amendment of the Stock Exchanges Control Act to produce a competitively neutral playing field.

"We will now be studying developments very carefully," said Rand Merchant Bank (RMB) MD Laurie Dippenaar, who like most people canvassed yesterday was surprised at Pretoria's move.

He expressed caution over rushing headlong into the JSE or even starting a rival exchange.

"The issue needs to be examined carefully because of the limited size of our market and the lessons of the London Big Bang."

Finansbank assistant GM Luigi Colantoni said certain merchant banks had already started looking into the implications of a competitively neutral equities market.

Commenting on the apparently subdued nature of the JSE's response, Colantoni said: "They appear to have accepted the inevitable."

First National Bank assistant treasurer Mike Law said: "Our view has been that we would not rush out to take a stake in JSE stockbrokers because we always believed the market would be deregulated anyway, which would allow us to set up our own operation if we so wished. That view still holds."

Commenting on the likely future form of the SA equity market, he spoke of the possibility of banks using the latest in screen and computer technology to take over a portion of the overall equity business.

The Bond Market Association, which is working towards the establishment of a formal bond exchange, welcomed the move as "equitable and fair". CE Graham Lund said, "In this day and age, people should have access to each other's markets as long as proper risk management and integrity are ensured."

SA Futures Exchange (Safex) CE Stuart Rees said anything which led to increased liquidity in the underlying spot markets could only be good news for derivatives.

Rates to drop before VAT?

(58) (326) CT 30/7/91.

From SHARON WOOD

JOHANNESBURG. — The long-awaited cut in interest rates might occur before VAT was implemented in September, bank economists said yesterday.

Those who disagreed were confident bank rate would drop before the year's end.

The introduction of the turnover tax on bank interest with VAT in September was pinpointed by bankers as a key to persuading Reserve Bank governor Chris Stals to cut the bank rate before September 30.

If he did not lending rates would probably rise, which would send out the wrong signals to an economy already suffering under recessionary conditions, they said.

They believed Stals would not be swayed by political pressure to ease lending rates, but the appropriate market conditions, slower money supply and bank credit growth justified a reduction.

An increase in bank lending rates as a result of the turnover tax would "send shudders through the economy", said Standard's chief economist Nico Czypionka

"The reasons for a bank rate cut from a policy point of view are quite sound," he said. Liquidity was rising, credit demand had slowed and the balance of payments position was reasonable.

The introduction of the turnover tax, which would increase interest rates, would be negated by a 1% reduction in bank rate, said Nedbank chief economist Edward Osborn.

"Monetary policy has outplayed its purpose because of the damage it is doing to the country's financial fabric," he said.

But any reduction in interest rates would have to be limited because of the tight balance of payments situation

Bankorp economist Emile van Zyl disagreed with the view that bank rate might be cut before the implementation of VAT.

"Stals will carefully look at how businesses handle VAT to see that they don't use it as an excuse to raise prices."

As a result, interest rates would come down only at the end of the year, he said.

Sacob senior economist Bill Lacey said interest rates were unlikely to fall before VAT. Inflation would have to fall at least once more before Stals reduced rates.

Norwich continues to grow

Finance Staff Star 30/7/91

Norwich Life continued its recent steady growth, with total income rising by 20 percent to R283 million in the first six months of this year.

Policyholders' benefits grew by 41 percent to R14 million, with the bulk of the payments going to death, disability and maturity benefits.

Charles Davies, Norwich Life's managing director says Employee Benefits schemes showed good growth and he expected the group to perform well over the full 1991 financial year.

(54)

Old Mutual trust goes international

Bday 31/7/91

LINDA ENSOR

CAPE TOWN — Old Mutual is to launch a Channel Islands-based investment trust concentrating on SA equities — the first of its kind to be listed on the international stock exchange in London.

The listing of the fund, developed in a swift response to the changed international political climate after the easing of sanctions, is expected to take place soon.

Institutional response in the UK to the project has been encouraging and it is possible that the listing will generate an income of more than $50m.

The amounts raised will be invested through the financial rand in SA equities during the course of this year.

Sponsoring brokers and underwriters of the fund, to be called the Old Mutual South Africa Fund, are Smith New Court Securities.

This is an associate of N M Rothschild & Sons of London, who are the leading market makers in SA equities in London and New York.

Disclosing details of the new US dollar denominated, closed-end trust, Old Mutual chief operating officer Gerhard van Niekerk said yesterday it was intended to offer international institutional investors a shop window for SA equities.

"The step augurs well for the SA equities market as there will be more buying of shares and it could be a forerunner of direct foreign investment in the country," Van Niekerk said.

He added that SA shares would become better known to international investors.

"Currently, apart from De Beers and our leading gold and mining financial heavyweights, few SA shares have received much attention in the US or Europe," he said.

"There is little doubt that the trust will mark the start of a new chapter in terms of SA's appeal to foreign investors and our return to the international financial arena.

Unrepresented

"The JSE is one of the 10 largest stock exchanges in the world in terms of market capitalisation and will come into its own as investment restrictions internally and externally are removed."

Van Niekerk did not think abolition of the financial rand would undermine the viability of the trust.

He said SA was unrepresented in institutional portfolios overseas which normally represented most countries in the world, and with a rerating SA shares could offer high returns.

Old Mutual will manage the portfolio from SA, offering its expertise and knowledge of the SA market to foreign buyers.

Club Mykonos problems hurt sales of timeshare

LINDA ENSOR

CAPE TOWN — The negative publicity surrounding the Club Mykonos resort on the Cape west coast has resulted in a slide in timeshare sales there. The resort claims a 50% share of all timeshare sales in SA.

The resort has come under the spotlight recently as police investigate allegations of financial irregularities (R930 000 has been reported missing) and shareblock owners protest against high levy increases that have been proposed.

Timeshare sales reached R8,5m a month at their peak but have fallen to about R6m a month over the past few months, with the winter slowdown in sales contributing to the decline, said developers Masterbond Trust MD Johann Brits at a news conference yesterday.

About R90m has been invested so far in timeshare and shareblock units at Club Mykonos, near Saldahna Bay, by about 5 000 people. The resort has 236 units, with 700 more planned, and has R10m worth of unsold stock on its books.

Responding to reports of a police probe into the management of the resort, Masterbond Trust and Club Mykonos chairman Koos Jordaan said he believed the complaints to be malicious.

Jordaan said an audit was in progress and no misappropriation of funds had been discovered. He said there was a possibility, were it to transpire that the complaint to the police was vexatious, that a claim or charges would be brought against the person who lodged it.

He said "the future is not all that bleak" regarding the recovery of some of the R300 000 allegedly misappropriated by a former employee.

Jordaan admitted that the resort's management had not been up to standard in some respects in the past, but said a new company, Renaissance Resorts, had taken over management and he was now satisfied with the standards of management.

He admitted, too, that there had been dissatisfaction over the number of management companies that had been involved in running the resort — Renaissance is the fourth company to take over its administration.

Brits announced that there would be a restructuring of levies which would mean a lesser increase than originally proposed. Shareblock owners were up in arms a few months ago over the levy increases which in the case of a sole owner of a luxury three-bedroom unit was to rise from R500 to R3 600.

The levies affect 700 shareblock owners.

Brits said a levy increase from R500 to R2 552, including service, was being proposed for a luxury three bedroom unit; or alternatively, R1 624 without service. An assurance would be given to shareblock owners that for the next five years annual levy increases would be kept within 5% above the rate of inflation.

Warning on insurance firm's cover

SEAN VAN ZYL

ILLEGAL short-term insurance cover was being provided by a company operating mainly on the East Rand, Financial Services Board (FSB) spokesman Piet Badenhorst warned yesterday.

Bravo Insurance was operating mainly in the Kempton Park and Germiston areas, providing motor and household cover, he said in a statement.

Badenhorst said Bravo Insurance was not a registered insurance company, and was therefore not in a legal position to undertake short-term underwriting business.

Check

He said that, following an initial investigation by the FSB, the matter had been forwarded to the commercial branch of the SAP.

Further information regarding the FSB's investigation would not be made available at this stage, due to legal constraints, Badenhorst added.

However, the statement advised members of the public who had entered insurance dealings with the company to check whether their cover had been underwritten by a registered short-term insurer.

The statement noted that the inception date of the cover provided by Bravo Insurance appeared to be August 1.

ANC murder accused acquitted

SUSAN RUSSELL

TWO ANC members charged with the murder of an Azapo opponent in a Bekkersdal shebeen last year were acquitted in the Rand Supreme Court yesterday.

Jacob Seoka, 27, and Alfred Soxokashe, 21, pleaded not guilty to murdering Azapo member Mbuyiselo Norman Montshiwa in a shebeen in the ANC area of Bekkersdal on March 17 last year.

The State alleged they were part of a group of ANC members who were looking for Montshiwa intending to kill him.

Montshiwa was attacked with pangas, knives and an iron bar and died from his injuries in hospital nine days later.

According to the indictment the incident occurred at a time of clashes between the ANC and Azapo over an ANC call for a school stayaway.

Mr Justice du Plessis, sitting with two assessors, acquitted Seoka and Soxokashe after finding that contradictory evidence from four State witnesses had not established the accuseds' guilt beyond reasonable doubt.

None of the four impressed the court as reliable witnesses, he said.

Joker cleared in subversion trial

MICHAEL HARTNACK

HARARE — An Esigodini hotel manager has been acquitted on a charge of subversion but fined R46 under Zimbabwe's Miscellaneous Offences Act for joking to bar patrons that the July 20 bomb blast at Harare's Sheraton hotel was "part of the structural adjustment programme".

Bulawayo magistrate David Johnstone Butcher told Rodney Robert Green, 37, his remarks were "ill-advised" but did not constitute an attack on the constitution of Zimbabwe, an offence which would have carried a maximum seven-year jail term.

Pretoria 'responding to a broader view of markets'

58

B Day 1/8/91

ROBERT GENTLE

PRETORIA was now using a more comprehensive, global approach to financial markets regulation instead of pandering to selected interest groups, Amalgamted Banks of SA (Absa) deputy GM Hans Falkena said yesterday.

He was speaking on the latest developments in the SA financial markets at a breakfast meeting hosted by Andersen Consulting in their Johannesburg offices.

Falkena described as dramatic the decision by the Registrar of Financial Institutions to recommend the scrapping of clauses in the Stock Exchanges Control Act which inhibit competition.

He ascribed the change of attitude in Pretoria to the globalisation of financial markets, the advent of sophisticated computer technology and the visit last year by UK regulation guru Prof David Llewellyn.

Falkena expected government would steer away from imposing specific trading structures on the market after the failure of the Reserve Bank-subsidised futures trading floor.

Falkena said regulation should aim for efficiency, stability and consumer protection. If these goals were attained, it did not matter whether banks were allowed to trade equities, whether the JSE traded futures or whether the underlying method was single or dual capacity.

"I believe the authorities will soon allow any competition so long as these three goals are attained," he said.

Falkena expected the undercapitalised JSE to become a more open market as SA was integrated into the world financial system.

He described the JSE's soon-to-be-launched Traded Options Market (TOM) as an expensive experiment to prove that traded options markets of this sort always failed.

Falkena said it was not unreasonable to assume that the "inevitable" failure of TOM would lead the JSE to ask Pretoria for permission to trade options on futures, or eliminate existing restrictions on bear sales.

"I hope I am wrong and that TOM will succeed,"he said.

JSE president Tony Norton has said in a statement that TOM would stimulate trade on the JSE and would be the most sophisticated system of its type in the world.

● Comment: Page 8

Banks plan to pass on new tax to customers

Star 1/8/91. (58)

By Sven Lünsche

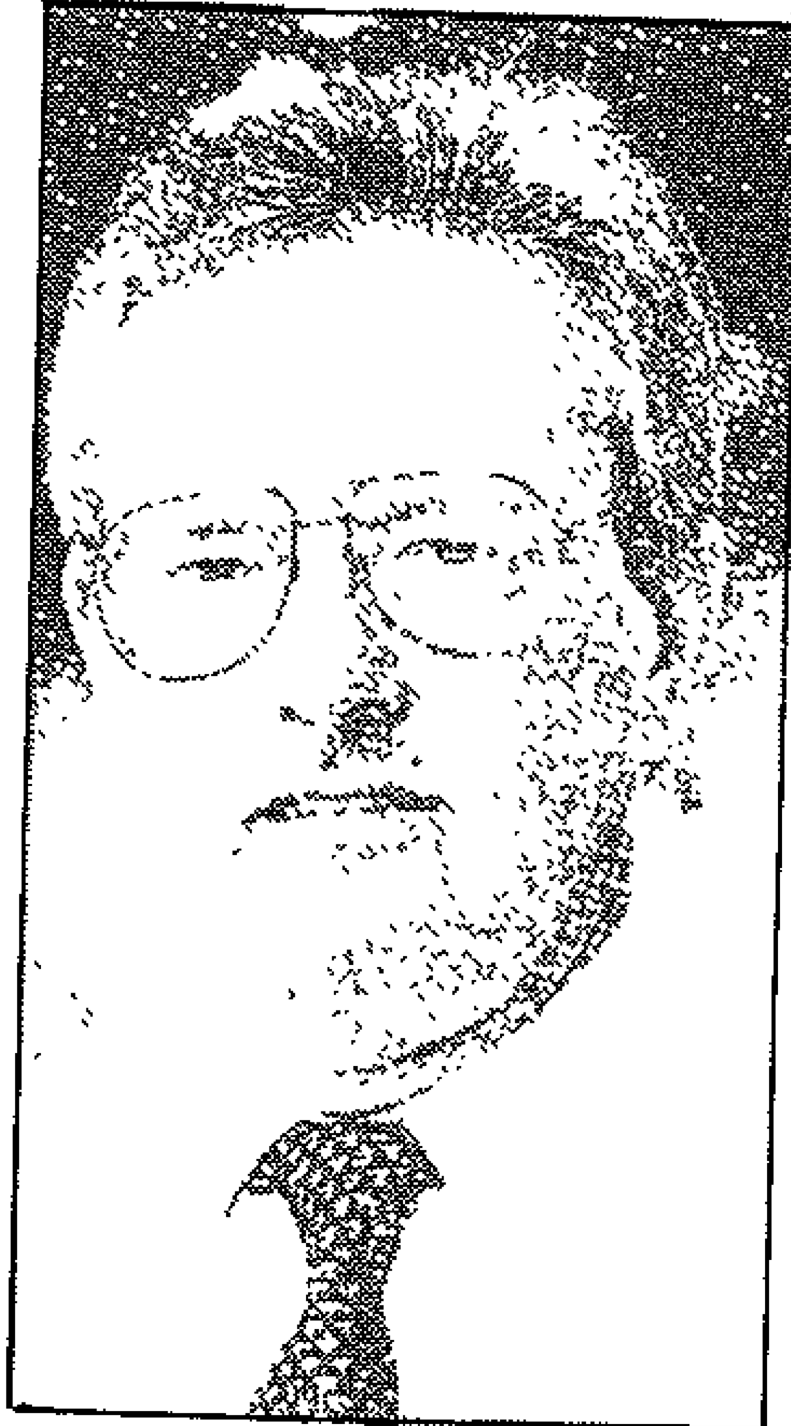
Commercial banks are set to pass on the additional cost of the planned turnover tax to their customers through higher interest rates.

The turnover tax of 0,75 percent on gross interest received comes into effect on October 1 and will cost the commercial banks roughly R220 million in additional chargesx.

First National Bank managing director Barry Swart said yesterday that the bank would recover the turnover tax, which would add about R50 million to FNB's annual tax bill, from its customers.

Speaking at the presentation of FNB's latest Economic Review, he said other commercial banks were expected to follow suit.

He said the turnover tax would push up FNB's effective tax rate to 54 percent, "which goes against the Government's stated policy of bringing down company tax to the 40 percent level".



Barry Swart . . . foreign banks operating at a distinct advantage

FNB's senior general manager Jimmy McKenzie said there was still discussion among the banks on how to recover the additional costs, "as a uniform industry policy on the matter would be the preferable option".

He added that the Clearing Bankers Association was attempting to formulate an industry policy on ways of recovering the additional tax.

He said various options were being examined, including a levy on all banking transactions and higher interest rates on overdrafts and other interest-bearing accounts.

An industry analyst estimated that passing on the turnover tax in full could raise the prime interest rate by 0,15 percentage points from its current level of 20 percent to 20,15 percent.

Details on how the Government plans to implement the turnover tax are expected to be released later this month.

Mr Swart said First National would also lose out on VAT to the tune of R12 million, as the banks were exempt from the tax and thus could not claim input credit on capital and intermediate goods.

Mr Swart criticised the Reserve Bank for "its deafening silence about the rules that will govern the establishment of foreign banks in South Africa."

He said that foreign banks were operating at a distinct advantage to local banks.

"These banks pulled the plug on us in 1985 and are now returning to compete with us on unequal terms — they do not pay local taxes and are not subject to SA banking regulations.

"We plan to set up a subsidiary operation in the UK in the near future, but we are obliged to comply with capital funding and other requirements needed for the opening of a bank," he said.

"Besides, foreign capital markets are not yet open to SA banks, apart from trade finance funding, which allows foreign banks to offer better long-term capital funding to potential customers," he said.

Mr Swart said demand for credit was slow at present, with the exception of housing finance.

However, project finance deals running into billions of rands were being concluded because of the planned tax advantage on beneficiation projects, which augured well for future results.

OLD MUTUAL FM 2/8/91

Offshore vehicle (58)

For Old Mutual its new offshore investment vehicle is more than just another trust. Chief operating officer Gerhard van Niekerk says: "Mutual is opening up an international shop window for SA equities in Europe."

In an innovative move to promote SA equities in European markets, Mutual is launching a Channel Islands-based, closed-end investment trust dealing only in SA shares.

This follows a visit to London by the assurer's investment chief Johannes van der Horst to gauge the extent of foreign investor sup-

Continue →

FOX FM 2/8/91 (58)

port. The fund, denominated in US dollars, will start business with capital of just more than $50m. It will be listed on London's International Stock Exchange as soon as possible but not later than the end of the year if the listing application is granted.

Mutual will manage the fund but not hold any stake. An administration office will be situated in the Channel Islands; investment policy will be decided in SA.

It is to be known as the Old Mutual South Africa Fund. Its portfolio will consist only of JSE-listed shares and investments will be made through the financial rand. Investors will benefit from tax exemptions available to Channel Islands companies. Sponsoring brokers and underwriters are Smith New Court Securities, which is among the largest market makers in SA securities in London and New York. ■

LIFE ASSURANCE

Enabling plan

FM 2/8/91 (58)

A programme to get the disabled back into employment, introduced a year ago by reinsurer Mercantile & General (M&G), is yielding results.

Risks originally accepted by a life office, but considered substandard, tend to end up with a reinsurer. In SA, life reinsurance is effected principally by M&G and Swiss Re, which share 80% of this market. There is obviously a propensity for more substandard than standard risks to join the ranks of the disabled So M&G had a commercial as well as social interest when it introduced its Progress Claims Counselling Service.

Some disability claims, while not fraudulent because backed by medical evidence, may fall outside the parameters of a policy. Investigative procedures are necessary. More important, some occupationally disabled people lose hope and become a permanent debit on the insurer's books. It is on the latter area that Progress is focusing.

Occupational disability benefits fall into two broad classes: there may be a lump sum payment on proof of total and permanent disability to perform an occupation; or there may be a monthly payment on presentation of proof of disability. Each presents the insurer with a problem.

In the case of a lump sum, says M&G, a repayment is hardly ever made in full or in part when the disabled is sufficiently restored to health to follow an occupation. The monthly benefit involves a continuous relationship between insured and insurer, periodically requiring proof of disability.

Sentiment aside, and accepting that the

FM 2/8/91 (58)

purpose of insurance is to pay valid claims, M&G feels it also has a duty to maintain a strong fund for all potentially exposed members. So Progress has appointed occupational therapists in Johannesburg and Cape Town.

Their prime responsibilities are rehabilitation and assisting the disabled. The object, M&G insists, is firstly to help the patient. Of secondary importance are the facts which emerge to assist the underwriters in establishing the continued validity of the claim.

The disabled can be demotivated by, for example, an employer's attitude. In other cases, a disabled person is highly motivated to return to work and can be counselled about opportunities where the impairment will not affect productivity. M&G says the first year's results are "extremely positive". ■

FM 2/8/91 (58)

On the line is the conduct of a number of bankers and the Pickard family. Also in question are actions of the Deposit-Taking Institutions Office and Registrar.

The former CIB management and board have come under fire from all sides. In the liquidation proceedings, management was criticised for the state of the bank's loan book and for the way it conducted trading operations. It has also been criticised for the size of its exposure to Rail Commuter Corp, which amounted to 80% of its total deposit book.

One of the biggest losses, which CIB incurred before Prima took over, was when an R850m gilts position for the bank's own book resulted in a substantial loss.

Because of the size of the CIB trading book — between R2bn-R3bn was settled each Tuesday — the Bank apparently advised CIB to curtail trading operations as early as September. This was ignored. Once Prima took over, a condition was a curtailment of trading operations. It closed out most of CIB's remaining open positions.

However, it's the loan book that's created most problems; many debtors have been put in liquidation. The loan book was cited as the reason for Prima requesting the suspension of the CIB share on the JSE on January 2. Many loans were unsecured, some were not registered and many are assumed to be irrecoverable. Loans include R23m to Rico Breweries, R14m to Quantum, R3m to M&M and R2,4m to Interboard.

A number of loans was made to directors and other companies within the group. Loans to subsidiaries CIB Corporate Finance and CIB Project Finance were unsecured.

Also under dispute is whether the June 1990 year-end figures were boosted by at least R2,4m from transactions such as fees due to a subsidiary only in September.

At the creditors' meeting, creditors accused the central bank of withdrawing a R300m deposit from CIB on December 4 when it could be argued that it knew that the bank was to be liquidated, while advising other depositors, such as Rail Commuter Corp, to keep deposits with Prima-controlled CIB. The Bank withdrew its deposit on March 30, nine days before CIB was put in provisional liquidation, which Deposit-Taking Institutions Registrar Hennie van Greuning says was coincidentally the date of maturity.

Four amounts were placed by the Bank with CIB: three of R99m and one of R3m, at 1% interest. On the same day, four deposits amounting to R300m were placed with the Bank by CIB at 17,12%. In this way over R15m "assistance" was given to CIB over four months.

SECTION 417 — 2

Secret inquiry

FM 2/8/91 (58)

The affairs of Cape Investment Bank (CIB) are under scrutiny in a Section 417 secret inquiry which began last Tuesday at the CIB Cape Town offices. Creditors and those subpoenaed as witnesses have been warned by presiding Judge Oscar Galgut not to reveal details to the press.

The inquiry has been called by liquidator KPMG Aiken & Peat at the request of the Reserve Bank.

Since CIB was taken over by Prima on December 18 its affairs have been surrounded by controversy.

Prima was accused by former CIB MD Andy Swartz, at the second creditors' meeting in June, of stripping CIB of the assets it had on December 18. Countering these charges, Prima says that assets and liabilities of the two banks were kept separate up to liquidation. The intention was that no assets would be merged until net asset value was determined.

Creditors' claims include the R249m deposit of SA Rail Commuter Corp and R23m by the central bank.

Jan Pickard jnr ... *conduct under question*

ECONOMY & FINANCE

FM 2/8/91 (58)

This deposit was made on December 4, before the Prima takeover. Prima therefore denies allegations of collusion between itself and the central bank. Former CIB management claims the Prima takeover, negotiated on December 13, was forced upon it.

The inquiry is expected to take about three weeks. Any irregularities that emerge will be referred to the Attorney-General. ■

R800m drained to stop rates falling

BDay 2/8/91

ANDREW GILL

THE Reserve Bank moved again yesterday to suppress any chance of declining interest rates as it drained R800m from the banking system in expectation of an inflow as high as R1bn caused largely by government and homeland spending.

It called tenders for R800m in 19-day special Treasury bills after an unexpectedly easy month-end saw banks cruising through the often cash-strapped time with a shortage of R1,68bn.

Significantly, the market subscribed for a massive R4,3bn in Treasury bills, indicating the flush position they found themselves in despite the month-end.

Treasurers said it was obvious the Bank did not want to give the market the wrong impression by allowing the shortage to decline to levels that could indicate rates were set for further falls.

Inflows at the beginning of the month are due largely to budgeted government and homeland expenditure but have also been bolstered by SA's unexpectedly strong balance of payments position which has seen the Reserve Bank putting more rands into the market.

The excess liquidity had seen the Reserve Bank taking an active role in issuing special Treasury bills until a month ago when the shortage climbed to over R3,6bn and the Bank allowed many of the issues to mature without being rolled over.

Yesterday's move, analysts said, was aimed at stemming liquidity until GST payments started to drain the market around August 21.

However, expectations were that the next month-end was going to be as flush as this with a "relatively large" amount of government stock maturing at the end of the month.

Dealers said they would not be surprised if the Bank undertook further special Treasury bill issues and became more active in the dollar swap market this month in an attempt to limit the pressure being exerted on the shortage.

The move failed to have any effect on key rates, which have been stuck in a 10-point range for the past two months with little or no hope of breaking out of the stale pattern in the near term. The 90-day liquid BA rate finished unchanged at 16,80%.

'New opportunities' for GDM

SHARON WOOD

THE welcoming back of SA to the international community and world trade would open up new opportunities for trade-financing company GDM Finance, chairman Michael Waring said in the company's annual report released this week.

This would also increase demand for services already offered.

However Waring cautioned there was little evidence of any economic upturn at the moment.

"There are still considerable political uncertainties which could undermine confidence for some time to come," he said.

Nevertheless, GDM Finance had a strong management team which had consistently produced record earnings for shareholders.

The company reported a 15% rise in earnings to 33,7c a share in the year to April from 29,3c the previous year.

Waring said the company had "always placed great store on risk assessment and has not sought asset growth for its own sake and never more so than in these difficult times".

This had been evidenced by the results of the company and the soundness of the balance sheet.

"It is company policy to spread risk across a broad client base and a wide spread of business sectors," GDM Finance MD John Cowper said.

Britain's Barclays Bank plans to reinvest

JOHN CAVILL

LONDON — Britain's biggest bank, Barclays, expects to reopen in SA when political and economic circumstances are stable, chairman Sir John Quinton said yesterday.

Unveiling first-half 1991 profits, which were down by 37% at £378m — because of bad debt provisions in the UK, Quinton said no firm decision had been taken.

But when circumstances were more stable "we probably would move back into SA", he told a news conference.

Like Standard Chartered, which will open a representative office in Johannesburg this month, Barclays has no plans for a full retail banking operation. Quinton said it would be an office designed to provide facilities for corporate clients with business and interests in SA.

And in a unique move, Barclays disclosed it had written back £67m of provisions made against its SA loans. Its net loans to SA now stand at £480m, putting it ahead of Standard Chartered.

Barclays disinvested in 1986, by selling its 40% stake in Barclays National Bank.

There had been a long campaign in Britain against the bank over its SA links.

First National Bank (FNB), formerly Barclays in SA, has added its voice to other banks calling on the Reserve Bank to regulate foreign banks opening representative offices. Representatives do not fall under the strict Deposit-Taking Institutions Act.

ANDREW GILL reports that FNB MD Barry Swart said last night he had no problem with the Barclays move apart from the issue of how foreign and local banks would not be operating on a level playing field.

Stals quells hopes of cut in Bank rate

BDay 2/8/91 (58)

SHARON WOOD and ROBERT GENTLE

THE effective increase in interest rates after implementation of the turnover tax "should not be seen as a tightening of monetary policy", Reserve Bank Governor Chris Stals said yesterday.

This dampened hopes of a bank rate cut before implementation of VAT and the turnover tax on September 30 to counteract the increased cost of borrowing.

Banks have said they cannot afford the costs of the turnover tax and these would have to be recovered fully from the customer through higher interest rates or a levy of 0,75% on interest paid.

Stals said: "The turnover tax should be seen as a normal fiscal and tax measure and the 'recovery' from end-users seems to be in line with the general principle of the VAT system.

"Monetary policy decisions are based on trends in financial aggregates ... and can obviously not be directed towards neutralising the effects of fiscal measures, such as tax changes."

Special economic adviser Japie Jacobs, who devised the tax, said yesterday he had met representatives of the banking and financial services industry this week over the 0,75% turnover tax and "a broad consensus" had been reached.

"We are fine tuning at this stage," he said. The only remaining issue to be solved was whether the tax should be visible to the consumer — as with GST — or built in to the price and reflected in the profit margin.

"This issue is still being discussed."

He said he personally favoured the former solution as it would enable the financial institutions concerned to pass on the tax to the consumer more easily.

"It is only fair that they be able to recover it," he said.

The R200m tax-take from the banks represented about half of the total R400m the tax was expected to raise, Jacobs said. The remainder was split between insurance, pension funds and other financial institutions.

Jacobs said entities like the Post Office, Transnet and Eskom would be exempt

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Stals

BDay 2/8/91 (58)

☐ From Page 1

from the tax. It was aimed at registered financial intermediaries and none of these companies was registered in terms of any finanacial legislation.

"They are borrowers, not intermediaries," said Jacobs.

"The tax will be reflected in increased rates on their stock, which may already be discounted in the yields," he said.

Other entities not registered in terms of financial legislation, and therefore exempt from the tax, were mining houses, corporate treasury operations and hire purchase groups such as OK Bazaars, that ran debtors' books.

Jacobs quashed market fears that the tax would harm liquidity or tradeability in the money, capital and derivative markets, saying this was not the intention. The derivative markets in general "would not be adversely affected".

Jacobs estimated that the effect of the tax had already been discounted in market rates, and said the tax was nothing the market could not take in its stride.

"The market is flexible enough to adapt to the new tax, which is the simplest, most effective alternative available."

Even EC countries had expressed interest in the tax, Jacobs said, and had asked him to present them with detailed information they could study.

FNB Group MD Barry Swart said this week the costs associated with the turnover would be passed to the customer. This could be in the form of a 0,75% levy on overdraft interest rates.

Standard Bank chief accountant Henry Shaw said the bank would need to consider the various options before deciding the route to take.

Insurer's results hint at upturn

B Day 2/8/91.

SEAN VAN ZYL

COMPOSITE insurer Commercial Union has disclosed a 47% increase in bottom-line earnings to R16,4m for the six months ended June.

Analysts said Commercial Union's results — the first disclosed by a company undertaking short-term insurance business — could reflect a turn in the poor underwriting performance of the industry.

Earnings rose to 164,7c (June 1990: 111,3c) a share, of which a 42c (35c) dividend a share was declared.

Net premium income climbed by 20% to R186,8m (R156,3m), signifying new business growth despite difficult market conditions, MD John Kinvig said.

The main feature of the insurer's six-month performance, however, was the sig-

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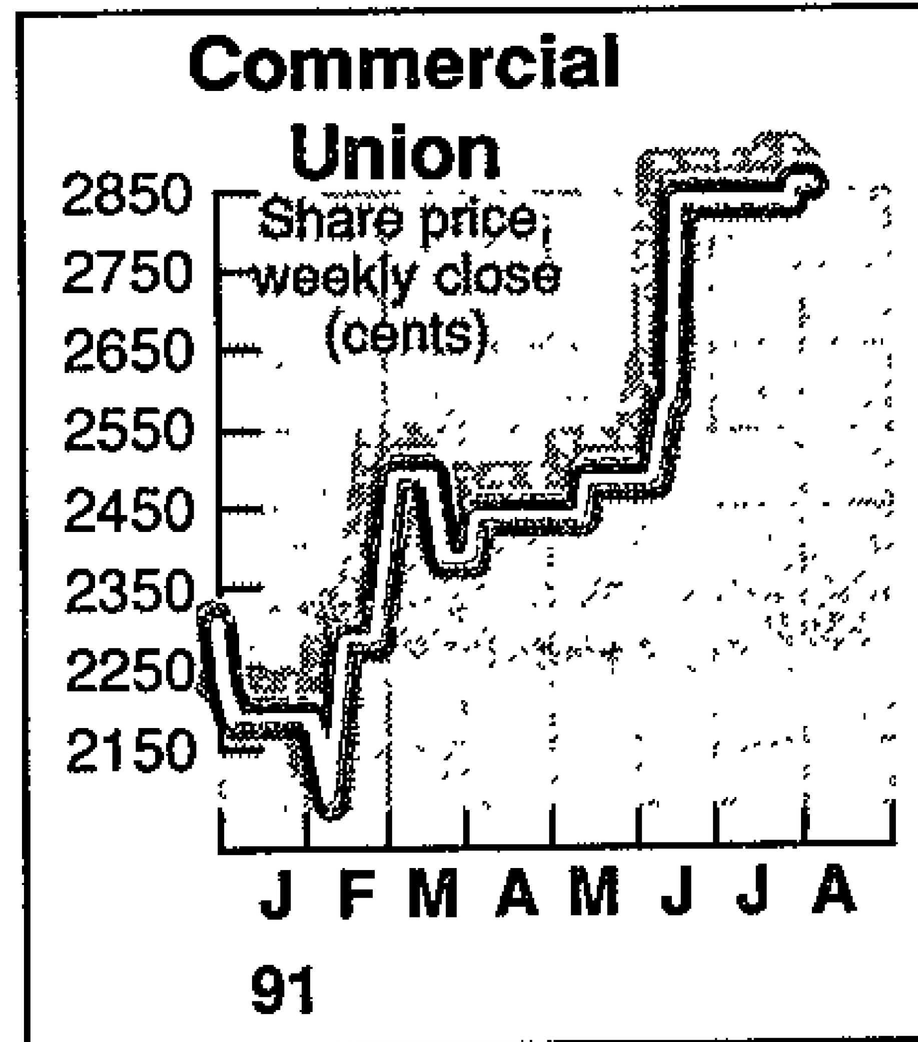


Graphic: LEE EMERTON Source: I-NET

Insurer

B Day 2/8/91

☐ From Page 1

nificant improvement achieved in short-term underwriting which resulted in the December year-end's loss of R14,8m dropping to R3,6m (R11,1m).

Analysts said the short-term industry had introduced massive premium rate increases, in the order of 40% to 50% in 1990, and similar increases were expected this year. These rate increases could result in the industry reporting underwriting profits by the end of the year.

However, Kinvig said that the improved position of the underwriting account was due largely to an absence of natural catastrophes during the period.

He said that the rate increases introduced by Commercial Union this year and in 1990 had proved beneficial, but warned that personal lines claim costs continued to escalate. The incidence of theft and vehicle hijacking had worsened, without any relief in sight.

Although Commercial Union had recently introduced rate increases of about 15%, Kinvig said further premium hikes could follow.

While Commercial Union achieved modest growth of 11% in investment income to R20,4m (R18,4m), total assets climbed by 25% to R3,305bn, reflecting the capital appreciation of investments, Kinvig said.

Life and pension business premium income grew by 26% to R208,2m (R164,9m). Life fund assets rose by 27% to R2,471bn (R1,951bn).

Short-term insurers face shrinking market

Star 2/8/91. (58)

By Sven Lünsche

Short-term insurers could lose up to 25 percent of market share to banks and building societies over the next few years.

This is one of key findings of an extensive study into the short-term and life insurance industry by Andersen Consulting and the Insurance Institute of SA, released yesterday.

The managing partner of Andersen Consulting, Wally Strickland, says that large capital increases will be required by short-term insurers in the next five years.

The survey, conducted among 100 top executives in the industry, predicts little growth in the volume of insurance products sold up to 1995 and suggests existing markets are near saturation.

Amid the growing uncertainty, nearly 70 percent of those surveyed would want the government to intervene to prevent insolvencies in the short-term industry.

Self insured

Mr Strickland says the study suggests that up to 20 percent of large companies currently paying for short-term insurance will be self-insured by 1995, "shrinking the overall insurance market and excluding the best risk".

There is also a clear move by other financial institutions into the insurance field. Nearly 70 percent of respondents from the short-term industry predicted that banks and building societies could take up to 25 percent of market share by 1995.

This view was supported by nearly 50 percent of respondents for individual life and pension businesses.

"But no potential market share for retailers, travel and hotel related organisations as alternative distributors of insurance products is forecast," the study says.

It also paints a gloomy picture for insurance brokers, with 44 percent of brokers questioned expecting a decrease in market share for independent brokers and 66 percent forecasting a decline in business for corporate brokers.

Banks out to check the cheque cheats

Star 3/8/91

58

MAGNUS HEYSTEK
Finance Editor

WITH cheque frauds approaching the R100 million-a-year level banks are fighting back and will in future not accept uncrossed non-transferable cheques deposited for collection.

Such cheques will be returned marked "unable to collect" from August 19, it was announced yesterday.

This decision is seen in banking circles as an effort to curb the sharp increase in frauds and thefts in recent months.

A statement by the Clearing Bankers Association of South Africa says an uncrossed non-transferable cheque exposes the drawee bank to risks which it cannot control.

Normally such a bank has no way of ensuring that payment will be made to the correct account.

In addition, by refusing to handle uncrossed non-transferable cheques it will speed up the clearing process of cheques, of which up to one million are processesed during peak hours in the PWV-area alone.

Sharp increase

"To go back to an individual cheque handling system would be in nobody's interest — it would cost the banks millions of rands more and put the price of a cheque beyond the customer's reach," the CBASA says.

This announcement follows news reports that South African banks are facing a sharp increase in cheque-related frauds and thefts.

"Businesses are being hard hit by the worst epidemic of cheque fraud yet experienced in this country, with legitimate owners of cheque books as guilty as cheque book thieves," says David Rosin, managing director of Veri-Cheque, a division of Information Trust Corporation.

He says the Central Statistical Service figures issued for the first four months of this year show that the value of judgments against businesses and private individuals for RD cheques has jumped by more than 40 percent over the same period last year, even when adjusted for inflation, and is approaching the R100-million mark.

"The quantity of summonses issued against both businesses and private individuals is averaging 5 600 a month, as opposed to 4 600 a month in the same period last year," he says.

"These figures do not reflect the real magnitude of the problem, because for every case that goes to judgment, there are four or five where the retailer simply takes the loss without recourse to the law."

Nor do the figures take into account criminal actions by cheque thieves, for which no statistics are available but which are giving banks and retailers serious cause for concern.

There are at least three million cheque book holders in South Africa.

"Cheque books are wrongly regarded both by banks and cheque book holders in this country as a right and not a privilege."

This can lead to serious misuse even by the legitimate holder.

- Writing out cheques when they are aware they do not have enough money in the bank to cover the cheque.

- Issuing cheques and then stopping payment on the pretext that they are not satisfied with the goods received.

Cheque fraud is being perpetrated by people working in pairs, one of whom may be a legitimate cheque book holder but claims his book has been stolen.

The second person fraudulent ly buys goods using the "stolen" cheques which are then stopped, and the pair split the goods between them. Colour photocopiers are also a cause of rising cheque fraud.

"Merchants should take every precaution when accepting cheques," says Mr Rosin.

"They should demand identification, ensure that cheques are properly filled in, acquaint themselves with the 26 kinds of cheque accounts available to the holder today, and should subscribe to Veri-Cheque, in order to ensure that the cheque holder has a clear credit record."

JOHAN MYBURGH: Carrots

Bonus offer to on-time borrowers

S|Times (Buss Times) 4|8|91. (58)

By DIRK TIEMANN

SAAMBOU hopes to speed payment by black borrowers by offering bonuses to those who pay on time. The bank has lent R120-million to blacks.

Group managing director Johan Myburgh says the bonus will be lower interest rates.

"The bonus on every instalment must be substantial to serve as an incentive. Our other borrowers will not subsidise the lower rates."

Saambou surprised many earlier this year when it was discovered that it was active in the black market. But like the Perm and the United, Saambou is battling to obtain payment because repossessions have proved ineffectual.

Mr Myburgh says Saambou will adopt a new approach to the black market, which it sees as a growth area.

"The idea is to keep the borrower in the house. The scheme has been successful in some areas. We are not too concerned about exposure because it is only 3% of our R4-billion lending.

"We are looking at ways to finance the black market and the stokvel approach is being considered."

Focus

Saambou has cut costs to the bone after new management took over and disastrous results were published earlier this year. Staff numbers have been cut by 500 and regional branches from six to three.

The focus on debt collection has been intensified and Mr Myburgh is comfortable with the results in spite of the downward trend in the economy having speeded up.

The insurance side is being restructured with the creation of Saambou Insurance Brokers. It will offer life products from Fedlife and other big assurers, says Mr Myburgh.

Saambou's life interests will become a lot more focused instead of trying to be an overall underwriter which can be expensive for a small company. Computer synergies with Fedlife are also being investigated.

Saambou has another burden of R80-million in the form of a gilts exposure. This is essentially a leftover from the prescribed asset days. Saambou is waiting for interest rates to drop before selling the gilts at a better price.

Mr Myburgh says. "We will not incur a capital loss, but the return is very low. We would rather be in hire purchase and earn 24%."

● Specul tion that Fedlife, which now holds about 35% of Saambou, plans to asset strip the bank have been denied.

A Fedlife spokeman says: "We want to build it up and restore profitability. Its client base is the ideal market for our unit trust."

Mr Myburgh says: "Asset stripping is what Fedlife's competitors had in mind. We have had our annual meeting and none of the minority sharholders attended, showing their lack of interest in developing Saambou."

Metpol share disclaimer

S/Times (Bus Times) 4/8/91

58

MARIUS SMITH, chairman of Metropolitan Life, disputes Business Times' headline last week, which read, "Metpol policyholders lose out in share deal", as well as one point in the story.

Business Times contended erroneously that policyholders who paid 950c to Sankorp for Metropolitan shares "lost out" because shares were made available in a later rights issue at 850c.

Mr Smith says: "The steps (to widen the stakeholder spread in the group) started with a private placing with institutional investors of 10-million shares held by Sankorp, controlling shareholder in Metropolitan.

"Metropolitan's policyholders and employees were also afforded an opportunity to participate in this private placing by purchasing shares at a discount to which they were being traded on the open market.

"It was stressed that should there be a good reception to this private placing, there would be a rights issue in which they would, as registered shareholders, be entitled to take up their rights.

"The reality, therefore, is that policyholders were offered beneficial terms to become stakeholders in Metropolitan in advance of the details of the rights issue being announced. The final issue price of 850c a share was in fact only decided last Wednesday. Thus it is patently untrue that policyholders lost out, as the headline declared."

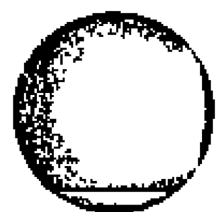
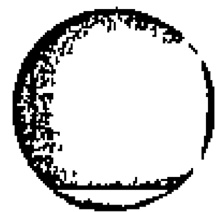
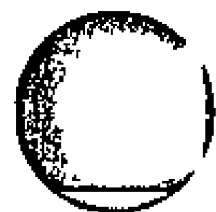
Mr Smith contests another element of the report.

Damaging

"Contrary to (what is stated) in the third paragraph, Metropolitan's share price has performed as well and in tandem with its competitors in the insurance sector ... What was stated was that the price reflected an under-rating of the group's investment performance...

"We are left with a potentially damaging report which could impact very negatively on the perceptions of many of Metropolitan's policyholders and trust that you will take the necessary steps to remedy the situation."

Business Times accepts that Sankorp offered shares to policyholders at an acceptable discount to the market price and that those who paid 950c for their shares actually gained further in being able to follow their rights at 850c while the market price has exceeded 1 000c. The rights offer discount to the market price was greater than the discount granted by Sankorp because of the size of the issue (one for two). Business Times apologises for the error.

US billions for the new SA

S/Times 4/8/91

New bank is formed to finance post-apartheid development projects

By EDYTH BULBRING

A NEW South African bank which will channel billions of rands into reconstructing a post-apartheid SA has been established in New York, ANC International Relations director Thabo Mbeki said yesterday.

The bank, which is separate from the Development Bank of Southern Africa, was established after a visit to New York by ANC president Nelson Mandela last June.

The formation of the bank, South African Development Bank, which was spearheaded by the Rockefeller Foundation, is part of a huge multilateral aid strategy designed to form the basis of US policy towards SA after the election of a new government.

A committee which is busy raising capital for the bank includes ex First National Bank MD Chris Ball, vice-chancellor of the University of the Transkei Wiseman Nkuhlu and former US ambassador to the UN Andrew Young.

Formation

Mr Mbeki said the bank had already been established and would be able to finance development projects in SA once a new democratic government was in place.

The formation of the bank was mentioned in a letter drafted by Congressman Stephen Solarz to President George Bush on behalf of a bipartisan coalition to ask him to approve the principle of a South African Democracy Aid Initiative.

The letter says, in view of the progress towards political reform in SA, it is believed the time has come for the US and the rest of the international community to embark on a new multibillion-dollar SA Democracy Aid Initiative.

"Such an initiative, which would include development assistance, as well as trade benefits and investment incentives, should commence only after the adoption of a new constitution, the holding of free and fair elections, and the establishment of a democratically elected government," the letter says.

An aid initiative would be crucial in helping to consolidate democracy in a non-racial SA by enhancing the capacity of a new government to deal with substantial development challenges it will face.

The SA Development Bank, which could be included in this aid initiative, could serve as a credible vehicle through which the US, Western European countries and Japan could contribute by direct assistance in achieving a stable transition to a fair and prosperous economy, the letter states.

The aid package should be linked to policies designed both to stimulate expansion of the SA economy and to address the historical iniquities of the apartheid legacy.

"Such policies will have to be characterised by commitments to economic liberalisation and growth in the private sector. . . ."

Approval

Mr Mbeki said he had received a phone call from one of the initiators of the aid plan last weekend asking if he approved of the draft letter.

"I said, 'Of course, we approve, go ahead'."

The matter of channelling American dollars in aid to a new SA government was raised in April this year at a meeting of the Aspen Institute in Cape Town, Mr Mbeki said.

Mr Mandela told Congressman Solarz then that he agreed with this aid proposal, Mr Mbeki said.

A proposed first draft of a letter to President Bush was rejected by the ANC last month. This original letter suggested that Congress might accept the lifting of sanctions if there was a commitment to the aid programme.

"The ANC could not agree to such conditions," Mr Mbeki said.

The second letter was an attempt to gain a commitment for the principle of aiding SA. Once this was achieved, the project then had to be elaborated upon, Mr Mbeki said.

"Once there is commitment to this principle from the Bush administration, we all need to sit down and work it out."

Old Mutual fears Big Bang scenario

(58)

B/Day 5/8/91

GRETA STEYN

OLD Mutual has come out with sharp criticism of proposed changes to the Stock Exchanges Control Act.

It is also unhappy with the perceived lack of consultation with the life industry in deciding on changes that "could have a dramatic effect on the equities market".

Old Mutual investments GM Johannes van der Horst said yesterday: "The authorities might be opening a pandora's box."

The proposed changes include broadening stock exchange membership to allow corporate membership, abolishing fixed commissions and allowing dual capacity trading (trading as both an agent and a principal).

Van der Horst said the amendments could pave the way for radical change akin to London's Big Bang — a situation that could jeopardise the viability of the market in the future.

He sketched a scenario where a number of big banks, possibly partnered by foreign operators, set up a separate stock exchange dealing only in the top 20-30 stocks on a screen-basis.

They would have little difficulty in proving that setting up a separate exchange was "in the public interest" as they could probably keep costs down.

"Such an exchange could effectively 'kill off' the market in hundreds of listed equities as most of the trade will take place through this new, super-efficient exchange."

He also objected to the "sweeping" rule that all trade in quoted securities had to be through a stock exchange.

The life offices had taken a strong stance against this in discussions on the future of the gilts market and he believed they should have had the opportunity to debate the issue on equities.

"This is not just enabling legislation; it could bring about irreversible change," Van der Horst said.

He said the Life Offices Association (LOA) sub-committee on the JSE had been asked for a response on 24 July, and had been given a deadline of 7 August.

Financial Services Board CEO Piet Badenhorst disagreed that further debate was necessary and denied the life industry had not been consulted.

"The Stock Exchanges Control Act was on the agenda at every meeting of the Financial Markets Advisory Board (FMAB) this year. The LOA has representation on the board."

The FMAB, under chairmanship of Reserve Bank Deputy Governor Chris de Swardt, advises government and the Financial Services Board. Badenhorst said he had a written recommendation from the FMAB, and that a document stating the pros and cons had been drawn up.

|| Namo...

More insurers expected to fail

BDay 5/8/91 (58)

LINDA ENSOR

CAPE TOWN — About 70% of the short-term insurers surveyed in a study of the industry believe between one and three small to medium insurers will fail within the next five years.

And 68% believe there is a need to strengthen government intervention to prevent insolvencies in the industry.

This was stated at a presentation last week of the findings of the study, South African Insurance into the 1990s, by Wally Strickland, Andersen Consulting managing partner in Cape Town and head of the research team.

More that 100 executives in the life and short term sectors, reinsurers and intermediaries were interviewed in the survey.

Strickland said the failures would not be similar to the AA Mutual collapse as the companies involved would probably be absorbed into other companies to preserve the public image of the industry.

He said the finding presupposed that the difficult times being experienced would continue and that some companies would be making losses year after year. He predicted that large capital increases would be required by insurers in the next five years to finance growth.

"The study found that the insurers are competing on price and stripping margins to the bone, with the result that the less financially secure companies will get into trouble.

"If they increase their premiums, they will lose market share. In these circumstances a number of companies have adopted strategies to improve customer service so that they are in a position to raise premiums and not just compete on price," Strickland said.

The study predicts little real growth in the volume of insurance products sold between now and 1995, and suggests existing markets are near saturation. It found that more than 20% of large companies currently paying for short term insurance would be self-insured by 1995, shrinking the overall market and excluding the best risks.

Adequate

In addition, banks and building societies would move into the insurance field.

"Nearly 70% of short term insurers predict a significant distribution of more than 25% of market share to banks and building societies. This view was supported by 48% of respondents for individual life and pension business."

Regulations governing reserves and solvency margins were adequate but needed to be enforced, those surveyed believed. The Financial Services Board was sufficiently concerned about the state of the industry to have given certain companies a deadline of the end of 1992 to improve their solvency margins.

The public and policyholders needed to be educated about the need for rates increases to cover the increasing incidence and value of claims.

To survive in the nineties all companies not limited to a niche market would have to provide a superior service, control distribution channels, control costs through improved productivity, use technology effectively, minimise their exposure to acquisitions, invest in training and market new products.

Strickland said the study had found the short term sector to have a low level of productivity and of skilled clerical personnel. There was a need for internal cost structures to be improved and for staff to be trained.

The prospects for brokers were equally bleak, with loss of business to direct sales by fulltime representatives forecast.

As for the life industry, the study highlighted the trend towards greater concentration to achieve economies of scale and the technological advantages of rationalisation through mergers or takeovers. Banks would become increasingly involved in the insurance industry as marketers to their "warm customer base". Most life companies are linked up with banks in the same conglomerate — for example, in the recently formed Absa. These changes would not be to the disadvantage of the consumer, Strickland said.

Bond can be effective savings account

Star 5/8/91.

Paying off one's mortgage bond at a faster rate than required is always a good "investment" for the man in the street. This is particularly true in times of high interest rates.

The reason is that what you "save" over the life of the bond in untaxed money.

For example, a houseowner in the top income-tax bracket of 43 percent will have to earn about 33 percent (pre-tax) on his investments elsewhere to beat the return on repaying a bond off at a faster rate.

Even an extra R10 a week off a bond can save thousands of rands in the long run.

Take the example of someone with a bond of R50 000 with an interest rate of 21 percent repayable over 20 years. Without taking into consideration additional charges like bond insurance, the monthly premium is R889 a month.

This is what happens during the first five years of the bond:

Balance at end of year one: R49 817.

Balance at end of year two: R49 592.

Balance at end of year three: R49 315.

Balance at end of year four: R48 974.

Balance at end of year five: R48 553.

So, after five years and having paid in a total of R53 340 the capital balance is reduced by a mere R1 447.

The reason is that most of the repayments made in the early years of the bond go towards paying off the interest and very little towards reducing the capital. In the same example it would take 19 years to reduce the capital amount outstanding from R50 000 to R10 000 and only one year, the last, to completely wipe out the debt.

By increasing the monthly repayment by only R40 a month the bond is paid back in 13 years at a total cost of R146 328. This compares with R213 360 if the monthly repayments are kept at the minimum, giving a saving of R67 032 over 13 years, which is completely tax-free.

It is also possible to use one's mortgage account as a tax-free savings account by paying an amount in excess of the required monthly bond repayment. When extra money is needed a re-advance on the loan can be obtained, up to the limit of the original bond.

Most financial institutions now offer the so-called access-type mortgage bond.

The increase in the liquidity makes this a definite worthwhile option. One is getting a guaranteed 19,75 percent after tax on one's money. This is much better than any savings account or fixed deposit.

In fact, using this method it is even possible to avoid paying income tax on your savings for most, if not all of your life.

If, say you're a young couple which takes out a mortgage bond of R100 000 using R10 000 as a deposit.

Over and above your monthly committments you pour all your excess income into the bond. No savings account, no fixed deposit, apart from maybe a couple of thousand of rands which does not attract any income tax on the interest anyway, as the first R2 000 is tax-exempt in any case.

A R100 000 bond at an interest rate of 20 percent over 20 years requires a minimum monthly repayment of R1 699.

However, the couple manages to repay an extra R234 per month. The house is paid off in 10 years, instead of 20. By that time the house has increased in value to approximately R450 000, in line with inflation.

So what does the couple do? They take out another bond, maybe even increase it to R400 000 and invest this money into unit trusts or directly on to the stock market. With R400 000 it is possible to acquire a very nice portfolio of blue chip shares on the market. As this is a capital gains, it attracts no tax.

A sound way of investing in your future

Star 5/8/91

58

Participation mortgage bonds are currently one of the most secure forms anybody close to retirement could invest in — to ensure high, yet secure returns on capital.

Brett Dawson, consultant in the Corporate Financial Services Division of chartered accountants KPMG Aiken & Peat, said investing in participation mortgage bonds presently exceeded the average fixed deposit rate for comparable term deposits by 3,7 percent.

"This form of investment is therefore particularly attractive to any person wishing to secure a high rate of return on a secure, long-term investment.

"Participation mortgage bonds are particularly attractive where security of capital is of paramount importance."

He said interest rates offered on participation mortgage bonds were flexible, currently averaging 19 percent.

"As an added security mechanism most participation mortgage bond scheme managers offer a minimum floor rate.

"In terms of the participation bonds act a particular investor has to invest for a minimum period of five years, after this, the capital remains invested, but may be withdrawn on three months' notice."

Banks expect victory over slump

B/Day 6/8/91. (58)

GRETA STEYN

THE Standard Bank Investment Corporation (SBIC) kicks off the mid-year banking results today with analysts expecting the figures to indicate the sector has emerged unscathed from the recession.

Expectations are for an interim earnings rise beating inflation, as banks' margins have been much healthier in the first six months of this year compared with last year. Last year saw banks in the grip of a Reserve Bank-imposed squeeze on liquidity.

This year liquidity conditions have been much easier. As a result, banks' cost of funding has dropped while they benefit from the high prime overdraft rate.

Banks are not normally recession-proof, and the economic slump will make its effect felt in bad debts.

The debt situation could make the difference between a large real increase in earnings or just keeping pace with inflation.

SBIC also faces pressure on its bottom line from its high staff costs. Unlike its blue chip competitor First National Bank (FNB), the banking group has seen staff costs rise far in excess of inflation.

At the end of its last financial year, the increase was 21%.

The group says it is not planning any action to reduce personnel.

However, it "is looking at the management of its staff numbers with a critical eye".

Recovering

The other bank to report this month, Bankorp, faces a different situation to SBIC as it is recovering from the huge loss it made last year.

Bankorp's dividend yield, at about 8%, is evidence of its fall from grace in the market.

The banking sector's yield is about 3,4%, with SBIC at about 3%.

But analysts expect the group to announce positive earnings — between 50c and 60c a share — when its year-end results are released later this month.

The dividend will probably be maintained at 25c.

They believe that the bad debt provisions made at last year's massive write-off provided a base for a solid recovery.

Nonetheless, the share has fallen back to 295c after a brief spurt to 350c.

The other odd one out in the banking sector, with a similarly high dividend yield, is Saambou.

It is in much the same situation as Bankorp, having recently announced a loss for the year to March.

Banking shares are not as popular with investors as industrials.

The banking index is at a 3,4% yield, compared with the industrial yield of 2,6%.

Sechold continues its impressive run

B Day 6/8/91 (58)

ROBERT GENTLE

THE Sechold banking group, formerly Securities Discount House, has continued its good run by turning in the sixth successive rise in year-end profits and dividends.

Net income for the year ending June 1991, after providing for taxation and internal reserve transfers, rose 20,1% to R14,4m (R12m).

Securities Investment Bank contributed 37,6% of net income, with Interbank accounting for 24,9%, NDH 22,3% and recently acquired Cape-based District Securities Bank 4,9%.

The 10,3% balance of net income was contributed by Sechold's other group activities: portfolio management, property holdings, computer services and securities management.

Commendable

Group earnings a share rose 20% to 61,1c (50,9c). The total dividend per share for the year rose 21,4% to 25,5c (21c). Dividend cover was unchanged at 2,4 times.

Sechold group MD Arthur Kelly described the results yesterday as "a very commendable performance" in the light of a number of limiting factors that had characterised the past year.

One such factor had been lack of real movement in interest rates because of tightReserve Bank monetary policy. This put a damper on trading activities usually associated with interest rate volatility.

Other factors had been the failure of three small banks — Alpha Bank, Cape Investment Bank and Pretoria Bank — and the rationalisation leading to formation of Amalgamated Banks of SA (Absa). This had had the effect of reducing the number of players in the market, Kelly said.

He highlighted Sechold's conservative, hands-on approach to risk management which saw all the banks' activities marked to market daily, and clients' assets and liabilities monitored weekly.

"Our four banks are the most effective movers of financial instruments out in the market."

Sechold's after-tax return on average shareholders funds was 31%. "We do not see any other bank on the JSE with that kind of return," Kelly said.

The group was able to offer good rates to investors because of low margins. Indeed, Kelly said, some clients had even been asked to reduce the funds they had on deposit so as to avoid the kind of over-exposure to a single client that plagued the defunct Cape Investment Bank.

On prospects for the coming year, Kelly said it was well within the group's means to attain earnings growth of 15% to 20%.

Sechold shares, which have been on a firm upward trend since October last year when they were trading at around 290c, closed at 420c yesterday.

BoE project allows in small investors

58 · BDay 6/8/91

CAPE TOWN — The Board of Executors (BoE) syndication of its R150m property development in Cape Town's CBD — The Adderley — is the first syndication of its kind in SA which allows the small investor to participate from the beginning in a major property project.

Within three hours of the syndicate's launch yesterday, R1,7m was raised.

But observers point out that the investment is only attractive to the long-term investor as no income will be generated until the project is completed in 1994.

Centurion Property Administrators' Michael Garvin said: "It's a big project — the risks are big, but if successful, the returns will also be big."

There would, however, be an internal rate of return of between 27%-29% (25% excluding all income) over the three years, BoE Properties MD Peter Meakin said. The final yield on completion of the letting programme — assuming rentals of R47m² — was expected to be 9% a year.

LINDA ENSOR

Meakin said the timing of the project was such that it would come on stream at a time to exploit the projected demand for A-grade accommodation in the CBD. A shortfall of 30 400m² in A-grade space in 1994 is forecast.

BoE will hold 5% of the syndication of the existing land and buildings and is offering linked units of R1 001 each, worth a total of R25,7m, in a placing to private and institutional investors with a minimum investment of R25 025 each. A rights issue to raise R125m to fund the development will be held next year. Subscriptions for the offer close on September 16.

BoE Properties director Jonathon Fair said BoE did not have the means to undertake the development on its own and as it was not its investment strategy to take a large long-term interest in property investment, it would only keep a 5% stake. But it would underwrite the rights issue.

The 2 929m² site, which presently houses 10 buildings, will be developed as an office and shop complex with a total letting area of 23 000m² and 413 parking bays. Depending on the capitalisation rate used, the market value of the development in 1994 is estimated at between R170-R220m.

Equity fears 'unfounded'

ROBERT GENTLE

LIFE assurer Old Mutual's fears that the proposed amendments to the Stock Exchanges Control Act would necessarily jeopardise the viability of the equity market were unfounded.

This was the view of Financial Markets Advisory Board member Hans Falkena yesterday, commenting on Press statements attributed to Old Mutual's Investments GM Johannes van der Horst.

Van der Horst had spoken about the authorities having possibly opened a Pandora's box and about a super-efficient rival exchange possibly killing trade in illiquid equities by concentrating on the top 20-30 liquid stocks.

He could not be reached yesterday.

Falkena, emphasising that he was speaking in his personal capacity, said he did not see the authorities licensing an exchange which would only trade in selected stocks at the expense of the rest of the market.

He likened this to "picking the eyes out" of the market, something that even mining companies were prohibited from doing to their ore bodies, he said.

The proposed changes were aimed at removing restrictive clauses that limited competition.

It would allow participants to enter the market according to their level of expertise, and take risk according to their level of capital. It did not necessarily mean a dual capacity market in which participants were able to act as both agent and principal.

Star 6/8/91.

Sechold lifts dividend

Finance Staff (58)

Banking group Sechold has lifted its total dividend to 25,5c on earnings a share up 20 percent to 61,1c (50,9c) in the year to end-June.

The final dividend is 13,5c (11c).

Net income increased 20,1 percent to R14,37 million from R11,96 million.

The group says in spite of the economic stagnation of the past year it showed a satisfactory growth in earnings for the sixth year in succession.

During the year it acquired Interbank and NDH Bank and a 70 percent stake in District Securities Bank without needing to issue new shares. Securities Portfolio Managers continued to make good progress.

Don't rush, would-be home buyers warned

Star 6/8/91

By John Miller
Star Line

Inland Revenue has warned would-be home buyers not to allow themselves to be pressured into buying a house before the end of September.

Trevor van Heerden, chief director of tax policy development, said buyers should rather take their time and not pay a possible 10 percent more for a house in order to save less than 1 percent of its value.

VAT is payable only on the estate agent's fee which is normally about 6 percent of the purchase price, and this tax must be paid by the seller.

"Private sales are not taxable because the seller is not a vendor. However, VAT is applicable on the estate agent's fee.

"On a house of R100 000 the estate agent's fee is normally about 6 percent which equals R6 000 and VAT on this amount works out to R720 — 0,72 percent of R100 000."

He said there was also no tax on transfer duties on houses bought on sectional title.

"Technically there could however be a slight increase in the selling price because of VAT on the estate agent's commission.

"Therefore the seller might push up his price to compensate for the tax he will have to pay the agent."

A spokesman for the Estate Agents Board said even though it was not in favour of VAT, the public had to be aware of their rights and the Government must make the effort to advise people about the new tax.

The spokesman said that to date the board had not received any complaints of agents trying to pressure people into buying a house before VAT is introduced.

If a person has a complaint, he or she must send it in writing along with an affidavit to The Manager, Estate Agents Board, Private Bag X10, Benmore 2010.

The spokesman said one of the most common complaints from the public was that estate agents did not disclose all the facts regarding the house and whether there was a double commission claim when the buyer was forced to work through two estate agents.

Southern buys Botswana stake

B/Day 7/8/91 (58)

SEAN VAN ZYL

SOUTHERN Life has acquired a 10,1% stake in a Botswana-based composite insurance company through the financial rand for just more than R4m, says a statement issued by the assurer.

Southern bought about 1,18-million shares — at the Botswana pula price of P2,15 a share — of Botswana Insurance Holding's (BIH) issued ordinary share capital of 11,85-million shares, according to the statement.

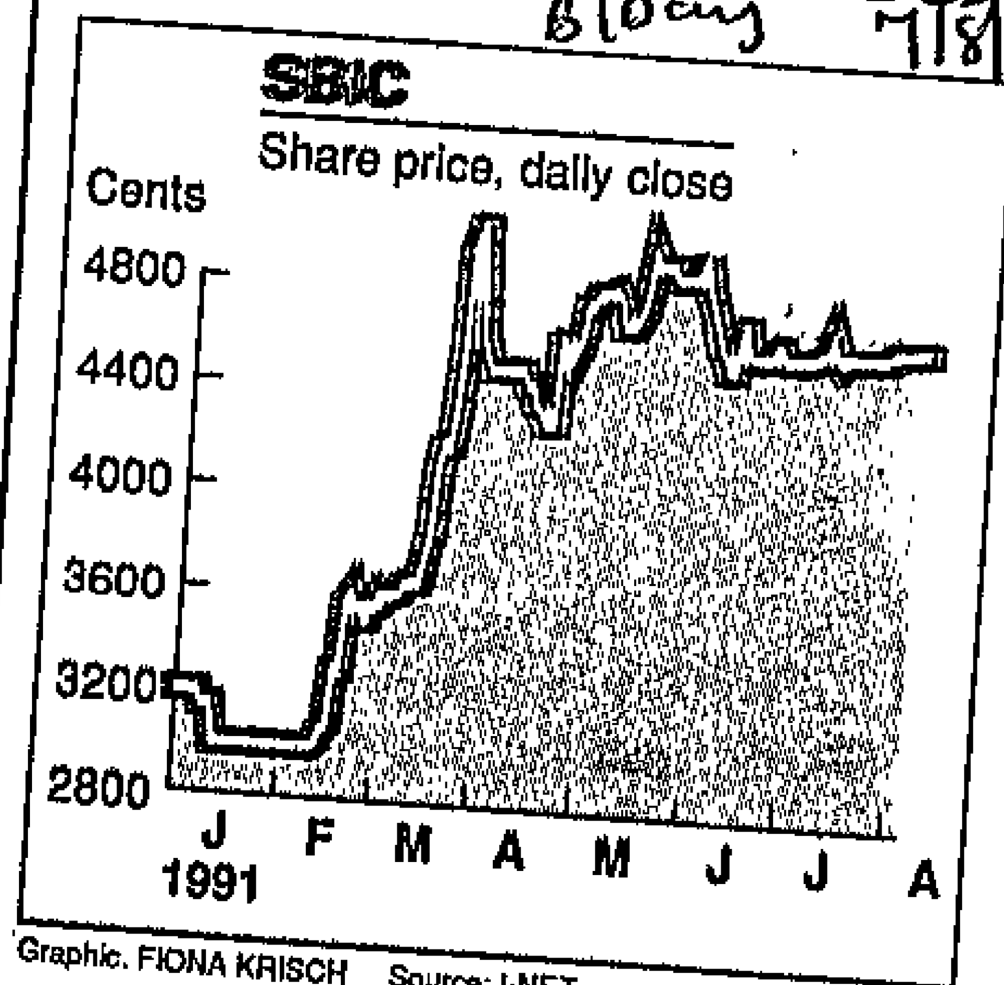
BIH recently applied for a public listing, and had offered 3,85-million ordinary shares at P2,15 a share through a public offer and private placing. BIH, which forms the holding company of short-term insurer Botswana General Insurance and life company Botswana Life Insurance, will be listed on the Gaborone Stock Exchange on Friday.

Southern executive director Arie van der Zwan said that the move reflected Southern's confidence in southern Africa.

BIH MD Jim Parton said that he was delighted with the company's newly formed association with Southern.

Stanbic solid in tough times

B/Day 7/8/91 (58)



Graphic: FIONA KRISCH Source: I-NET

ROBERT GENTLE

STANDARD Bank Investment Corporation (Stanbic) has turned in a solid performance for the six months to the end of June, with earnings a share up 24% to 204c (165c) and interim dividends a share up 19% to 44c (37c).

Stanbic, whose subsidiaries include Standard Bank of SA, Stannic and Standard Merchant Bank, achieved this against a backdrop of high interest rates, significantly higher bad debt provisions and a lack of satisfactory lending opportunities.

Net interest income — the difference between income from funds and interest expenses — rose 37% to R930m (R678m) on

☐ To Page 2

Stanbic

B/Day 7/8/91. (58)

☐ From Page 1

the back of better gross margins.

Stanbic MD Conrad Strauss, presenting the results at the group's Johannesburg offices yesterday, called this increase encouraging, but said it had to be viewed against the relatively weak performance in the previous half-year when margins had been under considerable pressure.

There had been improvements in liquidity and margins, but there was significantly higher provision for bad debts at R193m (R74,6m).

All Stanbic subsidiaries had performed well, Strauss said.

Group staff costs rose 17% and other operating expenses rose 25%, resulting in a total of R1,04bn (R863m).

While admitting Stanbic spent a lot, he dismissed the perception in the market that it was unable to contain costs as well as rival banking groups. What counted was not how much money was spent, but how "cost effectively" it was spent.

This was borne out not only by Stanbic's improvements in its return on shareholders' funds, he said, but also by the fact that it was well capitalised.

Strauss will take over as Stanbic chairman from Henri de Villiers, who steps down next April when his term expires. London office executive director Eddie Theron will take over from Strauss.

Barclays sets sights on SA operation

CT 7/8/91

Own Correspondent

LONDON. — Britain's biggest bank, Barclays, expects to re-open in SA when political and economic circumstances are stable, chairman Sir John Quinton said yesterday.

Unveiling first-half 1991 profits, which were down by 37% at £378m — because of bad debt provisions in the UK, Quinton said no firm decision had been taken.

But when circumstances were more stable "we probably would move back into SA", he told a news conference.

Like Standard Chartered, which will open a representative office in Johannesburg this month, Barclays has no plans for a full retail banking operation. Quinton said it would be an office designed to provide facilities for corporate clients with business and interests in SA.

And in a unique move, Barclays disclosed it had written back £67m of provisions made against its SA loans. Its net loans to SA now stand at £480m, putting it ahead of Standard Chartered which saw its exposure drop from £558m to £398m (net of provisions of 5%).

● FNB MD Barry Swart said last night he had no problem with the Barclays move apart from the issue of how foreign and local banks would "not be operating on a level playing field".

Standard Bank weathers the rough times in good style

Star 7/8/91.

(58)

By John Spira

The Standard Bank group has achieved highly satisfactory results for the six months to June with net after-tax income improving by 25 percent to R209 million.

All banking subsidiaries reflected improved results, with Stannic a particularly strong feature.

Gross margins were higher than they have been "for some time".

An interim dividend of 44c, equivalent to one-third of last year's total, has been declared.

In common with other banking groups, the bad and doubtful debt provision has soared from R74,6 million to R192,7 million — a reflection of the poor state of the economy.

Not surprisingly, chairman Henri de Villiers and group managing director Conrad Strauss label the substantial increase in income as encouraging.

However, they caution that the performance must be evaluated against a relatively weak performance in the first few months of 1990, when margins were under exceptional pressure.

And, with the economy in deep recession, with, they believe, no sign of recovery in the second half of the year, they expect growth in earnings over the year as a whole to be below the relatively high level of the first six months of the financial year.

They nevertheless anticipate a modest improvement in real terms for the full 12 months.

Group assets grew by only 6,6 percent to R48,5 billion — a symptom of the Reserve Bank's tight monetary policy, high interest rates, sluggish business conditions and a shortage of satisfactory lending opportunities.

At the same time, Dr Strauss believes that the group has expanded its overall market share.

Operating expenses rose from R937 million to R1,2 billion. Yet Dr Strauss stresses that the increase should not give cause for concern.

"As long as we are spending money cost effectively — as indeed we are — our return on assets will improve. The group is well capitalised."

Shareholders holding not fewer than 1046 shares may elect to receive new shares at a price of 4600c a share (current market price 4660c) in lieu of dividends.

The group's interim results go a long way towards justifying the stock market's confidence in the shares, which have added a steep 46 percent since the beginning of the year.

Yielding a historic 2,9 percent, they are rated well above the average for the JSE's banking sector.

Conrad Strauss

Eddie Theron

De Villiers to retire

Henri de Villiers is to retire as chairman of the Standard Bank Investment Corporation (Stanbic) and the Standard Bank of SA (SBSA) from mid-April 1992.

Dr Conrad Strauss, current group MD of both operations is named as his successor.

Eddie Theron, an executive director of SBIC in the group's London office, takes Dr Strauss's post with effect from the beginning of 1992.

Other changes include the promotion of Standard Merchant Bank (SMB) MD Peter Prinsloo to succeed Mr Theron, the appointment of Jacko Maree as MD of SMB and the promotion of SBSA MD Mike Vosloo to executive director of Stanbic.

Mr de Villiers will remain a director of SBIC and represent the group as a director on the board of Liberty Life.

New structure envisaged for Development Bank

By Sven Lünsche

The Development Bank of Southern Africa (DBSA) is looking into a new structure and functioning in line with constitutional change in South Africa, says the bank's chief executive Dr Simon Brand.

The bank has recently been criticised by among others, ANC leader Dr Nelson Mandela, for not consulting sufficiently with community-based organisation in the implementation of its projects.

Dr Brand said that the reconstruction of the DBSA during the transition period would have to be mainly in its mandate and accountability, while accelerated progress would have to be made "in achieving a more representative composition of staff and management and all levels".

"Our governing structures, that is the Board of Directors and the Council of Governors, will also clearly have to be reconstituted," Dr Brand said at a seminar in Durban last week.

"If these changes had to wait until a new constitution has been put into effect, it is virtually certain that the momentum of development activities will be seriously affected."

But he was adament that the bulk of the projects supported by the DBSA were likely to "stand the test of changes in the political and constitutional framework".

"The Bank has always concentrated on the socio-economic merits of projects and programmes ... and we have required independent verification, based on wider consultation of the needs by the communities who are to be affected by the projects."

The two-tier governing structure had also protected the DBSA from sectional political interference, Dr Brand said.

The DBSA has been actively pursuing possibilities of providing support to community-based and non-governmental development organisations in terms of "delivery mechanisms" of its funds.

"After initial reluctance on the part of such organisations, significant progress has been made in more recent times in this direction.

"In the process the Bank has been able to play a catalytic role in the emergence of interim structures at local government that have the potential of becoming more acceptable and more effective delivery mechanisms than the Black local authorities."

Dr Brand also called for a more pragmatic approach by community-based organisations"if the maintenance and acceleration of the development momentum is set as the objective, rather than political agendas derived from the overall constitutional issues".

Such a more pragmatic policy would aim at combining the community support of newly emerging structures, with the statutory authority that still vests in the existing bodies (such as black local authorities) and with the capacity of institutions in the developed sector (white local authorities and private business).

Dr Brand said the Bank had expanded more recently into neighbouring countries, "although such involvement has been limited mainly to policy advice and technical assistance in the preparation of projects.

"In this process there is likely to be increasingly intensive cooperation with overseas development funding agencies with programmes in Southern Africa."

Bedding down a financial giant

Star 7/8/91 (58)

By Heloise Trusswell

Bunkered down in his 28th floor United Towers eyrie, Amalgamated Banks of South Africa (ABSA) chairman Herc Hefer reveals his business ethos: "Render the best service when it is required. Always prepare yourself for the job, then do it."

In contrast to ABSA chief executive Piet Badenhorst, Mr Hefer, 63, is a low key player. He hasn't played golf in two years. He prefers game parks to high glitz social events. At weekends he prepares for board meetings on Monday morning. He enjoys travel and watching sport on TV.

Before joining UBS Holdings as chairman in April 1987 he was chairman and executive partner of accountants Aiken and Carter, subsequently Aiken and Peat, for 13 years.

He is chairman of Momentum Life Assurance and Control Instruments Group, deputy chairman of Soekor, Volkskas Group and Volkskas Bank and a director of several other companies.

He is an accountant member of the Income Tax Special Court and member of the Standing Advisory Committee on Taxation.

Rumour has it government connections helped Mr Hefer, an Afrikaans farmer's son from the Western Transvaal, to the top.

Mr Hefer says: "Nothing could be further from the truth. I'm not a political animal. I've been in practice for a long time. I know a lot of people on a personal level and it helps to know people on a personal level.

"But I have never asked nor been given one cent of preference on anything. In all of these things there is integrity and living with your conscience."

He works like a Trojan says Piet Badenhorst, with whom Mr Hefer has an excellent working relationship.

Mr Badenhorst says: "I go in with a bulldozer and Herc goes in with a diplomatic glove. But don't think for one moment that he's soft because he's not."

The Hefer-Badenhorst partnership was on track from the time Mr Hefer took over as UBS Holdings chairman.

"We were both lucky because we hadn't worked together before and we fitted in very well," says Mr Hefer.

In a financial institution "you can never be a completely non-executive chairman. That doesn't mean you interfere or get involved in daily operations. Piet and I work together, discuss tactics, policy, strategy. I'm kept in the picture. I act as a sounding board for him, maybe as guide and philosopher."

Making the R50 billion financial behemoth work is a herculean undertaking. Sitting behind a desk as big as a launch pad, Mr Hefer, medium sized and somewhat stocky, claims not to be fazed.

"The organisation has to be bedded down. The bottom line is to increase value for shareholders. The approach is to do it in one year. I think we can do the whole thing in three years."

His forecast on the ABSA share price?

"I never like to speculate on share prices but there will be considerable benefits from rationalisation."

Thorny issues demand attention. Will many be retrenched because of rationalisation?

"There's no formal retrenchment programme at present. Natural attrition is at such a level it is not necessary. Pre-ABSA, Allied management advised a significant number of people to take early retirement.

"I believe jobs are secure. If you don't need skilled people in one capacity you need them in another in such a big organisation."

Are Afrikaners favoured in senior management appointments?

No, says Mr Hefer. "Many of our top guys are Afrikaners. But show us the right English speakers and we'll appoint them. We will not appoint a guy who cannot do the job just because he speaks English."

Qualities needed to succeed as chairman?

"You must be able to work with people."

How did he make it to the top?

"I think I've been lucky. I've been in the right place at the right time."

In 1987 former UBS Holdings chairman Phil Sceales invited Mr Hefer to succeed him as chairman. At the time Aiken and Carter were auditors of some UBS branches.

"I thought it was a joke," recalls Mr Hefer. "I said crikey, I'm just an accountant."

The invitation was well timed.

"My philosophy at Aiken was that as senior partner you reach obsolescence not at a certain age but after a certain number of years. You lose the fire in your belly."

What motivates him?

"When I started it was the desire to succeed and get somewhere. Then it becomes part of you. I like a challenge, to prove that I can do it as well as anybody else."

As I leave he tells me: "Don't blow it up. I'm not superman."

Herc Hefer . . . "you can never be a completely non-executive chairman".

5 000 teachers march in CBD

TANIA LEVY

ABOUT 5 000 singing and chanting teachers marched through Johannesburg's CBD yesterday, demanding immmediate recognition of the SA Democratic Teachers' Union (Sadtu), a "living wage" and a single education system.

They converged on the Department of Education and Training offices in Braamfontein where memoranda were handed to DET Johannesburg assistant director Peet Fourie, flanked by two armed policemen in camouflage uniform.

Similar marches were held countrywide to highlight Sadtu's demand for recognition by the National Education Department.

Leaders of the Johannesburg march said they were "deeply disappointed" that DET Johannesburg regional director Richard Motau had not met them in person. They were angry that they had been refused entry to the building.

"We believed the DET had an open door policy," said Sadtu southern Transvaal chairman Ismail Vadi.

Vadi said President F W de Klerk and National Education Minister Louis Pienaar had until August 30 to respond to demands or teachers would take further mass action.

Insurers probe a surge of fraud

SEAN VAN ZYL

SHORT-term insurance companies are conducting an urgent investigation into what they claim is an alarming escalation in the number of fraudulent claims.

Spokesmen said yesterday that in many cases companies had reported a rise in false claims in excess of 70% compared with 1990.

They said insurance fraud had increased in most classes of cover but the recession had pushed the public to "desperate measures", resulting in personal-lines and motor insurance-related fraud claims soaring.

Insurers reported cases of people re-registering old vehicles and insuring them as new models. The vehicles later disappeared or were written off in accidents.

General Accident head office claims manager Jeffrey Smith said his company had now appointed a full-time fraud investigator. However, it was almost impossible to investigate every claim due to the volumes involved.

Smith said if the incidence of fraud-related claims continued to climb, insurers would be forced to investigate every claim submitted and to value the property prior to the issue of cover.

A number of vehicle-related claims found to be fraudulent involved false registration papers. He added that these incidences usually involved professional confidence tricksters, who were in the minority.

Most fraudulent cases were perpetrated by people "reporting exaggerated values on their property".

Auto & General spokesman Nick Mew said that cases of "double insuring", in which the same property was insured twice through two different insurers, had become more noticeable.

Insurance brokers PFV Group director Brian Gillespie said about 99% of the risk underwritten by insurers would not normally be evaluated at the time of the policy being signed.

While insurers have levelled critism against some brokers for signing up unsound business, Gillespie said "there is nothing more a broker can do above that of an insurer to detect fraudulent claims".

However, it would be almost impossible for frauds to work if proper claim-handling control systems were maintained.

Researcher: AIDS has entered explosive phase

TANIA LEVY

SA's AIDS epidemic had already reached the start of its "explosive phase" and the disease would spread rapidly in the next five to six years, Wits Health Policy Unit senior researcher Jonathon Broomberg said yesterday.

In a paper read out at the same AIDS conference at the Wits Medical School in Johannesburg, ANC health spokesman Dr Manto Tshabalala said AIDS was a political issue.

The battle against AIDS had to be linked to the fight for racial and economic equality, the emancipation of women, compulsory education, adequate housing and the overhaul of the migrant labour system and the health system, Tshabalala said.

Broomberg said it was vital for government to improve the detection and treatment of other sexually transmitted diseases (STDs).

People with STDs were more likely to become infected and pass on the AIDS virus.

Broomberg said the incidence of STDs was as high as 25% in some sectors of the SA population. He said about 180 000 people were believed to be HIV-infected at present.

By the year 2005 about 892 000 people would have already died of AIDS.

BUSINESS

Stancha keeps an open mind on SA

(58) B|Day 8/8/91

JOHN CAVILL

LONDON — Standard Chartered, the £24,6bn international bank, is keeping an open mind on whether the opening of a representative office in Johannesburg will be followed by establishment of a full branch or subsidiary.

Stancha chairman Rodney Galpin said yesterday the decision to move back into SA, four years after disinvesting from Stanbic, was made at a full board meeting in Zimbabwe earlier this year.

"We believed SA is an important place to be," he said.

Galpin was asked whether Stancha would consider opening a banking branch as opposed to the trade financing office.

He replied that this would depend on developments.

He disclosed that Stancha had had a 25% drop in pre-tax profits to £83m for the first six months of 1991.

He said it had showed an increase of £71m in its gross lending to SA to £490m since the end of December 1990.

In dollar terms, however, its exposure is $12m down at $797m.

Both figures are before Stancha's provision against the debt of 5%, the lowest of any leading UK bank.

Stancha has provided 66% against its loans totalling £1,1bn to less developed countries and 33% against the £618m owed by Mexico and Venezuela.

The interim figures show that Stancha is being sustained against heavy losses — after debt provision — in the UK, Australia and North America by strong growth in the Asia-Pacific region.

Profits

It has also been bolstered by steady business in the Middle East, south Asia and in Africa.

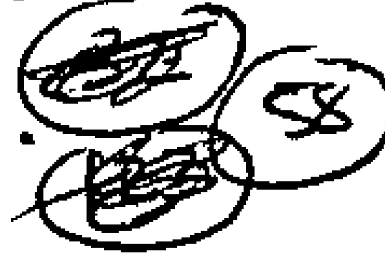
While provisions of £96m against UK loans — mostly to one business — turned British and European trading profits of £18m into a loss of £55m, Asia and the Pacific — led by Hong Kong with £52m — gained 19% to £100m.

And in spite of currency devaluations in many of the 13 African countries in which Stancha operates, the continent produced £19,2m.

This figure was up nearly 5%.

High mortgage rates are blamed for downtrend

Sowetan 8/8/91



THE residential construction market is in dire straits in spite of booming prices of existing houses in white suburbia, says Erwin Rode, editor of the *Rode* report on the SA Propert Market, in his latest report.

"This is because of the high mortgage rates in the case of custom-built market, and the collapse of the social fabric in the black townships.

"The only sub-sector which is still doing well is townhouse construction. But this is because of a secular trend towards this type of accomodation, which partially insures these builders against the downswing of the business cycle.

"It is a sobering thought that, at the end of last year, only 2 000 homes were started every month. Considering the backlogs and ever-growing need, this is just not good enough," Rode adds.

The non-residential construction industry is still relatively healthy.

According to the report, contract prices of non-residential construction, as measured by the BER Building Cost Index, surprised everybody in the first quarter of 1991 by again accelerating to above 15 percent.

"It is too early to say that this one quarter's results herald a turnaround in the growth trend. But it nevertheless does illustrate that the growth in contract prices is not declining precipitously," he said.

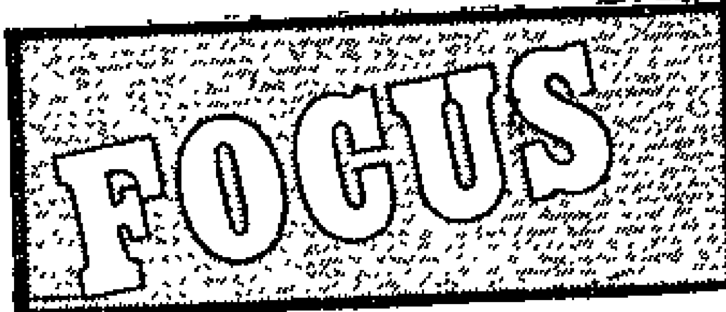
In contrast to non-residential building costs, home building costs were still decelerating at the end of 1990. This applied to both custom-built homes and mass housing schemes.

In December 1990, custom-built home building costs were about 13 percent higher compared with a year earlier, whereas scheme building costs were running at only 10 percent compared with a year earlier.

Frustration of blacks to get bonds grows

Sowetan 8/8/91.

VINO NANKAN, managing director of Venrich Housing, throws the spotlight on the critical difficulty black home buyers face in obtaining a bond.



BUILDING societies have taken the undeclared standpoint that granting bonds to blacks is a risk as a result of the violence and unrest and the escalating number of repossessed houses in townships.

This view is being increasingly voiced in low and medium-cost housing circles.

The reluctance of building societies to grant bonds to the black housing sector has reached crisis point. Some black home buyers have been struggling to obtain bonds for an unbelievable nine months. At present, I estimate, that only five percent of all black bonds submitted to building societies are being granted.

Excuses

Building societies are giving frivolous excuses for not approving them. They seem to have taken the decision not to grant bonds and therefore 95 percent of bonds that are applied for are refused. My figures are sourced to informal responses from my submissions of bonds to building societies.

In my opinion this is an unacceptable situation as each case should be considered individually and more importantly, impartially. If the building societies previously had bad accounts, why discriminate against new prospective home buyers?

Black bonds appear to be like a disease to building societies. They have raised the criteria to ridiculous heights. For example, one building society said: "The man must earn more than the woman." Another said: "A man's net salary excluding his bonus, contribution to trade unions, pension etc is the amount considered as his income during bond application."

Traditional marriages are unacceptable - marriage certificates or an affidavit must be submitted.

In my company alone, I have a backlog of 300 bonds that have not been approved over this nine-month period. The administration and hours of work that it takes to re-submit these applications is phenomenal. I have resubmitted some bonds 10 times. Each time new contracts must be drawn up, the aspirant home buyer must be called in to resign and the papers must be delivered to the financial institution.

My company, in common with many other developers, has continued selling in the belief that this situation will eventually be resolved. The violence and unrest in the townships is now minimal and yet bonds remain ungranted.

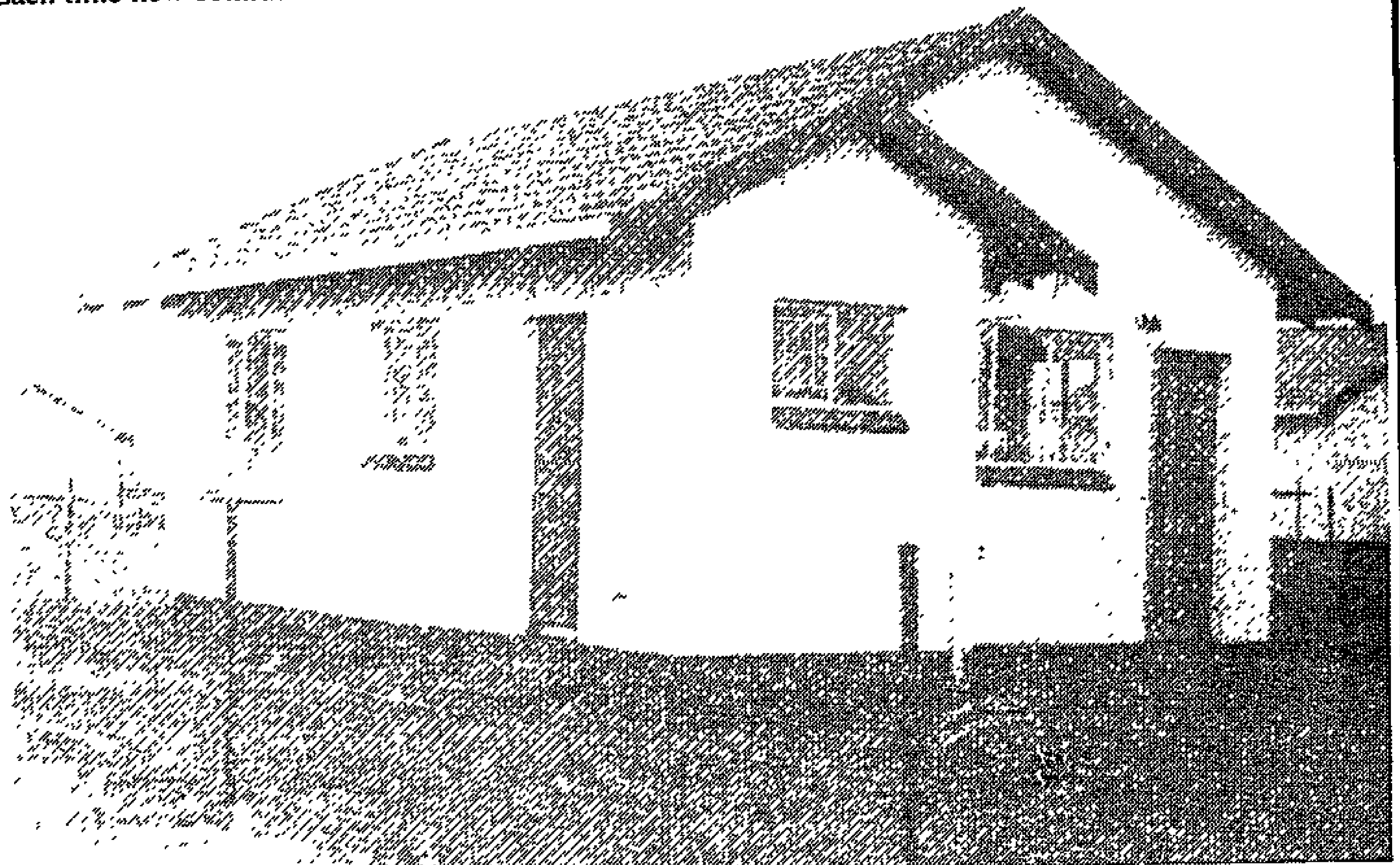
Backlog

Every day I receive hundreds of phone calls regarding the delay on the approval of bonds. Most of the buyers do not fully understand the situation with the building societies and it takes me hours to explain this incongruous state of affairs. In fact, due to this nine-month backlog, some buyers have withdrawn their offer to purchase a house.

The backlog of housing in this country is as a result of the Government's poor planning and lack of consideration for 70 percent of the population. Now developers like us who regard blacks as the future of our industry and are committed to alleviating this crisis, are met with bureaucracy and frivolous excuses by financial institutions.

I am now in the process of establishing a Contractors Association which will stand together against building societies.

I am determined to resolve this crucial issue as the lack of black housing is a crippling factor in our country's economy but without the co-operation of the financial institutions, progress in this regard is not possible.



HOME SWEET HOME: Out of the reach of most blacks.

Huge bond crisis

Sowetan 8/8/91.

BUILDING societies are refusing to grant bonds to many potential black homeowners because of the high rate of repossessions in the townships.

This is according to two firms which deal with township housing projects.

They say the reluctance by building societies to grant bonds to blacks has "reached crisis point".

By KENOSI MODISANE

"I have a backlog of 300 bond applications from the past nine months," said Mrs Vino Nankan of Ven Rich Housing.

In an article written for *Sowetan* today Nankan accuses financial institutions of having taken an unspoken standpoint that granting bonds to blacks was a high risk.

To Page 2

Black bonds crisis

From Page 1

Bonds are becoming almost impossible to obtain in the townships. So says property developer Vino Nankan.

She will be the guest on Tim Modise's "Face the Nation" programme on the *Sowetan*/Radio Metro Talkback Show between 5 and 6pm today.

You will be able to speak to her and also share your opinion with the nation.

The hotline number is 714-8063.

Sowetan 8/8/91.

"Violence and unrest in the townships has also been cited among reasons for rejecting applications," Nankan said.

Her sentiments were echoed by a spokesman for another construction company who, on condition that she was not named, said: "Financial institutions have complained of running at a loss because many houses bought by blacks have had to be sold at a nominal value."

She attributed this to a failure to pay bond premiums by black homeowners.

"Many black buyers only afford to pay for three to four months after taking occupation of their homes," she said.

Mr Dave Wright of the Permanent Building Society's home loans division, however, refuted the allegations.

"I do not want to be heard to be speaking on behalf of other institutions. But we at the Perm have not had such a problem."

Wright said: "It would be difficult to comment because the assessment is that of a developer and not of a financial institution."

Asked to reveal statistics of loans Wright said: "The statistics are obviously not the same as they were three years ago. But I can assure you that the *status quo* at the Perm has not changed with regard to the black housing sector."

• See page 8

DTI ACT

Lobbyists enjoy Scoffing

FM 9/8/91 (58)

One more spectre of the level playing fields debate has been laid to rest, by a 10-line notice in the *Government Gazette*. Life assurance premiums are *not* deposits and that, it is to be hoped, is the last word on that subject. Francois Jacobsz, chairman of the Joint Standing Committee on Finance, (SCOF) which swung the Deposit-Taking Institutions (DTI) Act through Parliament, wholeheartedly agrees.

Everyone remotely associated with one of SA's more bizarre pieces of financial legislation is keen to be seen only at a distance. Section 1(vi) of the Act became a classic example of how not to legislate.

In its original form, the Bill excluded life premiums from the definition of deposits. Then, at the height of the banks and building societies' attempts to level the playing fields with life companies, a delegation led by the Perm's Bob Tucker lobbied SCOF.

As a result, life premiums, instead of being excluded from the definition of deposits, were excluded only for six months after the Bill's enactment. Confusion and executive hours spent trying to correct this state of suspended animation rapidly mounted up.

Everyone questioned about the strange legislative process maintains it was introduced as a stalling mechanism while they awaited the report of another committee, headed by Finance Minister Barend du Plessis' special adviser Japie Jacobs, on the desirability of introducing level playing fields for banks and life offices.

This argument, however, does not hold water, as Du Plessis had already publicly defined premiums as money held in trust for policyholders — not deposits. Jacobs could hardly override that.

The ramifications, had the matter not been rectified, would have been immense. Life offices would have had to report, as do banks, to the Reserve Bank as well as the Financial Services Board. They would have been subject to the same asset:liability ratios.

"It would," remarks Life Offices Association deputy director Jurie Wessels, "cut again across the principle that life assurers are simply trustees for policyholders. The requirements to hold interest-free deposits with the Bank would have gone against the assurers' mission, to maximise capital growth for policyholders."

As the two largest assurers are both mutuals, they would not have been allowed to register under current banking legislation. The confusion reportedly embarrassed both Du Plessis and the Bank, which had no wish to find life offices under its wing.

In defence of SCOF, Wessels points out that, at the time, Jacobs was expected to make a comprehensive report on the level playing fields debate. By inserting only a six-month moratorium at first, SCOF was banking on Jacobs' report being ready and that a total overhaul of the legislation and regulations governing financial institutions could be prepared.

Japie Jacobs

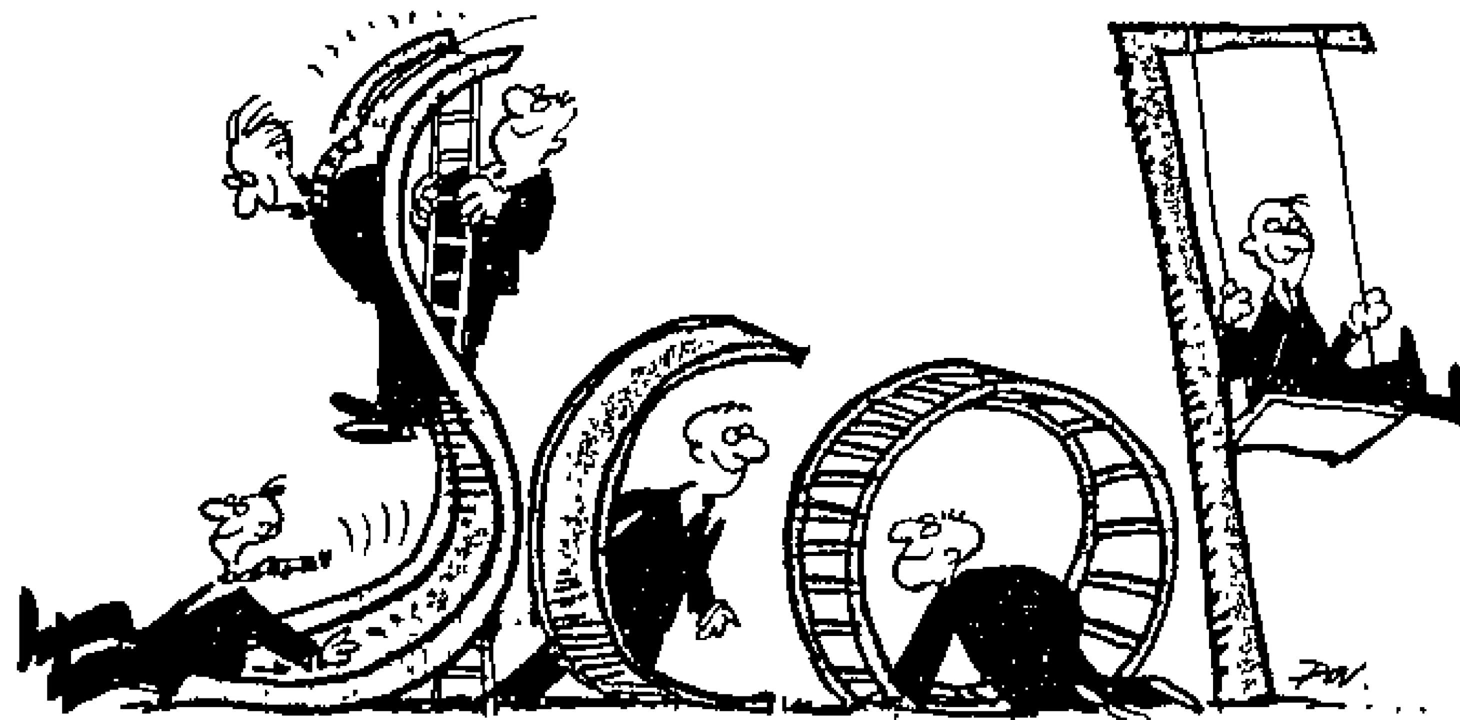
In the event, Jacobs simply produced an addendum to Du Plessis' Budget, stating that moves to reduce the flow of funds to assurers would not necessarily reroute savings to banks and building societies. His next report is now not expected until 1992.

The Reserve Bank confirmed this week that life offices will not be governed by the DTI Act. Recommendations with regard to changed prudential requirements for life offices that may possibly emanate from Jacobs' inquiry will have to be incorporated in legislation pertaining to insurers.

That is the crux of the bungle. Banks have liquid asset requirements for prudential reasons. Life offices have prudential investment guidelines. Each recognises the responsibilities of totally disparate industries. SCOF's blurring of the waters caused only confusion and much loss of valuable time.

It is unlikely to be the last legislative muddle created by the system of standing committees, which were supposed to streamline the work of parliament but have been described by one participant as a "playground for lobbyists."

The joint SCOF is not overburdened with members from financial backgrounds. There are two economists and one CA (though Jacobsz points out the committee includes some shrewd business brains). On this occasion the subtleties of the DTI legislation seem to have escaped them. ■



PLATINUM

Golden link

FM 9/8/91

Japanese disillusionment with platinum has followed diminished expectations for silver in putting a damper on gold. But it is a knee-jerk reaction and the short-term linkage of sentiment between the precious metals belies the differing fundamentals of the three.

Platinum is in oversupply. Last year's surplus of 70 000 oz threatens to be higher in 1991: Soviet shipments in the first six months of more than 700 000 oz are equal to the whole of the previous 12 months. The US plans to sell US$100m worth from its strategic stockpile. There are doubts about the strength of economic recovery in the US and hence the outlook for autocatalyst demand.

So platinum should be trading like an industrial metal, London analysts argue.

The two metals are chalk and cheese. Jewellery offtake accounts for 71% of gold demand and last year almost matched Western mine production and "communist" bloc net sales.

Only 36% of platinum goes into jewellery; 91% of that is in Japan (1,19m oz or 32,5% of world demand last year, according to Johnson Matthey). Such overlap as there might be occurs only in Japan, where gold carat jewellery fabrication amounted to some 3,3m oz in 1990, only 5,2% of the global total reported by Gold Fields Mineral Services.

"But Japan is a taste-driven market for platinum jewellery. There is not much evidence that a price differential against gold has a marked effect," says Jon Bergtheil of stockbroker James Capel.

Historically there is little to suggest significant jewellery ties between platinum and gold. Between 1986 and 1990, Japanese platinum jewellery consumption shot up by 61% — during a period when its premium over gold approached $180/oz and established what came to be regarded as a rule-of-thumb range of around $120-$140.

By contrast, Japanese gold jewellery fabrication increased by only 26% in the same period, against a global 72%.

Yet the two metals broadly tracked each other at a consistent distance over the past five years — with the notable exception of the final quarter of 1987, which embraced the October equity Crash and first of 1988, when conflicting anxieties about the world economy closed the price differential down

Continue →

SBIC

FM 9/8/91

Credit demand wilting

It was fortunate that banking margins began to widen to more healthy levels by the first quarter of this year. Standard Bank Investment Corp (SBIC) managed to lift its attributable income by a quarter in the first half of the 1991 year, though there was little help from the marketplace.

Total assets advanced by only 6,6% and CE Conrad Strauss says this simply reflects economic conditions, rather than any loss of market share or a deliberate decision by management to curb its lending activities.

"Economic activity slowed down and we have been seeing very little demand for credit," he says. The limited asset growth does, however, partly reflect the quality of business currently available. The bad and doubtful debt provision more than doubled, rising from R74,6m to R192,7m, with a growing percentage in the category of less than R100 000.

INTEREST SURGE

Six months to	Jun 30 '90	Dec 31 '90	Jun 30 '91
Net int income (Rm) .	678	874	930
Operating exp (Rbn)	0,94	1,06	1,24
Net income (Rm) ...	162	251	203
Earnings (c)	165	257	204
Dividend (c)	37	96	44

The profit growth was derived largely from the improvement in gross margins, which reached levels not seen for some time, and from better control of certain costs. Net interest income jumped by 37,2%. The directors note, however, that the result should be seen against the relatively weak performance of the first half of 1990, when margins were under exceptional pressure.

Even so, there is enough momentum and the returns sufficiently high to ensure that chairman Henri de Villiers will retire at the next AGM (April 12) on a high note. De Villiers, who will be 67, will be succeeded by Strauss, now aged 55. Eddie Theron, now running the London operations and presently number two in the executive hierarchy, will become group MD.

De Villiers will remain a director of SBIC and will also remain on the board of its associate company, Liberty Life. Strauss notes that the SBIC chair is not an executive position, but tends to be virtually a full-time job. It remains an open question whether these moves will ultimately be seen to be related to a succession plan for Liberty.

In any event, the figures so far for 1990 indicate further improvement in the return on assets and, probably, the return on equity. Total shareholders' funds at June 30 were up by 11,5% on the year-ago level. At year-end, ROA was stated as 0,93 and the return on equity at 18,99%, both easily in the upper levels for the banking sector.

Operating expenses were up by nearly a third, at R1,24bn, having been boosted largely by the big, bad and doubtful debt provision and by a rise of a quarter in other operating expenses. The increase in staff costs was held to 17,3%. Capital and operating expenditure was affected by a reconfiguration of the branch network, particularly in Standard Bank, which is the biggest spender in the group. The reconfiguration process will be mostly completed by the end of next year.

All the banking subsidiaries did well, but the performance of Stannic — whose book was restructured over the past couple of years — was especially strong compared with its "modest" profit contribution in the first half of 1990.

Strauss says the group has not seen any sign of improvement in business conditions, so there is no reason yet to expect a pickup in asset growth during the second half. As a matter of policy, the funding book has been structured in a neutral way and is not designed to anticipate a reduction in interest rates. Any further decline in rates that does occur this year would thus have only a marginal effect on SBIC's banking margins.

Even so, the gross margins should be better than in the second half of 1990 and there could be scope for tighter control of costs in some areas. A slower pace is likely in the second half, but the directors are expecting a modest improvement in earnings in real terms for the year.

Andrew McNulty

BANKING FM 9/8/91

Under cover (58)

Banks are traditionally reluctant to divulge financial information. Many in SA have recently improved their reporting standards and are moving closer to disclosure requirements proposed by the SA Institute of Chartered Accountants (Saica).

But a survey of 10 domestic banks by

continued →

Hide and seek

Compliance with proposed accounting guideline disclosure requirements

	Allied Group	Bankorp Holdings	Boland Bank	FNB Holdings	NBS Holdings	Nedcor	Saambou Holdings	SBIC	UBS Holdings	Volkskas Group
Accounting policies										
Recognition of principal types of revenue	some	some	some	some	some	some	some	some	some	some
Valuation of securities and financial derivative instruments	some	some	some	full	full	full	some	full	full	some
Basis for determination of losses on loans and advances	full	some	none	full	some	full	some	full	full	some
Balance sheet										
Assets Correct categorisation and disclosure in order of liquidity	some	some	some	full	some	full	some	full	some	some
Liabilities Correct categorisation and disclosure in order of liquidity	some	some	some	full	some	full	some	full	some	some
Dealing securities and marketable investment securities Market value	full	full	full	full	some	full	some	full	some	some
Undisclosed reserves Maintenance of undisclosed reserves is inconsistent with GAAP	*	*	*	*	*	*	*	*	*	*
Income statement										
Detailed disclosure	some	some	some	some	some	some	some	some	some	some
Maturity analysis										
Disclosure of assets, liabilities and off-balance sheet items to maturity	none	some	none	some	none	some	none	none	none	some
Repricing of assets and liabilities										
Disclosure of of assets and liabilities into repricing groups	none	none	none	full	none	none	none	none	none	none
Concentration of assets and liabilities										
Disclose any significant concentrations of assets, liabilities and off-balance sheet items	none	none	none	some	none	some	none	none	none	none
Amount of significant net foreign currency exposures	none	none	some	some	none	some	none	some	none	none
Losses on loans and advances										
Movements in provision	none	none	none	full	some	full	none	full	some	full
Disclosure of:										
Losses on uncollectable loans and advances	none	none	none	some	none	some	none	some	none	none
Loans and advances written off	none	none	none	full	none	full	none	full	none	some
Recoveries of loans and advances previously written off	none	none	none	full	none	full	none	full	none	full
Aggregate provision for losses on loans and advances	full	full	none	full	full	full	none	full	some	full

* = not possible to determine from annual financial statements

Source: KPMG AIKEN & PEAT

KPMG Aiken & Peat's Banking & Finance Group reveals that none complies fully with the requirements of the exposure draft.

No one income statement provides all details required. And all fail to state whether they have hidden reserves — this is out of line with Generally Accepted Accounting Practices, which require movements to and from reserves to be disclosed.

There is either no or insufficient disclosure on: significant concentrations of assets, liabilities and off-balance sheet items; net foreign currency exposures; and maturity analysis of assets, liabilities and off-balance sheet items. And banks do not sufficiently recognise the principal types of revenue or losses on uncollectable loans and advances.

The proposals were set out in an exposure draft, circulated to banks — who have until later this year to comment — in June. The proposals are based on an international accounting statement, IAS 30, issued by the International Accounting Standards Committee in January 1989.

The survey rated First National Bank first, disclosing fully 10 of 17 requirements; Saambou fails to disclose fully every requirement (see table). Boland Bank discloses fully only one element; Bankorp, UBS Holdings and NBS two; Allied and Volkskas three; Nedcor and Standard Bank nine each.

Aiken & Peat Banking & Finance partner Tim Bashall says Saica's Accounting Practice Committee will issue the exposure draft as a guideline once amendments have been made. But it has no legal force; banks will still be able to hide behind exemptions allowed by the Companies Act. Many larger banks, in particular, are making an effort to fall into line with the requirements of the exposure draft but others are still failing dismally, making it difficult for the public to determine a bank's true financial status.

The Standing Advisory Committee on Company Law has circulated an amendment to the Fourth Schedule of the Companies Act (which exempts banks and insurers from full disclosure). If the committee accepts the final version, it will advise the Registrar of Companies to scrap the exemption. An amendment to the Act is likely to be brought before parliament next year.

The KPMG Aiken & Peat analysis is done on 1990 year-end figures, released before the formation of Absa. It is part of a banking survey which will be produced annually. ■

FM 9/8/91 (58)

SECHOLD

Shareholders' prize

Sechold emphasises return on average shareholders' funds rather than on average total assets. In the financial year to June 30, the return on shareholders' funds was 31%, the highest in the banking sector — a notable achievement in a year when shareholders' funds rose 24,7%.

MD Arthur Kelly says this measurement is "more pertinent to the business." As the group concentrates on trading various financial instruments, total assets are volatile and have no direct link to profitability.

Shareholders' funds rose to R50,9m, mainly as a result of the purchase of 70% of District Securities Bank and the remaining shares of subsidiaries Interbank and NDH Bank. By buying companies at a discount to net asset value, Sechold managed to increase shareholders' funds without issuing new shares. And net income increased more significantly than it otherwise would have done. Compound growth of shareholders' funds over the past six years, boosted by R9m share capital from the 1987 listing, is 47%.

Sechold restructured the capital bases of the operating banks, except District Securities Bank. It used some of Securities Investment Bank's capital to recapitalise NDH Bank by R3m. All its deposit-taking institutions (DTIs) are adequately capitalised in terms of the DTI Act requirement of 4,5% by end-1991. Interbank has a capital adequacy ratio of 15%; NDH 9,8%; District Securities Bank 5,8%; and Securities Investment Bank 5,2%. Kelly sees no need for rights issues to meet the 8% requirement by 1995.

Net income after tax rose 20% to R14,4m despite what Kelly calls limiting factors: "Adverse conditions were caused by an inverse yield curve, high interest rates, negative perceptions towards small banks and lack of interest rate volatility."

Unlike other financial institutions, which have changed their DTIs to divisions, Sechold has kept its banking subsidiaries as separate DTIs.

Kelly

Others have divisionalised to avoid paying VAT on intercompany fees, among other reasons. But Kelly says Sechold does not have these fees and indications are that merchant banks and trading operations will be treated differently from commercial banks for VAT purposes. Though functions overlap in many instances, he says it's important for each bank to have its own identity.

Sechold's four DTIs are Securities Investment Bank, Interbank, NDH Bank and District Securities Bank. The status of the first three as discount houses was removed by the DTI Act in February; their names were changed to reflect this.

Kelly says the change has been favourable as capital and liquid asset requirements are less onerous than under the old Act.

Securities Investment Bank is the largest profit source, contributing 37,6% to the total, Interbank 22,9%, NDH 22,3% and new acquisition District Securities Bank 4,9%.

The remaining 10,3% is categorised as "other." The rest of the group includes a portfolio management company, a property arm and administration companies.

Kelly says the aim is growth of 15%-20% a year. He says new opportunities arise from being classed as DTIs rather than discount houses One opportunity Sechold intends exploiting is the home loan market. ■

Cheques won't be cleared

Finance Staff Star 9/8/91 (58)

First National Bank has told the SA Banks Technical Committee that it will return to the presenting banks all cheques drawn on Barclays Bank in Lesotho and Swaziland.

Senior general manager Jimmy McKenzie said Barclays Bank in Lesotho had been on strike since July 22 and FNB had been unable to obtain counter-value for cheques drawn on the branches cleared to FNB, which sponsored Barclays Bank Lesotho in the cheque clearing system.

"While this move will no doubt have an adverse effect on some businesses, we have no choice but to protect our own interests," he said, adding that as much as R42 million could be involved.

Far-sighted Strauss moves to top with Standard Bank

58 ARG 10/8/91

TOM HOOD
Business Editor

THE Standard Bank this week appointed a new chief, Dr Conrad Strauss, who moves into the chairman's seat on January 1.

Dr Strauss, managing director for 13 years, replaces Mr Henri de Villiers who, at 67, is retiring.

Though a modest banker, Dr Strauss spoke contrary to trendy economics 24 years ago when he warned businessmen that some white markets were near saturation point and said marketing men should set their sights on the fast-growing black area.

Dr Strauss, then the bank's economic adviser, raised eyebrows by saying the gold-mining industry had reached a stage where technological limitations and a price ceiling might force production to cease in about 30 years.

He said there was natural concern about the ability of the economy to retain its past record of growth with gold mining on the decline.

He warned that the gold mining industry was declining and in time the country would have to do without it.

Speaking this week, he brought academic optimists back to earth and the real economy.

Some had spoken of the recession bottoming out and others forecast a cut in the country's horrendous interest rates soon.

But Dr Strauss said he saw no sigh of economic recovery from the "deep recession" coming in the second half of this year — a view that Cape industrialists shared.

Interest rates were not likely to drop below the inflation rate, he believed.

"Things are tough'" he told me when announcing the group's interim results this week.

"You don't see evidence of the tight monetary policy on the inflation rate until about six quarters after the money supply has dropped below the rate of inflation.

"We have had four quarters below the inflation rate and there should be another two to go before there is a significant benefit coming through in the inflation rate."

Unless there was a recovery in not very buoyant international business "it will be very difficult for us to pick ourselves up by our own bootstraps."

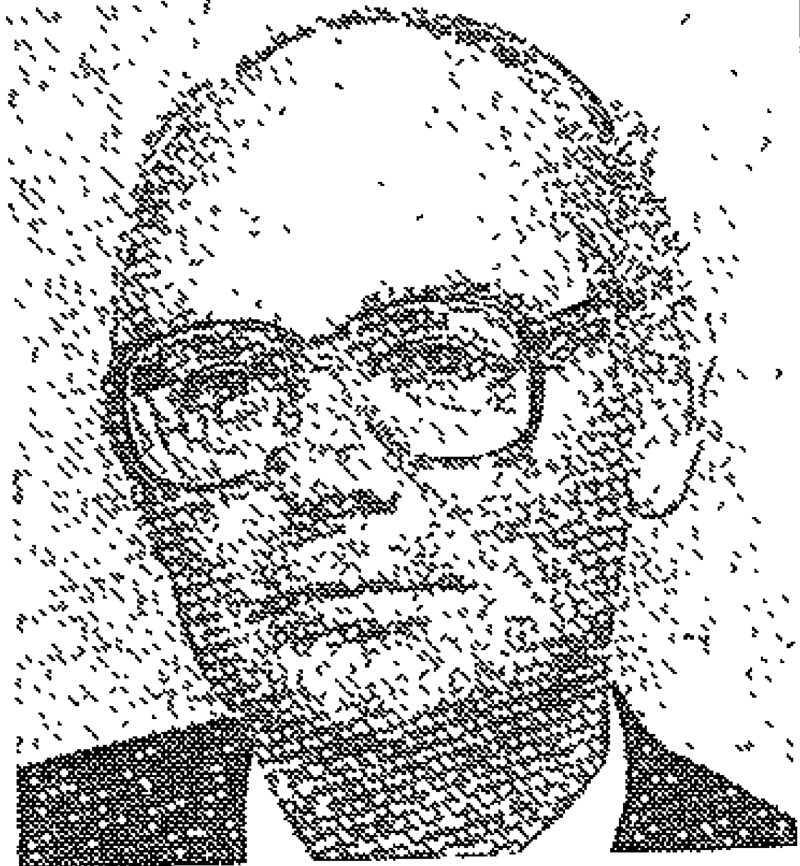
He added: "It is time we started emphasising the real economy of the country and paid less attention to politicians. It is not fiscal policy that will bring the country right but an improvement in workers' productivity, better management and a stable social environment."

With Dr Strauss at the helm, the Standard Bank group become the largest banking and financial service organisation 6n the country, with an outstanding record on both market share and profitability.

It was overtaken into No 1 spot only by the recent merger of Allied, Volskas and United into Amalgamated Banks of South Afric.

Dr Strauss, now 55, has has extensive exposure to and experience in the many facets of the organisation's operations both at home and abroad.

His influence extends beyond the sphere of banking. He receives frequent invitations to address audiences in South Africa and abroad.



□ Dr Conrad Strauss

He was born in Upington on January 17 1936 and after a farm upbringing matriculated at Paarl Boys High. He majored in economics and political science at Rhodes and followed a three-month agricultural diploma in the Cape with an MS degree at Cornell University, New York.

In 1959 he was appointed research fellow at the Institute of Social and Economic Research at Rhodes which led to the award of his doctorate for his survey into the pineapple industry.

After management training he was appointed economic adviser, later becoming general manager responsible for corporate planning.

In 1978 he was appointed managing director.

Personal finances are at a low ebb

Star 10/8/91. (58)

Money Matters

MAGNUS HEYSTEK

AFTER yet another year of dismal growth, the economy is set for some recovery next year. Most people will, however, first have to rebuild their personal finances before they can look forward to taking up further credit and a higher standard of living.

The Minister of Finance, Barend du Plessis, is most probably correct in saying that the economy has passed the lowest turning point in the cycle but a sharp acceleration in growth depends on a sustained inflow of foreign funds.

Since 1985 the economy has been operating on a cash basis as a result of the capital sanctions imposed by the rest of the world.

A freer access to foreign loans and, more important, World Bank and IMF loans, will enable the country to operate a deficit on its current account on the balance of payments.

Economists forecast that the economy will grow by anything between 2 and 4 percent next year.

A study by the overseas stockbroking firm James Capel forecasts growth of 3,9 percent. Local economists, however, are less sanguine.

The economy is still firmly in the grip of the longest recession since World War 2 — lasting 28 months — and this is clearly reflected in the increased debt levels of most South Africans.

A market research study issue 10 days ago by MRA clearly indicates how deeply in debt most South Africans are.

An illusion

The illusion of wealth, as it is called by Clive Corder, chairman of MRA, has been fuelled predominantly by white society's "conspicious consumption." Most of this, MRA has found, is fuelled by credit.

Many trappings of the South African "good life" are owned by SA's financial institutions, mostly banks.

The study found that half of all white South Africans have net assets — what they own minus what they owe — of less than R100 000. And one in five South African whites (22 percent) has assets of less than R10 000.

This contrasts sharply with the general image of white South Africans.

According to MRA, the average cash in the bank owned by the study sample was just over R3 000, with less than R1 000 in a current account.

Banks also confirm that re-advances of property mortgages are rife. It is not uncommon for white households to increase the size of their bonds every few years, as this remains the cheapest form of finance.

Banks and building societies are only too willing to grant further property credit, as property requires less capital than other kinds of credit, while the risk is much lower.

Also, it makes for good business, as other kinds of products are linked to home loans.

But banks are only willing to re-advance more mortgage funds if the property market keeps on rising. This factor has most probably saved many white households from an even sharper drop in living standards.

White households have been caught for several years now between lagging salaries and wages when compared with the inflation rate, as well as fiscal drag.

Salaries

As a result of low economic growth salaries have, generally, not kept pace with the inflation rate while fiscal drag has pulled disposable incomes even further down. The result has been a drawing down of savings as well as a greater uptake of credit.

A reduction in mortgage rates will prove to be a great relief to almost every property-owning individual.

Matt Brenzel, economic consultant for Syfrets, expects the prime overdraft rate to be down to 18 percent by the end of the year.

For someone with a mortgage bond of R100 000 a reduction in mortgage rates by two percentage points means a reduction of more than R150 a month in repayments — hardly a great difference.

But the outlook for lower interest rates is firmly tied to the inflation rate. The Reserve Bank has so far shown no mercy in its fight against inflation, and rightly so. For an artificial lowering of interest rates in the current economic cycle will invariably lead to a short but unsustainable upswing.

What South Africa now needs is several years of sustained and steady wealth creation that will wipe out a large part of the backlog in employment creation built up in the eighties.

● This morning on the Allied World of Money the subject is inflation and what it does to your money. World of Money is broadcast on SABC-TV1 at 10h55.

Wesbank closer to FNB

ST Times (Bus Times) 11/8/91

By DIRK TIEMANN (58)

WESBANK, the vehicle financing subsidiary of First National Bank, will probably be divisionalised before Vat's introduction.

First National says discussions are under way and Wesbank's incorporation in the commercial bank is being considered.

Senior general manager Viv Bartlett says the only change would be that the assets and liabilities would be consolidated in FNB. The name would stay because it has a strong image in the market.

Mr Bartlett says the FNB group has estimated that its Vat costs will be between R12-million and R19-million.

Standard Bank is also rationalising to avoid inter-company Vat charges. Stannic and SBIC Management Services will become divisions of Standard Bank of SA.

The bank says that this will offer long-term operating economies from better use of capital and administrative structures and tax management.

Financial institutions have an added incentive to divisionalise because they cannot claim input credits against most of their output. Financial services are exempt.

Administration fees and computer services from head office to subsidiary would attract Vat, which Wesbank, for instance, could recover only partially on leasing and rental agreements, but not on normal loan finance.

Some companies apart from financial institutions have divisionalised for income tax and Vat would have little effect on them.

Fedsure earns its re-rating

(58)

ST Times (Bus Times) 11/8/91

By IAN SMITH

FEDSURE Holdings, one of the stalwarts of the insurance sector, has justified the stock's re-rating by the market with sparkling half-year results.

The group, which receives almost all its earnings from assurance arm Fedlife, has maintained its seven-year record of profit growth of at least 22% annually compound in the six months to June 30.

Assets exceed R4-billion for the first time.

Unaudited results show that attributable earnings jumped 22,5% to R13,6-million from R11,1-million in the same time last year. Earnings a share rose by a similar percentage to 20,2c from 16,5c in spite of a small increase in the number of shares in issue.

An interim dividend of 12,5c has been declared (10c).

The share has performed strongly this year after its dip to 380c in sympathy with the rest of the market towards the end of last year. It surged to 600c in March after Fedsure's deal with Saambou, which is working well, says group chief executive Arnold Basserabie.

The price is now 720c

Mr Basserabie says the group experienced a tough start to the half-year because of the poor economic outlook and the effects of high inflation on personal incomes.

But new business has picked up well in recent months.

This augurs well for the year's performance, particularly as Fedsure is already well over half way to last year's earnings of R23,6-million.

Wide

Gross premium income increased by 29% to R387-million. Recurring premiums rose by 20% to R294-million and single-premium income jumped 71% to R93-million.

The group's entry to unit trusts with Fedgro fund was a milestone. The fund stands at more than R20-million and has won acceptance from a wide investor base.

The new mortgage participation company, Fedbond, is also proving to be an attractive investment vehicle, particularly for customers who look for high income with security of capital.

Fedlife's investment income in the first half-year, excluding capital appreciation, increased by 19% to R216-million.

Conrad-Henri team ends a Standard era

S|Times (Bus Times) 11/8/91 (58)

HOW THE BIG FIVE SHAPE UP

		Taxed Profit	Market Cap (Rm)	PE	Equity (Rm)	Total Assets (Rm)
Stanbic	Dec 90	413,2	4 674	11 1	2 230,9	45 611
Absa	Mar 91	317,4	4 383	10,3	2 841 3	51 828
FNB	Sep 90	329 8	2 621	9 2	1 430,4	30 278
Nedcor	Sep 90	287,0	2 742	8 7	1 583,0	17 713
Bankorp	Sep 90	18,1	1 184	n/a	681,9	30 007

CONRAD STRAUSS and HENRI DE VILLIERS: Old partnership draws to a close Picture. SUE KRAMER

AN OUTSTANDING partnership in banking ends on April 14 next year when Henri de Villiers steps down as chairman of Standard Bank Investment Corporation (SBIC).

Mr De Villiers and Conrad Strauss have quietly steered Standard to pre-eminence in SA banking.

Although recently constructed Absa shades SBIC in terms of shareholders' funds and total assets, SBIC is still No 1 by the measures that count — taxed profit and market capitalisation

It arrived where it did without the aid of acquisitions. Judging by this week's 25% earnings increase in the six months to June, its rivals will have to run hard to stay anywhere close.

First National, for decades the chief rival, has been relegated to a distant No 3 or perhaps even No 4 by the traumatic events of the past five or six years

When Mr De Villiers took over as chief executive in January 1974, Standard was doing poorly relative to its rivals

Standard's taxed profit in the 1973 financial year was a meagre R6,7-million and that was because of less-than-conservative treatment of its R23-million loss to would-be diamond magnate Ben du Preez.

When Mr De Villiers arrived, assets were R2,2-billion. Last year taxed profit was R423,6-million and assets were R45,5-billion

In Mr De Villiers' 18-year tenure at the top, profits have therefore grown by 26% a year compound and total assets by 19,4%

Mr De Villiers will stay on the board as a non-executive director Dr Strauss will also be a non-executive director

Eddie Theron, now in London, will become group managing director

Dr Strauss describes his new job "We have structured the chairman's duties in such a way that he is part of the team, but still non-executive

"Henri never comes into my office to tell me what to do — but I often go into his office to take advice He has been a support

"I would like to play it the same way, bearing in mind that people are different with different strengths"

When Dr Strauss took over as chief executive in January 1985, taxed profit was R135,4-million and assets were R16,1-billion. So, even though Standard came off a higher base, under him profit growth has been sterling at a compound 21% a year compared with asset growth of 19%

There are several reasons for Standard's exceptional performance under the De Villiers-Strauss leadership

- The appointment of a nucleus of business professionals from outside traditional banking in the 1970s.
- Sticking to the conservative basics — borrowing, lending and providing for mistakes prudently. Standard's bad-debt reserves have long been the most conservative.
- Avoidance at all costs of personality cults and success in developing teamwork through genuine delegation
- Early recognition that technology would be a critical area of competitiveness.
- In 1985 SBIC carried out a rights issue at the behest of Standard Chartered, its London parent, which needed to strengthen its global capital position That issue, together with a R173-million increase in SBIC capital in January 1986 to acquire the portion of Hesperus and Unisec shares that it did not already own, greatly strengthened the group's capital base and enabled SBIC to grow its assets very quickly

Its drive for market share has resulted, in particular, in rapid gains in the home loans market (its mortgage book has risen from R600-million to R7,3-billion, including loans in the pipeline) The capital surplus also enabled Standard to keep its prime lending rate 0,5% below other banks for some months in 1985-1986, resulting in further market-share gains.

Mr De Villiers was the first professional non-banker to take the helm of Standard.

After qualifying as a chartered accountant in 1948, he attended the London School of Economics. He joined British Oxygen, which led to his return to SA as assistant secretary of African Oxygen.

When Anglo American started Union Acceptances he became secretary to it in 1956, rising to general manager before leaving in 1963 to start City Merchant Bank. Six years later City Merchant Bank merged with Central Accepting Bank. When control changed in 1971, he launched Standard Merchant Bank and in 1974 came to head the group

Mr De Villiers gives the credit for appointing the first non-banking business professionals to Bill Passmore, who hired him in setting up Standard Merchant Bank (SMB)

SMB has been the path to the top ever since. In the new top five at SBIC, only Dr Strauss did not go the merchant banking route.

Although professionals preponderate, the group is quick to point out that several straight banking men have made it to the top 10

All the top men have been subjected to Harvard Business School courses.

Dr Strauss was a lecturer in economics at the Port Elizabeth campus of Rhodes University when the bank hired him as a management trainee in 1963.

"I was quite happy lecturing, but Rhodes was closing the PE campus and I did not relish moving to Grahamstown

"When the bank came along recruiting graduates, I asked whether there might not be a position for me"

Dr Strauss had gained a master's at Cornell and his doctorate at Rhodes His father sent him to Rhodes because when he left school he could speak hardly a word of English. Today he is highly articulate in English and Afrikaans.

When Standard set up an economic research division in 1967, Dr Strauss was asked to head it He carried out that task with distinction and, according to Mr De Villiers, his extraordinary promise was soon recognised

He became an assistant general manager in 1970, soon afterwards a general manager, then regional general manager for Natal in 1974

After a stint as regional general manager of the Witwatersrand, he was made managing director of Standard Bank in 1978 and of the group in 1985

Mr De Villiers is a warm smiling man, a real charmer. Dr Strauss can seem austere, aloof Dr Strauss's imposing height, receding hairline and lineless face give an impression of gravitas. But he, too, laughs easily

Mr De Villiers says Dr Strauss's star quality shone brightly while he was rising through the ranks and Dr Strauss says of his chairman. "He's a lighthouse in terms of professional banking standards."

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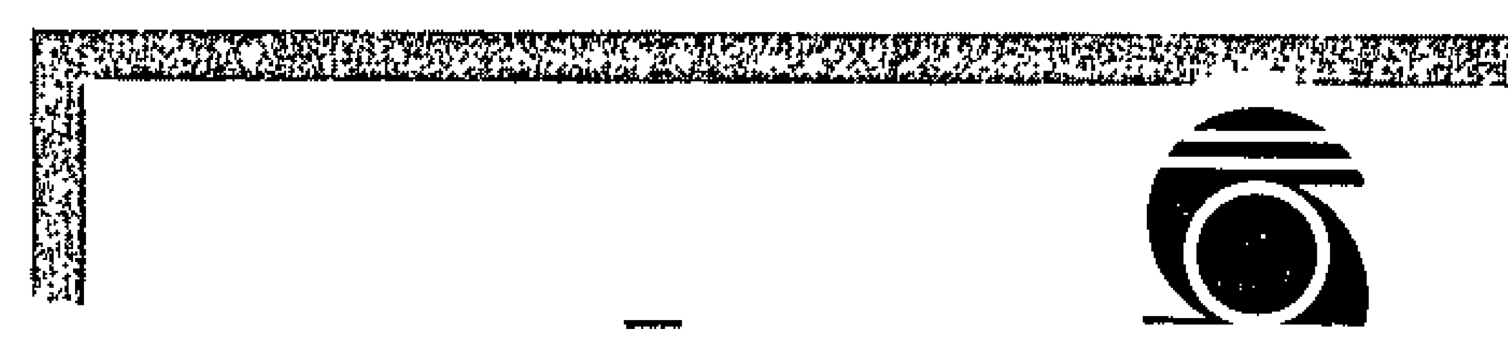


Strong performance at Fedsure after tough start

Star 12/8/91.

Finance Staff (58)

Fedsure has shown a healthy 22,5 percent growth in profits for the six months to June, with attributable earnings rising from R11,1 million to R13,6 million.

Earnings per share were 20,2c compared with 1990's 16,5c. This period also saw total group assets exceed R4 billion for the first time. The interim dividend has been raised from 10c of 12,5c.

The strong performance came after a tough start to the period, with difficult trading conditions early in the year caused by the poor economic climate and the effects of high inflation on personal income.

But group chief executive Arnold Basserabie says that new business has picked up well in recent months as future economic perceptions within the country have brightened.

Mr Basserablie says: "We believe that in the absence of unforeseen factors during the rest of this year, earnings and dividends will show satisfactory growth over 1990."

Fedlife, the group's long-term assurance company which provides Fedsure's income and most of its assets, performed well despite a difficult trading environment.

Gross premium income increased by 29 percent to R387 million. Recurring premiums showed a 20 percent increase to R294 million and single premium income jumped 71 percent to R93 million.

Mr Basserabie says the big increase in single premium business was due to the fact that the company took advantage of an opportunity in the early part of the year to package this type of assurance with other products on very favourable terms.

Fedlife's investment income in the first half-year, excluding capital appreciation, increased by 19 percent to R216 million.

Mr Basserabie says Fedlife has increased its industrial holdings in the last six months while exposure to the more volatile gold sector has been limited.

Spiralling insurance charges curb car choices

(58)

CT 12/8/91

Staff Reporter

THE cost of motor insurance — especially for younger drivers wanting sportier cars — is spiralling to such a degree that prospective buyers are being forced to consider cheaper, less exciting models.

Insurance companies are drastically re-rating their quotes because of massive losses, particularly through inflation, the cost of parts and accidents involving especially the under-21 and under-25 age groups, which have loss ratios of 72% and 78%, respectively.

This is evident from figures released yesterday by a top insurance company network supplying comparative data to the insurance and financial industries.

Dealers hit

Companies, if they are prepared to insure a younger driver, are loading premiums by between 30% and a massive 300% to protect themselves.

Excesses in an accident by a driver under 25 rise dramatically from basic rates, which range between R300 and R500 or 5%.

The excess goes up further should the driver's licence be less than two years old and the car a turbo or sports model.

Motor manufacturers and dealers are also being affected by the insurance problems, because the escalating rates are turning buyers towards less expensive cars to avoid massive additional monthly insurance payments.

The company network advises consumers to "shop around" for vehicle insurance.

Losses 'may force insurers to merge'

B/Day 13/8/91 (58)

SEAN VAN ZYL

A STUDY of the short-term insurance industry has indicated that a number of companies could merge soon following shrinking solvency margins.

The study, undertaken by the Insurance Institute of SA and Andersen Consulting, said competition on rates would result in a contraction of the industry, with almost half of the major players expected to merge by 1995.

SA Insurance Association CE Rodney Schneeberger said 1990 was the worst underwriting year of the short-term insurance industry.

However, Schneeberger said insurers had already taken corrective measures entailing rates increases and stricter underwriting controls.

He said the number of fraud and crime-related claims on personal and motor accounts were escalating at an alarming rate.

Although there had not been major losses this year, insurers were concerned with rising crime, particularly incidences of vehicle hijacking.

Insurers said the cost of insured motor losses was also worrying, with this year's claim costs about 25% higher than last year. Insurers said the higher claim cost was largely a result of motor industry inflation.

Some said the premium rate increases introduced over the past 18 months could not cope with the rising cost of claims.

However, some analysts said the premium rate increases of between 40 and 50% were expected to lessen underwriting losses by the end of the 1991 financial year.

They added that Commercial Union's recent six-month results showed dramatic improvement, with investment income also up on the previous year.

Davis Borkum Hare & Co analyst Graham Baillie said although the short-term insurance market seemed to have touched its bottom, he expected that insurers would face tough trading in 1992 before recovering the underwriting losses.

Italians extend $150m to IDC

(58) CT 13/8/91

Own Correspondent

JOHANNESBURG. — A consortium of Italian banks is to extend an open credit line of $150m to the Industrial Development Corporation (IDC), according to a statement released yesterday by the Italian Embassy in Pretoria.

Italian Foreign Trade minister Vito Lattanzio is visiting SA this week and will preside over the signing of the credit agreement at the IDC headquarters in Johannesburg tomorrow.

Lattanzio is also scheduled to hold meetings with his SA counterpart Org Marais and Foreign Minister Pik Botha.

The credit agreement follows an SA visit by an Italian banking delegation in May this year.

During the visit the delegation held talks with Finance Minister Barend du Plessis, Marais, Reserve Bank president Chris Stals and IDC representatives. A spokesman said the open line of credit would be channelled into development programmes.

B/Day. 15/8/91.

Protea reports an interim underwriting loss of R18m

(158)

SEAN VAN ZYL

ALTHOUGH Protea Assurance's net premium income rose by 47% to R144,2m for the six months ended June, losses incurred on the company's underwriting account resulted in a bottom-line loss of over R8,7m.

Protea disclosed an attributable loss of 111c a share (profit 17c). No dividend was declared.

Although the company's investment income rose by 8% to R11,4m (June 1990: R10,6m), this was insufficient to offset an underwriting loss of more than R18m, which rose by 30% compared with the June 1990 underwriting loss of R13,8m.

However, MD Andrew Tainton said yesterday corrective measures such as rate hikes pointed to an improvement in Protea's underwriting results by the end of the year.

While the incidence and cost of claims seemed to be levelling off, Tainton expected Protea would still report an underwriting loss for the current trading year to December.

As a result, Protea would introduce further premium rate increases of 15% to 20% on its motor and personal lines accounts before the year end.

Despite the poor claims experience encountered, Tainton noted the company's solvency margin had strengthened over the past six months to 99%.

Protea was believed to have underwritten a large portion of personal losses incurred by passengers on the Oceanos. Tainton said the loss was not expected to be significant as the risk had largely been reinsured in the offshore reinsurance market.

Corrupt BCCI fed off global demand for financial secrecy

B/Day 15/8/91.

INGO WALTER

(58)

FASCINATING as it may be, the story of the Bank of Credit and Commerce International (BCCI) — and other banking scandals — is merely symptomatic of a much deeper set of issues, only rarely discussed in the media.

Each revelation finds its origins in markets that are not allowed to function well. This invariably gives rise to a murky, underground market that usually functions very well indeed — the international market for financial secrecy.

Like many other banks, BCCI set out in search of inefficient financial markets — markets in which there is money to be made through the significant spreads facing buyers and sellers of financial services.

To remain viable in competitive markets, financial institutions are under constant pressure to contain costs and better manage risks. And they must persistently search out any remaining pockets of profitability. Unfortunately, financial institutions usually discover that these new markets themselves sooner or later become more efficient and less profitable as a result of their own efforts and those of their rivals.

Two closely interrelated factors, however, can provide an assured source of sustained profitability for banks willing and able to take advantage of them — market distortions and the market for financial secrecy. Both are basic to BCCI's spectacular rise and fall.

Taxes, exchange controls, price controls, interest-rate controls and trade barriers all give rise to economic incentives for the formation of parallel markets intended to avoid or evade them. The symptoms are familiar enough — smuggling, thriving domestic and cross-border black markets, tax evasion, bribery and corruption of public officials.

Tapping into such market inefficiencies means, logically, finding the most heavily distorted national economies. Attractive inefficiencies have always been lodged in developing countries bent on pursuing misguided macro-economic policies using direct controls, often with heavily overvalued currencies, where many public and private transactions are undertaken far removed from open and fair markets.

Of course, such market distortions are not confined to heavily controlled economies; they also exist in economies basically organised along free market lines. Specific products such as cigarettes and alcoholic beverages are often exceedingly heavily taxed. Regulation of various aspects of economic life, ranging from pollution control to bank safety and soundness, exist even in the most liberal economies. And there is the whole range of activities defined as criminal, including the sale and use of controlled substances.

Yet banned or restricted activities continue to be carried out in organised and unorganised fashion as long as there is demand. It may thus have been a small step for BCCI successfully to transfer the business practices it cultivated in its Third World origins and corporate culture into servicing these markets in the industrial countries.

Avoidance and evasion of controls create the need for financial secrecy — and willingness to pay for it.

There are all kinds of reasons for financial secrecy that in most societies are considered perfectly legitimate, ranging from personal privacy and business confidentiality to the conduct of foreign policy. Yet it can easily be used for illicit transactions as well. The drug trade, capital flight, tax evasion, official corruption, weapons trafficking, terrorist activities and financial fraud give rise to enormous money flows that must be kept secret at their source.

What an individual or group is willing to pay for financial secrecy depends mainly on the perceived personal and financial cost of disclosure. The higher the cost, the greater the willingness to pay. The price comes in the form of higher fees, lower yields, and higher risks associated with financial transactions and the management of financial assets than would exist if secrecy were not a consideration.

There have always been individuals, institutions and countries that make a business of selling secrecy. These include banks, trust companies, casinos, lawyers and accountants, as well as nations with strict secrecy and blocking statutes.

Normally, the financial secrecy involved is fully sanctioned by society and represents an inexpensive off-the-shelf "commodity" service, such as restricted insight afforded all banking clients. It is when enhanced and perhaps custom-tailored secrecy services are required — such as the use of multiple offshore secrecy havens, money laundering, creation of layered shell corporations and trusts, fictitious invoicing, and back-to-back lending — that higher prices are encouraged.

Providing clandestine financial services to those in need of secrecy can be extraordinarily lucrative. It may well be that BCCI did not begin life the way it ended, that its founders did indeed intend this to be an "ordinary" bank. But a successful "ordinary" bank must bring to the table financial, technical and human resources that BCCI never had, and must position itself in markets that are under constant threat of competition from powerful rivals. So BCCI appears quickly to have gravitated to the most imperfect of financial markets. To exploit this global niche, BCCI had to acquire appropriate resources, the most important being people willing and able to evade and suborn law and regulation worldwide.

It also had to create elaborate camouflage in the form of Byzantine international and external accounting and reporting arrangements as well as a large volume of legitimate business. But the bank's extraordinary growth and profitability clearly were impossible to explain in terms of ordinary business.

Banks that evolve along the lines of BCCI can impose on society exceedingly high costs through financial and behavioural contamination. Most obvious on the financial side are the costs imposed by ultimate failure on uninsured creditors, including small depositors, and on the taxpayers underwriting any safety nets that may have to be called upon.

What is to be done? Plugging holes in the network of international financial supervision seems to be on the front burner of galvanised central banks and outraged politicians. Criminal charges are being vigorously pursued in a number of countries, and will send important signals to bankers. But while such initiatives are clearly necessary, they are hardly sufficient. They uniformly ignore the fact that BCCI was itself largely a creature — indeed a logical consequence — of conditions created by governments in which market imperfections and financial secrecy flourish.

More lasting solutions surely lie in removing some of the underlying distortions that created the demand for BCCI's services in the first place. What would happen to capital flight and evasion of exchange controls if governments pursued responsible economic policies that produced positive real interest rates and market-determined exchange rates?

What would happen to tax evasion if governments pursued broad-gauge tax policies widely considered to be both reasonable and fair? What would happen to drug money laundering if controlled substances were legalised, or alternatively if users and suppliers alike were subject to draconian penalties? And what would happen to bribery and corruption of public officials if a whole gamut of dysfunctional controls on the conduct of business were removed, leaving them with few favours to grant or withhold?

Such initiatives would target the demand for the kinds of financial services in which BCCI appears to have specialised. In effect, they would have undermined the economic basis of BCCI's very existence. — Financial Times.

☐ **The author is professor of applied financial economics at New York University.**

Turnover tax 'to be built into margins'

ROBERT GENTLE

THE imminent turnover tax on banks' gross interest earnings was likely to be built into banks' margins and not displayed as a separate tax, banking sources said yesterday. BDay 15/8/91.

This would mean that the 0,75% tax would be fully integrated into its prices, for example on interest charges or bond rates, and clients would have no idea what proportion was due to the tax.

This would not necessarily be bad news for the consumer, banking sources said, because market forces might compel banks to hold down price rises to below what they might be if the tax was a visible, add-on charge like GST.

The fiercely competitive home loan market was one area in which this could happen, they said. It was conceivable that some banks might not raise their lending rates at all for fear of losing market share.

First National Bank (FNB) spokesman Jimmy McKenzie said it would be speculative to discuss the precise effect the tax might have on, for instance, bond-holders, until final details were released.

McKenzie said he did not believe that Reserve Bank Governor Chris Stals would relax interest rates to soften the impact of either the turnover tax or VAT.

A spokesman from another bank, who declined to be named, said he thought Stals

☐ To Page 2

Turnover tax

BDay 15/8/91

☐ From Page 1

might yet lower rates because of what he called the "political sensitivity" of the taxes and the possible effect on bond-holders.

Allied Bank deputy MD Nallie Bosman said: "I think the impact will be great on the bottom line of banks and they will seek to recover it across the different sectors in which they operate."

He declined to speculate on the exact effects of the tax until final details were released.

According to public statements by both Inland Revenue and certain banks, finality had not been reached yet on the exact structure and mechanism of the tax.

Inland Revenue director, legal drafting, Ian Meiklejohn said the dossier would be published as soon as it was finalised — probably within a few weeks.

The tax, which is to be levied on registered financial intermediaries, is expected to raise about R400m annually, half of which will come from the banking sector.

Standard Bank chief accountant Henry Shaw said it was too early to be specific about how banks would react to the tax or how they might pass it on.

"It depends on the structure of each bank as well as the prevailing interest rate environment."

Last week, Standard MD Conrad Strauss said he would prefer the tax to be built into margins rather than simply added on because a large proportion of banks' interest income was not easily recoverable in this way.

Banks pay millions for new auto-tellers

B/Day 15/8/9

(58)

ROBERT GENTLE

COMPETITION is intensifying in the electronic banking sector as banks start spending millions of rands on the latest, new generation intelligent automatic teller machines (ATMs) from the US.

Nedbank has ordered 240 of the machines, which cost about R120 000 each — representing an order worth around R28m. It expects that 100 will be installed by the end of September.

Standard Bank has installed 23 this year and expects to have 80 by year-end.

The ATMs, built in the US by Diebold (now merged with IBM), are PC-based, boast substantially augmented processing capability and have a novel feature called a media dispenser.

This allows them to dispense not only cash but any piece of paper the bank may choose to distribute — from competition entry forms and advertising material to gift vouchers and free movie tickets.

Nedbank's head of electronic banking, Peter Biggs, said the flexibility, processing speed, enhanced user-friendliness and the multi-media dispensing function all paved the way for a quantum leap in the range of services that could be offered.

He would not be drawn on the type of promotional and marketing material Nedbank was considering dispensing.

Standard Bank assistant GM Gus Warwick said the first of the new machines had been installed at the Southgate shopping mall about two months ago.

He said Standard was not yet dispensing any competition or promotional literature, but this would be considered.

He singled out the machine's superior processing capability, which meant that the entire profile of a client could be downloaded from the bank's central computer. This could allow the bank to display information or advertising material tailored to the client's financial profile.

Satisfied

Other leading banks are expected to follow with the same or similar machines. Absa had installed 70 similar PC-based machines this year, a spokesman said.

First National Bank's head of centralised support services, Ken Boyd, said FNB would order new machines when needed. "We are quite satisfied with the performance of our existing ATM base."

Chris Barr, MD of National Data Systems — distributors of ATMs manufactured by NCR — said all NCR ATMs in SA (about half the total installed base) could be easily upgraded to the new PC-based standard. NCR will launch a new range of ATMs by November.

This trend into the latest generation ATMs means SA is likely to maintain its top spot as the world's most sophisticated electronic retail banking environment.

Car insurance costs may 'keep soaring'

BI Day 15/8/91

GERALD REILLY

PRETORIA — This year's estimated increase of 65% in motor-car insurance premiums is likely to be followed by further steep rises next year.

Compuquote MD David Hersch said yesterday last year's premium increases averaged 52% and escalating costs in the industry made further big hikes virtually unavoidable.

Reasons for the probable 65% rise included the pending application of VAT to premiums, the upward pressures of inflation and the dollar/rand exchange rate, and the underwriting losses experienced by insurance companies.

(58)

Hersch said there was also a belated realisation by some insurers that special schemes aimed at the executive-car market were not based on sound underwriting principles.

Executive-car rates had increased sharply and one company had upped them by between 67% and 116%.

One company raised its rates by an average of 18%, but by re-rating Pretoria into the same area as Johannesburg, as many other companies did, the rate increase for Pretoria was 70%.

Hersch added that to ensure a future of affordable insurance competition had to be encouraged and the trend towards fewer companies had to be stopped.

Visit by Japanese group heralds 'breakthrough'

Sowetan 15/8/91

(58)

By JOSHUA RABOROKO

ACTIVE facilitation of International investment has become the urgent challenge facing the South African banking sector following the G-7 summit announcement that the major Western economies stand ready to assist post-apartheid recovery.

The new head of NedPerm Bank's Asset-Based Funding Division, Mr Christopher Beatty, spelled out the challenge when he lifted the veil on a planned visit to South Africa by senior executives of Yamaichi Securities, Japan, and Yamaichi International (Europe).

Yamaichi is one of the largest Japanese Securities Houses. The visit is being laid on by Hamish Donaldson, a London-based consultant and personal contacts of Beatty's.

The visit will come after the world's seven major industrial nations (Group of Seven), including Britain, Canada, France, Italy, Japan and the United States cited in a declaration "an urgent need to restore growth to help reduce inequalities of wealth and opportunity" in South Africa.

It will also come after delegates from the International Monetary Fund and its sister association, the World Bank, visited South Africa following the lifting of sanctions against South Africa by the US.

Beatty pointed out: "The fact that such a visit is to take place within weeks of the American and Japanese decisions to ease sanctions and so soon after the G-7 summit in London suggests an 'irreversible change' of perceptions in international investment circles.

"The visitors, from London and Tokyo offices of Yamaichi, will be here in early August. I have been asked to give an appraisal on the economic and business scene.

"Nedfin Bank will obviously do all it can to facilitate this exploratory visit. The party is hoping to meet a cross-section of business and political leaders.

Beatty believes is premature to speculate on particular areas of interest. However, such a senior party would hardly be sent to South Africa unless the company was weighing investment prospects or considering extending its activities to the region.

He added: "We believe this to be the first such visit in the new investment era that could follow the G-7 commitment."

"On a macro level, access to the IMF and the World Bank is obviously of major importance to the country - but it is also that South African bankers develop relationship with overseas groups so that additional investment channels are opened up.

"The danger of financial service sector nationalisation, has, I believe, receded. Our sophisticated First-World banking system is a national asset that should be compromised in the kick-start phase to national renewal.

VAT chaos looms for insurers

By Des Parker

Short-term insurers and brokers are beside themselves with the administrative problems posed by VAT.

The implications of the new tax, to come into effect on September 30, are mind-boggling, says Cover, the insurance industry magazine.

The publication in its August edition poses the half-serious suggestion that an 11th-hour exemption from VAT be sought.

It says in an editorial: "Only one other country, New Zealand, has followed the VAT on insurance route; other countries found it unworkable.

"Prevention could well be better than cure in this case."

An article in the magazine written by Deloitte Pim Goldby partner Anne Pappenheim illustrates some of the implications of VAT for insurers and companies carrying insurance.

She says organisations registered as vendors for VAT purposes will need to look carefully at their cover in view of the fact the tax is leviable on indemnity payments on insurance claims.

Accountants will have to consider how much they will need to retain after paying VAT on the indemnity to cover the loss claimed for.

She gives the example of stock in trade with a net cost to a firm of R1 000 after the input tax credit from the purchase has been claimed.

The sum insured would need to be R1 120, leaving the firm with R1 000 for the replacement of the stock after paying over R120 in VAT to the Receiver of Revenue.

The situation, however, is complicated in the case of company cars — for which vendors are unable to claim input tax credits.

Mrs Pappenheim quotes the example of a car with a net cost to the firm of R56 000 — R6 000 being the VAT payable on purchase. "To replace the car, the vendor (the firm) will need to have available the net cost of the car to him, that is R56 000.

"As it is a 'motor car' (as defined in the Act) and is to be used as a company car, the input tax credit is denied when he acquires the replacement vehicle.

"In order to have R56 000 available to replace a stolen car, the vendor will need to receive R56 000 plus 12 percent, that is R62 700, from the insurer."

Mrs Pappenheim alludes to one of the major concerns of insurers — the legal obstacles to insuring against tax liabilities "in these circumstances".

Things are simpler for "non-vendors" because they will not have to pay VAT on short-term insurance payouts they receive. They will need to insure the R56 000 car only for the replacement cost of R56 000.

Short-term insurance brokers will not be liable for paying over output VAT on insurance premiums, even though they may issue the relevant documentation — which becomes a VAT invoice in the hands of the insured part. Responsibility rests with the insurance company.

Mrs Pappenheim says it will be in the interests of brokers to register as VAT vendors whether or not their annual turnover exceeds the R150 000 threshold. As vendors, they will be able to claim input credits on the costs of running their businesses.

SAGE HOLDINGS

FM 16/8/91

Less than the sum . . . (58)

Despite the Absa deal, liabilities still need pruning

Participation in the formation and listing of Amalgamated Banks of SA (Absa) certainly helped Sage Holdings' balance sheet, but the latest annual reports of the group's three listed companies suggest that — especially on the property side — it is not yet out of the woods. Indeed, chairman Louis Shill concedes as much, saying that the funding burden was prolonged by the "punitive" level of interest rates.

Shill claims that Sage Property Holdings (SPH) met its forecast of improved pre-tax results, despite difficult conditions in the homebuilding sector. This is not apparent from the crude figures, but the 15-month period (year-ends were changed because of the Absa deal) includes two January-March quarters, when the seasonal pattern is for "significantly" lower earnings from homebuilding. The second interim report disclosed 12-month earnings up from 21,6c in 1989 to 23,5c in calendar 1990.

But it is not clear that homebuilding is the root of SPH's problems. The 1989 annual report said that it had been decided to "dispose of the interest in certain properties." Following a review of corporate strategy, it was decided instead to sell "the major interest in certain developments to the Mines Pension Funds." As major shareholders in the Sage group, the funds were offered the properties (in Pretoria, Sandton and Johannesburg's Parktown) preferentially, but SPH MD Noel Mills is adamant that it was an attractive package that could have been sold without difficulty on the open market.

The P&L account contains no reference to any such disposals. This is because proceeds from the sale of investment properties are treated as part of normal income and neither separately identified nor disclosed.

What *is* apparent is the extent to which reported profits depend on the capitalisation of interest. In 1989, of a gross interest charge of R15,9m, R8,5m — 53% — was capitalised, leaving a net charge of R7,4m; in the latest 15-month period, R21,0m of R22,6m — 93% — was capitalised, leaving a net charge of only R1,6m (R1,28m annualised). So while annualised gross interest rose by 14%, the net charge *fell* by over 80%!

Capitalising interest is, of course, a legitimate and time-honoured procedure for property developers — though its abuse contributed in no small measure to the troubles of many property developers, no longer with us, that were listed in the boom of the late Sixties. It can be an instant way of turning costs into a balance sheet "asset" and, because the extent of capitalisation must be a matter of judgment, makes the level of declared profit partly discretionary.

To some extent, the higher capitalisation of interest reflects a change in the composition of the property portfolio. Mills also stresses that a conservative capitalisation policy is followed: the capitalised value of any property must always be less than its market value. He points to the fact that the directors' valuation of properties is R70m above book value (this surplus is included in the NAV calculation in the accompanying table) as evidence of this.

Be that as it may, the policy implies an even greater need than with other types of company to analyse cash flow. This shows that whereas in 1989 SPH generated net cash of R11,3m, this time round there is a funding requirement of no less than R24,9m. Together with a fall in short-term borrowings, this was financed by a R31,7m increase in the loan from the holding company, to a massive R65,9m — by a considerable margin the largest single source of finance.

Assuming market-related interest rates and depending on the average level of the loan, gross interest on this could have been up to R15m, or two-thirds of the total.

The other key subsidiary, Sage Financial Services (SFS), had a quietly successful time, with a 17% increase in annualised earnings — modestly above, but at least above, the inflation rate. The directors say the Absa deal "further strengthened and diversified" the earnings and asset base and expect future profitability to be split about 40:60 between banking and other financial services (predominantly life assurance).

But the biggest item in SFS's P&L is a net R33,3m surplus below the line, almost all on investment transactions. With some of the surplus on the Absa deal being used to write down other investments, this still had a dramatic impact on net worth. On the other side of a strong balance sheet, SFS's only long-term liabilities are R10,9m compulsorily convertible debentures.

The sad fact, though, is that, as has often been remarked, Sage Holdings is worth less than the sum of its parts.

Even at net profit level, R25m (85% of Sage's total) from financial services (1989: R20,5m, or 77%) is way short of the R42,8m (R29,2m) attributable to ordinary shareholders in SFS — 99% owned by Sage Holdings at the financial year-end, but since diluted by the conversion of some of SFS's pref shares. The contrast is even more marked in property, which contributed only R4,5m (15%), down from R6,0m (23%) the pre-

vious 12 months, though this partly reflects a reduction in Sage Holdings' stake in SPH from 89% to 58%, also because of the conversion of preference shares.

Expressed another way, each Sage Holdings share is backed by about 3,5 SFS, worth some 1 490c, and 1,4 SPH, worth 290c: a total of 1 780c, or almost double its own share price. While some discount might be expected, the problem is that Sage Holdings itself has R74,2m pref capital and long-term liabilities of R93,6m (up from R78,6m in December 1989). Together, these represent about 765c a share.

Group secretary Eric Langlands points out that some of the pref capital is compulsorily convertible; allowing for this dilutes net liabilities to about 405c a share.

The rise over the 15 months is despite a cash inflow of R42,6m on disposal of interests in subsidiaries, of which about half appears to have come from pref shares previously held in SFS and the balance presumably from Absa. This suggests that all the benefits of the Absa deal, and then some, were dissipated elsewhere — the main item being a R59m provision against the loss on disposal of the US interests.

In fact, over the 15 months actual borrowings were almost halved, to R37,8m.

Sage Holdings' ordinary dividends cost R17,2m (1989: R13,1m), well in excess of the R4,9m (R8,7m) available in its own accounts. However strong underlying earnings may be, this can't continue indefinitely.

Financial stringency

The imbalance between R4,9m and the R29,5m attributable to ordinary shareholders in the consolidated P&L is a dramatic illustration of how financial stringency is holding cash back at lower levels, and excessive borrowing absorbs what does flow up.

Against Sage Holdings' 15-month dividend income of R25,4m from subsidiaries, there was a net interest charge of R10,3m. In 1989, there was a net interest charge of R5,5m against dividends from subsidiaries of R20,4m. In both periods, there were also administrative and other costs.

Management stresses that Sage Holdings has always operated as banker to the group, which is fair enough. But the emphasis on restructuring implies a reappraisal of this role — in which the way interest rates have stayed higher for longer than anyone expected may have played a part. To put it mildly, the "banking" activities do not seem to create added value.

What of the outlook for this year? SPH expects satisfactory operating performance from all activities, but warns that high interest rates will bring a decline in profits.

The SFS board expects the rate of earnings growth at least to be maintained this year, though dividend cover, in part reflecting practice in the banking sector, will rise. The documents relating to the Absa transactions disclose that, on the present structure of the group, SFS's notional 1989 earnings would have been 44c a share and dividends 18,7c, but Langlands points out that, as the benefits of the deal didn't actually accrue in 1989, this is no basis for projection.

Overall, Sage Holdings itself is looking for "satisfactory" growth in profitability. Here, too, the Absa documents disclose that, on the present structure, 1989 earnings would have been 149c a share and dividends 64c, which is way ahead of the annualised latest figures.

But, as we have seen, it is less disclosed profits that are the problem — unimpressive though reported profit growth has been in recent years — than liquidity. The directors say the protracted nature of the Absa transactions delayed a planned repositioning and disposal of non-strategic assets and restructuring of the borrowing profile. They are now giving "active attention" to this.

What form this will take remains to be seen, though Mills says one element will definitely be to replace SPH's reliance on the holding company with outside finance. Sage Life's 15% direct holding in Rand Merchant Bank might be considered non-strategic, and it could make sense to transfer this to Absa (which bought 11% from Sage Life in the Absa deal). Then there is a broader question relating to Absa: 30,5% of that company is held by Universa (Pty), in turn owned by SFS (21,2%), the Mines Pension Funds (39,4%) and Rembrandt Group (39,4%).

Universa's owners are committed not only to listing it in due course, but to use it to "rationalise the interests of common major shareholders in both Sage and Absa." Rembrandt and the pension funds are also big shareholders in Sage, so it would not be impossible to combine such a restructuring with an infusion of cash into the Sage group.

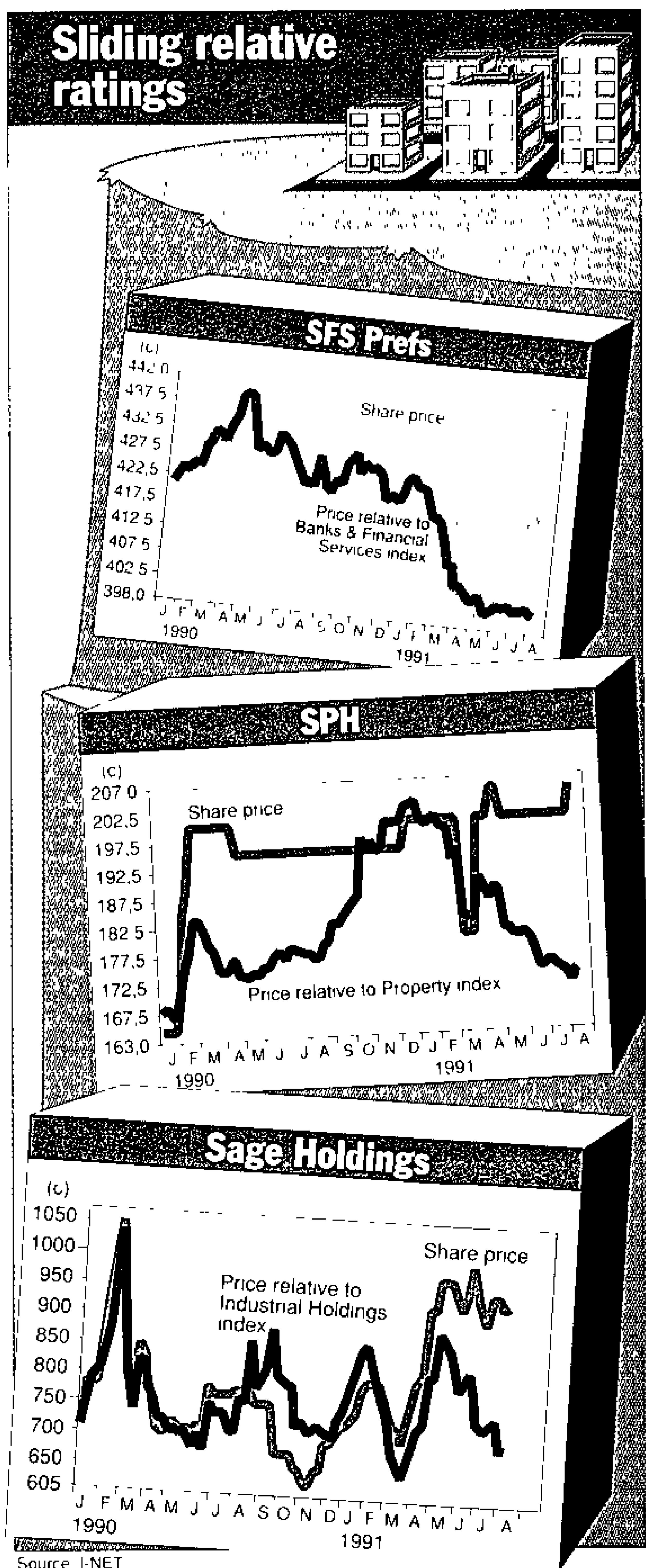
Sage was the pioneer of unit trusts in the Sixties. Unlike arch-rival David Abramson and his disastrous National Fund Investments flotation, Sage's founder, Louis Shill, parlayed the listing of his unit trust management company into a substantial diversified financial services and property group, with a series of imaginative acquisitions and organic development.

Despite the expensive foray into the US, Sage still has a sound portfolio of successful businesses, especially in insurance and fund management, and many of its existing property investments are in themselves both high-quality and financially sound. Moreover, cutting the SA link has already had a dramatic impact on the performance of the ex-US interests, enhancing the possibility that (politics permitting) it may become attractive to exercise the seven-year option to buy back joint control of this business.

But all three shares have under-performed their sectors this year, presumably on concern at the financial position. The Absa deal has been no more than a palliative. The group hopes to announce the next stage of restructuring within a couple of months.

The extent to which this will be purely a Sage operation, or part of a broader Absa and/or Universa reshuffle, remains to be seen. The group is confident that its underlying assets are sound and that after restructuring gearing levels will be modest, by any standards. Maybe; but until firm arrangements for reducing the debt and interest burden are in place, it is difficult to see any of its shares regaining their former status.

Michael Coulson



'No cash' investment in property offered

PETER GALLI

PROPERTY investors are being offered a novel way of participating in a property syndication — they do not have to put up cash.

BDay 16/8/91

Seeff Trust MD Mike Flax said yesterday: "Investors get a bank guarantee on their specific assets — Krugerrands, shares or building society investments — which is made out in favour of Allied Bank.

"Allied Bank then lends the money for the syndication." The property chosen would be fully tenanted and offer a good yield, he added.

All rental income would be put towards the servicing of the loan. At the end of five years the development would be sold, with the assets held in guarantee returned as well as the return on the investment.

FACING FACTS

(58)

An amendment to the Deposit-Taking Institutions Act, gazetted last Friday, represents a concession to reality. Section 60 of the Act, as originally introduced, limited the number of bank directors who were also directors of a single shareholder in that bank to less than half.

This limitation has now been scrapped.

The amendment still limits the number of executive directors on the board of a DTI to less than half. This is intended to introduce a measure of objectivity to board decisions. FM 16/8/91

At the same time, guidelines for directors' conduct, which originally appeared in chapter four of the regulations, are incorporated into the Act, giving them more legal force.

BANKING

Cut-off

FM 16/8/91 (58)

About R42m in cheques were left in limbo last week, when First National Bank announced it would return to presenting bank cheques drawn on the branches of Barclays Plc in Lesotho and Swaziland.

The reason, says FNB's Jimmy McKenzie, was a strike which started on July 22 at the Lesotho branches and a threatened strike in Swaziland.

For the duration of a strike, banks which

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accept cheques drawn on branches affected by the strike are unable to obtain countervalue for payments made.

The strike in Swaziland was shortlived. FNB announced this week it will now clear cheques drawn on these branches. McKenzie is not certain what proportion of the R42m is affected by this decision.

As sponsoring bank for these branches, FNB is responsible for clearing cheques issued.

However, all SA banks are affected in that they may be asked by customers to pay out against cheques.

Most have adopted the same approach.

Says a spokesman for Trust: "We use our discretion in dealing with these cheques, depending on their value. The customer can keep the cheque until further notice, or it can be sent on collection basis to Lesotho. Then, funds will accrue to the customer only once advice of pay has been received. ■

FM 16/8/91 (58)

INSURANCE (58)

Red herrings

FM 16/8/91

Insurance cover is costing more and rates will rise further. But some perspective is needed When short-term leader Mutual & Federal (M & F) reports at the end of this month, it is likely to show that, even when insurance conditions are bad — as they certainly are — losses can be staunched.

During 1990, the short-term industry wrote an estimated R250m underwriting loss. That's a record, but pales when compared to results in Britain. According to the Association of British Insurers, UK losses amounted to £1,5bn — 10 times more than the previous worst experience.

Direct comparisons are impossible because the UK is an international market. Many UK losses were caused by catastrophe situations, including storms, then subsidence losses in two dry summers. However, UK insurers cite reasons similar to those given by their SA counterparts:

- ☐ Fierce competition over rates;
- ☐ Mounting claims from theft, fire and motor accidents; and
- ☐ Losses related to recession.

They say further that an estimated 20% of fire claims were fraudulent — double the normal frequency.

It sounds all too familiar. Last year's SA losses have been generally attributed to personal lines, mainly motor and household, directly caused by the crime wave. There were few significant catastrophes during the period. Underwriting management, with few exceptions, bowed to the soft market so that rates were rarely realistic. Cash flow underwriting has been in full swing.

Ken Saggers, MD of M&F, won't discuss the company's results before publication but observes that the damage through personal lines has been largely eliminated.

Now there is another concern: commercial claims. During July 1990, claims against M&F of R100 000 or more totalled R3,96m. Last month, by comparison, similar claims totalled R8,6m. The comparison cannot be direct because some July claims may include losses incurred in May. There was also a freak claim when a grain silo collapsed. Nevertheless, there is a gap which cannot be explained by inflation.

Saggers is not complaining: "The business of the insurance industry is to pay for losses." Fine, except that insurers — even those with strong investment incomes — will not take underwriting losses indefinitely. So rates are set to rise further. But scare stories which have circulated about increases, on personal lines at least, of 65%, may be discounted.

Broker PFV notes these forecasts have been partially attributed to the impact of VAT. PFV adds: "They should be seen in the light of overall insurance industry losses and of inadequate sums assured. Informed opinion is that, particularly in those classes where heavy losses are being suffered, little or no premium adjustment is needed to provide for VAT. In some instances, reductions in premiums could be justified."

Commercial Union has decided any rate changes will be introduced separately from the operation of VAT. Some competitors, it feels, may be tempted to use VAT to "justify" increases caused by past underwriting practices. Saggers concurs: "My arithmetic shows a worst case impact on rates, caused by VAT, of about 3,5%. I think it will actually be less."

Saggers ... *market improving*

So consumers, private and commercial, can budget for more insurance costs, but not be blind to the reasons. In a soft market and when underwriters were not correctly reading the effects of the recession, clients paid too little. Good and poor risks were not correctly sorted. It may take a year to sort out but the industry is steering towards sanity again. Meanwhile, premiums will rise — but forget the horror stories. ■

GDM FINANCE FM 16/8/91

Still ahead (58)

Activities: *Trade finance.*
Control: *Goode Durrant Plc 49%.*
Chairman: *M Waring; MD: J Cowper.*
Capital structure: *25,6m ords. Market capitalisation: R55m.*
Share market: *Price: 215c. Yields: 6,3% on dividend; 15,7% on earnings; p:e ratio, 6,4; cover, 2,5. 12-month high, 230c; low, 115c. Trading volume last quarter, 325 000 shares.*

Year to April	'88	'89	'90	'91
Bills receivable (Rm)	60,7	91,9	102,0	112,4
Pre-tax profit (Rm) ..	5,0	8,1	9,8	12,0
Attrib profit (Rm)	2,7	5,5	7,5	8,6
Gross assets (Rm) ..	71,5	100,4	127,9	149,8
Earnings (c)	13,8	21,3	29,3	33,7
Dividends (c)	5,6*	8,5	12,0	13,5
Net worth (c)	66,2	79,4	96,9	109,1

* Annualised.

When compared to GDM's exceptional growth since listing in 1987, financial 1991 may have disappointed some shareholders. But asset and earnings growth of more than 15% is creditable considering the stringent economic and trading conditions affecting its clients.

A strong balance sheet and recent acquisitions will allow management to take advantage of opportunities provided by easing

Continue ->

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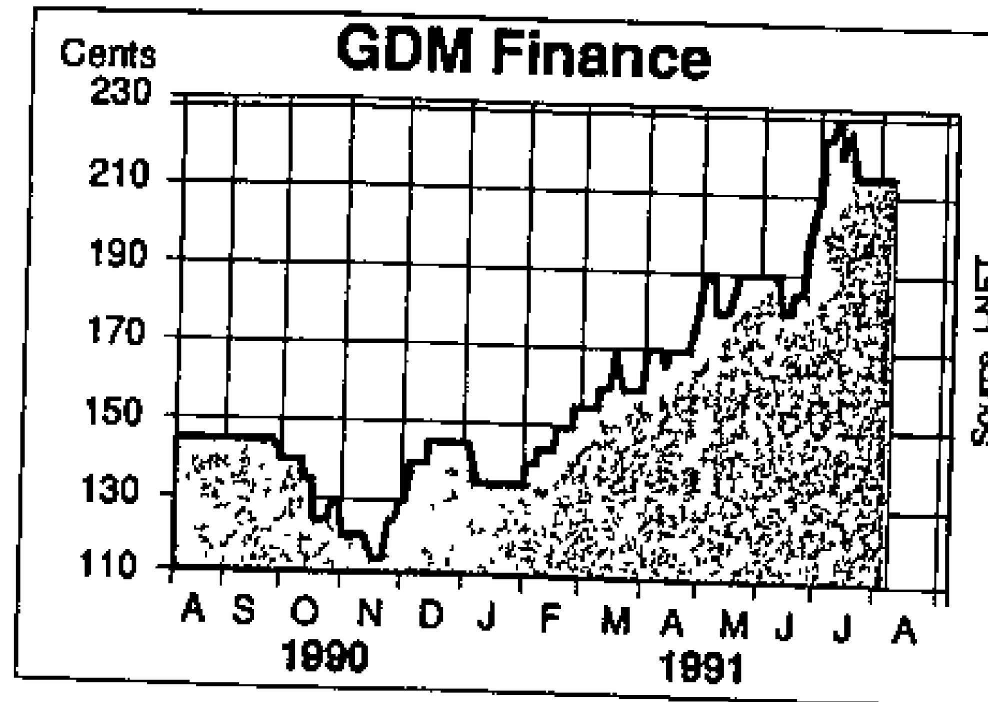

trade links and any other pickup in economic activity. Gross assets increased 17,1% to R149,8m in financial 1991, mostly owing to higher trade finance volumes. Improved turnover at African Shipping, the 64%-held clearing and forwarding operation, also contributed.

African Shipping provided 12% of pre-tax profit in its first full year under the group's control. Fowlie & Whytock, a Durban-based clearing and forwarding business, was acquired and merged into existing operations. MD John Cowper believes this will strengthen African Shipping's position in the market and expects its share of group profit to rise.

GDM's trade finance operations were also expanded. The beleaguered Repfin group was acquired in a deal involving payment of R5m goodwill, by agreement with Repfin's creditor banks. Cowper says its international procurement business and other overseas operations were sold and all proceeds went to the banks.

The name of the major operating company, Repfin Finance, was changed; it now operates as GDM International. The company added about R10m to GDM's receivables and is doing "exceedingly well," according to Cowper.

The acquisitions assisted in increasing

GDM's Cowper ... *limited exposure to bad debts*

available assessed tax losses to R63,5m (R34m), so limiting future increases in the group tax bill.

A strength of GDM is its conservative credit assessment policy and diverse client base. Turnover of its 200 clients ranges between R2m and R60m. No one client represents more than 5% of total receivables. Cowper says that despite the national rise in the level of business failures, GDM's exposure to bad debts has been limited.

With almost half the group's activities confined within SA and import volumes linked to local economic conditions, prospects for financial 1992 will be closely tied to interest and exchange rate movements, changes in fiscal policy and political developments. Any benefits arising from an economic revival would be further boosted by a removal of trade barriers.

Though Cowper is unwilling to give an earnings forecast for this year, he says the first quarter has been "very good" and no change is foreseen.

Pam Baskind

SA Eagle improves underwriting position

SEAN VAN ZYL

IN THE six months to end June SA Eagle followed the trend of short-term insurers and reported an improved underwriting position on the 1990 trading year.

SA Eagle lifted its solvency margin to 90,6% from 85,8% for the six month period, despite incurring an underwriting loss of R9,9m.

Corrective underwriting measures implemented in the period also resulted in a marginal drop in attributable earnings to R12,9m (June 1990: R13,6m).

Earnings came in at 106,1c (113,6c) a share of which a dividend of 60c (60c) a share was declared. As a result, the company's dividend cover dropped marginally to 1,8 (1,9).

Although gross premium income climbed by 22% to R452,3m (R370,8m), increasing crime-related claims resulted in an underwriting loss of R9,9m, MD Peter Martin said.

The insurer's investment income of R26,2m (R27,7m) also dropped by 5%.

He felt the rate increases on personal and motor accounts would correct the underwriting account and further increases in 1991 were unlikely.

Alex to get Eskom metering system

BDay 16/8/91

WILSON ZWANE

ESKOM has agreed to install the pre-paid or "encoded number" system of payment for the metering of electricity in at least 50 000 households in Alexandra township within the next few months.

Alexandra Civic Organisation (ACO) official Richard Mdakane said yesterday Eskom had agreed to install the pre-paid meters in the Johannesburg township at a meeting it held with the ACO on Wednesday.

"Eskom has agreed to have meters installed in these 50 000 houses by November," Mdakane said.

Further installations would depend on the demands of the residents, he said.

Alexandra residents were in favour of the installation of pre-paid meters in the township "as such an installation will enable people to buy electricity directly from Eskom", he said.

"Electricity is the right of the people — not a privilege. The people of Alexandra are prepared to pay for electricity provided they are getting it directly from Eskom and not via the town council," he said.

He said "certain points" were also clarified at the meeting which he described as fruitful. He would not, however, elaborate saying "some of the points are sensitive".

Eskom spokesmen were not available to comment.

Electronics company Spescom special programmes manager Jonathan Youngleson said Eskom had ordered a "substantial number" of meters from his company for installation in Alexandra.

Youngleson said the meters — which use number codes of 12 digits — were suitable for use by all income groups.

Although these meters could be bypassed by people who knew how, they had an inbuilt mechanism which enabled the supplying authority to "identify fraudulent activity".

The meters operate like a telephone. When the customer's code number is punched into the meter's telephone-like keyboard, the information encoded in the number is translated — on a display — into the amount of electricity the customer has bought or consumed.

All promissory notes recovered

BDay 16/8/91

ROBERT GENTLE

UNITED Bank yesterday moved to quell possible market talk that its financial safety was at risk as a result of the recently uncovered R3,7bn international fraud involving counterfeit promissory notes.

It issued a statement saying that the bank had incurred no losses as none of the notes had been negotiated. All the originals of the forged notes had been recovered and were in the possession of the police.

"Investigations by the SA Police and United Bank are continuing and are at an advanced stage," the statement said.

The fraud, disclosed in the Sunday Press, involved the presentation of R3,7bn in forged promissory notes to a number of Zurich and London banks.

On the notes were a falsified United Bank stamp and forged signatures of senior United Bank officials and Reserve Bank Governor Chris Stals.

In an interview, United Bank deputy MD Nallie Bosman described the attempted fraud as "very amateurish".

Firstly, the notes were printed on ordinary paper, not security paper or official United paper. Secondly, foreign banks had no foreign finance lines with United Bank. Thirdly, promissory notes negotiated overseas were usually in much smaller denominations than the huge sums sought.

Initial investigations had shown that no United Bank staff had been involved in the affair, Bosman said.

Godwin Webb, 43, in police custody, was refused bail in the Johannesburg Magistrate's Court on Tuesday. The trial will resume on September 4.

92a

Old Mutual property worth R7bn

B Day 16/8/91

(58)

LINDA ENSOR

CAPE TOWN — Old Mutual's property investments had grown in value by 71% to more than R7bn in about two years, Old Mutual property manager Martin Buss said yesterday.

In 1989 the investments were valued at R4,1bn.

Buss said the property portfolio which included direct and quoted investments in SA, Namibia, Zimbabwe, Malawi and Kenya produced a yield including capital and income of 22% in the year to end-June.

Total occupancy of the portfolio has held at 95% while average arrear rentals as at June 7 were only 3% of rental income.

New building developments undertaken over the last year and already under way for completion in the next two years involved a total of R530m, the investment of which would create thousands of jobs in the construction and ancillary industries, Buss said These projects would inject vitally needed business activity into the economy.

"Demand for industrial space is firm and we are building new industrial units throughout the country," Buss said.

Old Mutual's directly owned portfolio totalled 3-million square metres with office properties representing 56% of the total value of the direct portfolio, retail properties 25% and industrial properties 19%.

OM's property portfolio R7-bn

By Frank Jeans

Insurance giant Old Mutual has pushed its property investments to more than R7 billion — showing a 71 percent growth in its portfolio since 1989 when it was valued at R4,1 billion.

Property manager Martin Buss says Old Mutual's developments now under way total R530 million.

"This capital outlay will create thousands of jobs, not only for construction companies but also for those who manufacture and supply the components of the buildings," says Mr Buss.

Old Mutual's developments are spread around the country, and to a lesser extent in other parts of southern Africa such as Zimbabwe, Kenia and Namibia, but are "not undertaken speculatively".

The group follows a policy of proceeding on projects only if they are substantially prelet.

"As a result of this policy and despite the fact that we have experienced some vacancies in buying properties and through liquidations of tenants in the recession, the total occupancy of the portfolio has held at 95 percent," says Mr Buss.

Old Mutual's portfolio totals 3 million sq m, which is the equivalent of 600 rugby fields.

Offices account for 56 percent of the total value, retail 25 percent and industrial 18 percent.

SA Eagle's underwriting loss reduced

Star 16/8/91. (58)

By Sven Lünsche

The recent sharp rise in premium incomes reduced the underwriting losses at short-term insurer SA Eagle in the first half of this year.

The directors say the underwriting loss fell from R11,04 million in 1990 to R9,95 million as the concerted action taken to increase premiums as a result of the high crime rate was beginning to take effect.

"This action makes insurance expensive to the insuring public but remains necessary to offset the increased cost of claims attributable to the increase in crime related-incidents together with the high rate of motor accidents compounded by the high cost of motor repairs."

Further action will have to be taken if the levels of crime and costs rises are not arrested, they say.

Investment income fell slightly to R26,29 million (R27,78 million), leading to a fall in attributable earnings from R13,64 million to R12,9 million.

Earnings a share for the period were slightly down at 106,1c (113,6c), while an unchanged interim dividend of 60c is being paid.

Compiled on a Punch Line Panda PC

Your bond is best for saving

Star 17/8/91

Money Matters

MAGNUS HEYSTEK

RECOVERING from a minor operation to my leg this week, I have the luxury of time on my hands — something that I normally don't have.

Browsing through my scattered notes, leaflets, booklets and books for anything interesting in the financial field I came across The Bond Book, written in 1985 by chartered accountant Anthony Trace.

I don't know if this booklet is still available, but for anyone who has a bond (or two) it's a fascinating exercise in the arithmetic of bond finance and the various permutations in regard to interest rates, length of time and bond repayments.

I have often in the past used the calculations contained in this book to illustrate how increased bond repayments can save hundreds of thousands of rands in total repayments.

Take for example someone with a bond of R100 000, which is not all that uncommon today. (In fact, a spokesman for the United has convinced me that the average size of bonds granted in the northern suburbs today is about R150 000.)

At an interest rate of 19,75 percent, repayable over 20 years the minimum repayments on a R100 000 bond will be R1 679 a month, making for a total repayment of R402 960 over the length of the bond.

Now comes the interesting part:

If you decide you want to repay the bond over only 10 years, the monthly repayments increase to R1 916 a month, with the total repayment dropping to only R229 920.

So for that extra R239 a month you save yourself a grand total of R173 040. Now that's what I call saving!

What would happen if you decide to pay the bond over 30 years, an option on offer by most financial institutions?

Total cost

While your monthly repayments drop to only R1 650 a month your total repayments over 30 years add up to an incredible R594 000.

Only if you have no other alternative should you consider this option as you pay considerably more in interest over the period.

Although the difference in monthly repayments between a bond over 20 and 30 years is only R29 a month, the difference in total repayments is more than R192 000.

When I used similar figures in the past readers have phoned ...

If the first option is chosen it leads to a saving of R4 032 over 12 months (assuming that the interest rate remains the same).

To answer the question whether this is a good investment, I phoned around to obtain the best deposit rate on R20 000.

The best I could get was 16,6 percent at TrustBank fixed for 12 months, which would give me a total return of R3 320.

You can see immediately that it pays to reduce your bond rather than to have money on fixed deposit. And this does not take into account the effect of taxation.

Interest tax

Deducting the first R2 000 in interest that is tax free, tax has to be paid on R1 320. At a fairly low marginal rate of tax (note marginal, not average) of 35 percent, R462 will have to be paid to the taxman at the end of the year.

This increases to R1 174 the money-in-pocket difference between paying off your bond and having the money in an interest-bearing account.

It again underlines what I have said in earlier columns — that anyone who has a bond AND a fixed deposit somewhere is losing money.

All surplus cash should be paid into the bond until the bond is paid off. Only then should alternative investments be sought.

In fact, I half jokingly suggested to a colleague that you need never pay income tax on investments again while you have a bond, and the more I thought about that the more plausible the idea becomes.

The suggestion works as follows:

Pay off all excess cash you have into your bond. Liquidity is no longer a problem because it's easy to get a re-advance on your money.

When your bond is close to being liquidated, increase your bond back to its original size, or better, keep it in line with the inflation rate and invest that capital amount, which is tax-free, into a unit trust, endowment policy or portfolio of blue chip shares on the stock market.

Provided you keep this investment for at least 10 years, the ...

to interest rates, length of time and bond repayments.

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Now comes the interesting part:

If you decide you want to repay the bond over only 10 years, the monthly repayments increase to R1 916 a month, with the total repayment dropping to only R229 920.

So for that extra R239 a month you save yourself a grand total of R173 040. Now that's what I call saving!

What would happen if you decide to pay the bond over 30 years, an option on offer by most financial institutions?

Total cost

While your monthly repayments drop to only R1 650 a month your total repayments over 30 years add up to an incredible R594 000.

Only if you have no other alternative should you consider this option as you pay considerably more in interest over the period.

Although the difference in monthly repayments between a bond over 20 and 30 years is only R29 a month, the difference in total repayments is more than R192 000.

When I used similar figures in the past readers have phoned me and said they simply did not believe they were correct.

Well, it is all true and shows the dramatic saving effected by either increasing your monthly bond repayment or shortening the length of time. Both have the same result.

What many people also do not realise is that they can pay a lump sum into their bond. This again has the effect of shortening the repayment period or reducing the monthly commitments.

Take someone who pays R20 000 into his R100 000 bond. Two things could happen: His monthly repayment would drop from a minimum of R1 679 to R1 343 or, alternatively, his repayment period (at R1 679 a month) would decline sharply to just over seven years.

percent at TrustBank fixed for 12 months, which would give me a total return of R3 320.

You can see immediately that it pays to reduce your bond rather than to have money on fixed deposit. And this does not take into account the effect of taxation.

Interest tax

Deducting the first R2 000 in interest that is tax free, tax has to be paid on R1 320. At a fairly low marginal rate of tax (note marginal, not average) of 35 percent, R462 will have to be paid to the taxman at the end of the year.

This increases to R1 174 the money-in-pocket difference between paying off your bond and having the money in an interest-bearing account.

It again underlines what I have said in earlier columns — that anyone who has a bond AND a fixed deposit somewhere is losing money.

All surplus cash should be paid into the bond until the bond is paid off. Only then should alternative investments be sought.

In fact, I half jokingly suggested to a colleague that you need never pay income tax on investments again while you have a bond, and the more I thought about that the more plausible the idea becomes.

The suggestion works as follows:

Pay off all excess cash you have into your bond. Liquidity is no longer a problem because it's easy to get a re-advance on your money.

When your bond is close to being liquidated, increase your bond back to its original size, or better, keep it in line with the inflation rate and invest that capital amount, which is tax-free, into a unit trust, endowment policy or portfolio of blue chip shares on the stock market.

Provided you keep this investment for at least 10 years, the capital growth and dividends are tax-free. Voila! No more income tax on your investments.

Let's use as an example a bond of R100 000 again. You repay the bond over 10 years or even less, using surplus cash.

After 10 years the property has more than trebled in value if it has kept pace with an inflation rate of 15 percent. After 10 years you can easily raise a bond of say R400 000 on the house.

In real terms this is in line with inflation while the bond repayments will, in relation to salary, not be out of line and quite acceptable to the financial institution.

● At 10.55 this morning in the Allied World of Money on SABC-TV1 we will have yet another look at inflation and what this insidious process is doing to our money.

second quarter had been limited by higher government spending and a lower reduction in inventories, which partially offset the continued contraction in private consumption expenditure.

from a minimum of R1 079 to R1 343 or, alternatively, his repayment period (at R1 679 a month) would decline sharply to just over seven years.

lied World of Money on SABC-TV1 we will have yet another look at inflation and what this insidious process is doing to our money.

Insurance costs more than the car

MAGNUS HEYSTEK

Are you under 25 and driving a sporty Fiat Uno turbo?

Well, the chances are that your monthly insurance premiums at some insurance companies will be significantly more than the monthly repayments on your car.

This is the startling finding by David Hersch of Compuquote, a Cape-Town-based company that provides a computer-based comparision of insurance quotes.

Based on the claims experience of youngsters driving a Fiat Uno turbo several companies have now re-rated the risk attached to this high-powered little car. The result has been a sharp increase in insurance premiums.

For instance, Aegis now demands a monthly premium of R902,49 a month for comprehensive insurance of a driver under the age of 25, in addition to a basic excess of R2 100 in the event of a claim.

This is more than the monthly repayments on the same car bought with a 20 percent deposit repayable over three years. The average premium now demanded by 14 insurance companies is R478,75, according to a study conducted by Compuquote.

This, says Mr Hersch, is yet another example of how expensive car insurance has become.

Mr Hersch says the sharp increases in car insurance costs is leading to a downscaling of cars owned by private buyers who are not subsidised in any way.

Even if a person receives an allowance of some kind, this is not enough to compensate fully for the combined cost of repayments and insurance.

"The cost of motor insurance is increasingly having a direct effect on the model of the car bought.

"The motor industry is a barometer of the state of the economy and will therefore be profoundly affected by this developing trend and will have to take cognisance of it and adjust accordingly by making comparitive shopping (for insurance rates) available on the sales floor".

Assurers in the dark

S Times (Bus Times) 18/8/91 **By TERRY BETTY** 58

THE LIFE Offices Association (LOA) met Finance Minister Barend du Plessis on Friday to seek clarity about turnover tax on long-term assurers.

But there is a problem over the definition of interest income.

A turnover tax of 0,75% will be levied on banks, assurers and pension funds from September 30 to coincide with Vat's introduction.

This will compensate for the services exempt from Vat because of the problem of defining the value added portion.

These services generate large amounts of interest income on investments and 0,75% of it will be taxed and paid quarterly.

Inland Revenue director, legal drafting, Ian Meiklejohn says his department is still sorting out details of interest income, such as after what date interest should be liable for the tax.

"Interest income will probably include the capital gains and losses on the disposal of certain financial assets," says the secretary of the LOA Vat committee, David Couldridge. Otherwise, institutions could reduce their tax liability by investing in instruments yielding very low interest, but high capital gains.

Because premiums are fixed in long-term policies, they cannot be adjusted to recover this loss. Mr Couldridge says turnover tax will have a minimal effect on investors' returns.

Banks 'a threat' to insurance industry

LINDA ENSOR

CAPE TOWN — The UK insurance industry was under long-term threat by banks, retail chains and other companies which have taken up the direct selling of insurance policies, the Provincial insurance group's Barrie Wells said in an interview last week.

The local insurance industry's fear of such a trend developing in SA was recently picked up in a study undertaken by Arthur Andersen Consulting.

Wells said companies such as Automobile Assurance, major banks, credit card companies, building societies and retail chains such as Marks & Spencer, had begun acting as marketing agents for long-term and short-term insurance policies.

Two years ago Marks & Spencer, acting as brokers, began selling investments and drew 50 000 investors at the product launch. The chain was also selling other financial service products and had stated that within 10 years it aimed for 10% of its net profits to come from financial services.

And Visa was selling motor, home, medical and life policies to its 6-million strong client base.

Wells said it was estimated that 10%-15% of all insurance policy sales took place by direct marketing.

Companies such as banks and retail chains could use advantages such as their widely accepted brand names, their large client base and the variety of distribution channels available to them.

"What worries the insurance industry is that they have a great variety of options as to which insurance company to give their business to and even more seriously that they could decide to establish their own insurance company," Wells said.

Provincial, for example, had lost half its policies when the bank which had given it the business set up its own insurance company and took the policies with it.

Sanlam expects satisfactory results

LINDA ENSOR (58)

SANLAM's total premium income from individual business exceeded R5bn in the year to end-June while its new recurring individual premiums totalled nearly R1bn. BDay 20/8/91.

This emerged from the assurer's latest biannual returns to the Life Office's Association and indicated that results for the financial year to end-September would be satisfactory, said senior GM (individual business) Desmond Smith.

Smith attributed the success with recurring premiums in new individual business to Sanlam's adaptation of products to meet the needs of its clients.

Sanlam's 500 Plus fund achieved a net growth on investment of 38,2% for retirement annuities and 29,6% for ordinary policies.

Old Mutual's wealth surges

(58) ARG 20/8/91

TOM HOOD
Business Editor

OLD Mutual's enormous wealth surged by almost R13 billion (21 percent) to R72,4 billion in the year to June.

And the insurance giant paid out R4,5 billion in benefits, or R18 million every working day.

It also has about R20 million a day to invest — income from investments passed the R4 billion mark in the past year.

Disclosing the figures today, chairman Mr Mike Levett said the R4,5 billion was equal to the GDP of a country like Malawi.

"As the trustees of the money our members and clients have invested with us, we apply our considerable investment expertise to provide financial security to millions of people," he said.

This investment expertise was evident in the R6,2 billion increase in the market value of the share portfolio in the past year.

"Fully invested against market sentiment, our bold strategy proved right when the market turned."

Mr Levett was confident in the JSE's ability to continue providing long-term value.

"The application of sound economic policies by the government should provide the framework for future growth.

"Our balance of payments and reserves are reaching a stage where a durable upturn can be financed, especially after our re-admission to international financing."

The property portfolio, which comprises direct and quoted investments in South Africa as well as properties in Namibia, Zimbabwe, Malawi and Kenya, produced a yield, combining capital and income performance of 22 percent. The portfolio's value increased from R5,3 billion to R6,7 billion.

Old Mutual passed a number of important business milestones in its financial year, Mr Levett said.

Total income exceeded R12 billion, having doubled since 1988, and of this total premium income reached R8 billion.

"Recurring premium income, the backbone of any insurance business, grew by 19,5 percent to R3,3 billion on the individual life side and by 22 percent to R2,3 billion on the employee benefits side."

An important development was the steady increase in the portion of benefits paid in the form of annuities.

Annuity payments totalled a record R1,4 billion, a 28 percent increase from last year and 77 percent more than three years ago.

"We believe this trend shows the increasing willingness of people to plan sufficiently for retirement, significantly relieving the burden on the State."

A recent innovation was the closed-end investment trust being jointly designed by Old Mutual and a London broking house.

VAT likely to push up short-term insurance

SEAN VAN ZYL

PREMIUMS for short-term insurance are expected to rise by between 6% and 8% when VAT is implemented on September 30.

However, industry sources yesterday said consumers could avoid paying VAT for the first year of its introduction by cancelling their existing cover and renewing policies on an annual premium contract before the September 30 deadline.

Insurers said although monthly premiums would automatically include VAT, annual premium business written before September 30 would attract VAT only at the next renewal date.

While registered vendors could claim VAT input credits against their insurance costs, they noted the average individual had no such recourse.

The source said the Receiver's office had warned insurers not to exploit the loophole by changing policy dates or encouraging policyholders to renew their contracts before VAT.

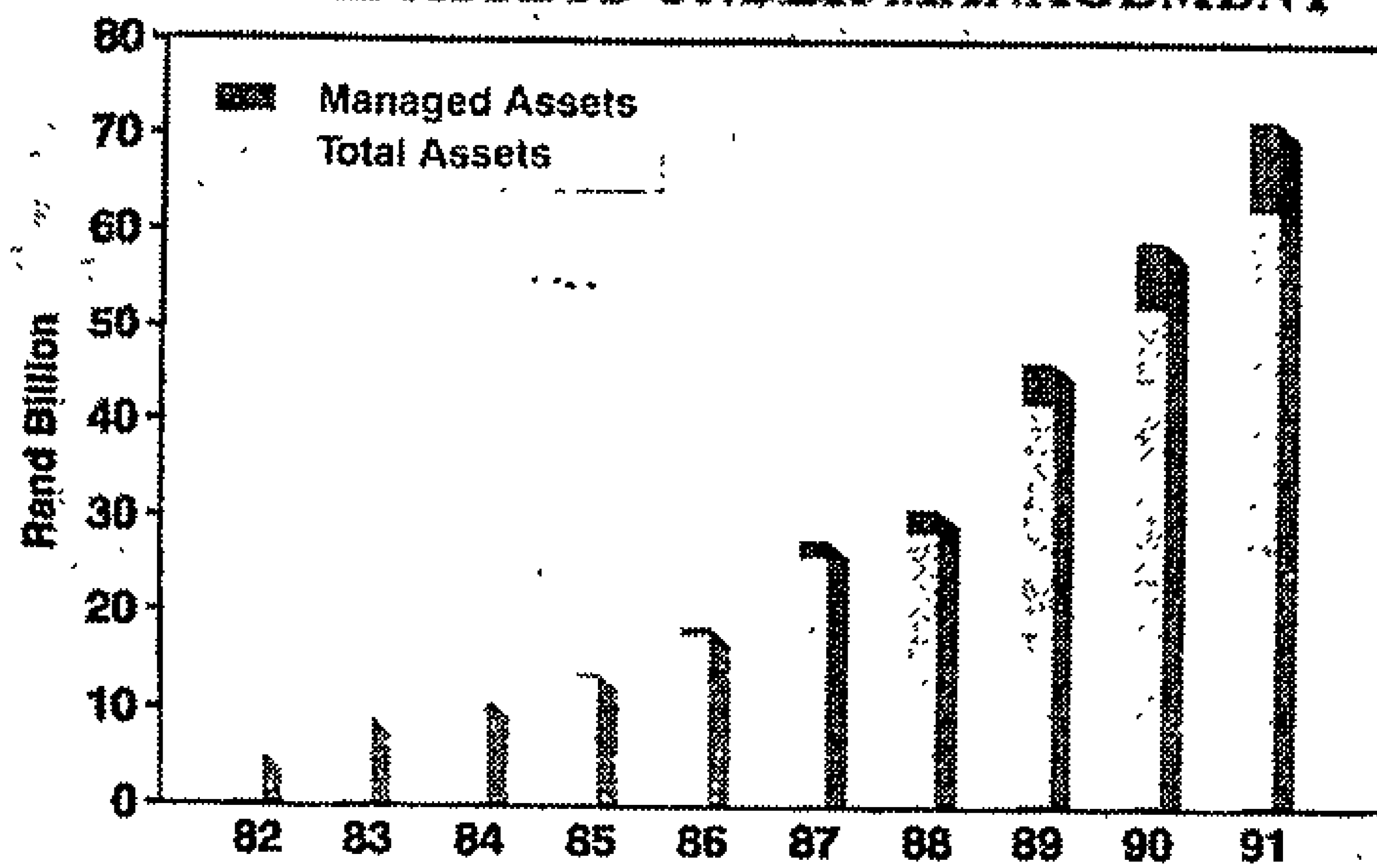
A joint statement released yesterday by the SA Insurance Association and SA Insurance Brokers Association said virtually all short-term cover would attract VAT.

Insurers said they would be able to offset the greater part of the 12% VAT cost increase against input credits on their claim costs.

As a result, premiums would not rise by the full 12% VAT rate as insurers would be able to absorb at least half the increase, "though rate increases will vary between insurers and type of risk".

The only short-term business that would escape the VAT net would be cover on offshore property and goods in transit, and certain financial guarantee policies.

It said that after September 30 claims would be settled inclusive of VAT, thus the value of sums insured, particularly classes of business which did not include a GST component, would have to be increased appropriately once the new tax system was in place.



Old Mutual's assets soar to R72,5-billion

Star 20/8/91

By Sven Lünsche

Old Mutual has underlined its dominant position in the South African economy with its announcement today that net assets under its control rose by more than R13 billion to R72,5 billion in the year to end-June.

Its leading role in providing financial services to South Africans is also confirmed by its financial results, which show that the group received an inflow of funds through premiums and investments of almost R48 million every working day.

Furthermore, it paid its shareholders and beneficiaries about R18 million a working day in the form of annuities, death and disability benefits and maturity benefits.

Most striking was the growth in Old Mutual's share portfolio, whose market value increased by R6,2 billion to R36,2 billion in the 12 months.

This supported its decision at the beginning of the past financial year to acquire quality stocks. Chairman Mike Levett says that new inflows were used in the main to finance the acquisition of selected industrial stock.

He is confident the JSE will continue to provide long-term value, as the application of sound economic policies should provide the framework for future growth.

The value of the property portfolio also showed strong growth, rising from R5,3 billion to R6,7 billion, as the yield on capital and income performance reached 22 percent.

However, the market value of its government and public authority loan stock portfolio increased at a lower rate, from R10,3 billion to R11 billion.

While this reflected partly the slower growth of its R4,5 billion Zimbabwe portfolio, which is up to 70 percent invested in government stock, in the wake of the decline of the Zimbabwe dollar against the rand, it also points to Old Mutual's views on local long-term interest rates.

Tight policy

"The potential for real returns on long-term interest rates does not look to good," says Mr Levett, adding though that he supports the Reserve Bank's tight monetary policy and its efforts to maintain interest rates at real levels.

He forecasts economic growth to pick-up slightly in the fourth quarter this year, although he does not expect a sharp turn-up.

The group's total premium income rose by R1 billion to R8,1 billion, with recurring premium income up 19,5 percent to R3,3 billion on the individual life and a 22 percent rise on the employee benefits side.

Benefits paid increased at a faster rate from R3,8 billion to R4,5 billion, as annuity payments rose 28 percent to R1,4 billion.

"This trend shows the increasing willingness of people to plan sufficiently for retirement," Mr Levett says.

Short-term insurers to pass on half of VAT

Star 20/8/91

By Sven Lünsche

The short-term insurance industry is set to pass on at least half of the 12 percent increase arising out of the introduction of value added tax on short-term insurance policies.

The SA Insurance Association (SAIA), the umbrella body for the industry, and the SA Insurance Brokers Association (SAIBA) say in a joint statement that virtually all their policies will attract VAT.

The associations say it is expected that insurers would in general be able to absorb at least half of the potential increase, though rate increases would vary between insurers and the type of risk insured.

"We wish to reassure consumers that advantage will not be taken of the introduction of VAT to obtain additional premium increases."

However, claims will be settled inclusive of VAT and to make this possible, sums insured will have to be set at levels which included VAT.

The few products that will not attract VAT are specialised financial guarantee policies, which are VAT exempt, and policies relating to international transport and goods or property situated outside the country, which will be zero rated.

Little change

On policies relating to individuals, household and motor vehicle insurance currently include GST, so little change is expected.

But individuals should expect to pay more for houseowners' policies as the replacement costs of buildings will now be calculated to include VAT.

The situation relating to corporations is more complex and depends on the domicile of the insurer, the type of risk insured, the impact of VAT on the cost of replacement goods and the vendor status of the insured.

"Where claims are settled by means of indemnity payments, the proceeds in the hands of the insurers who are vendors (where the income exceeds R150 000) will be subject to output VAT.

"This will not apply to payments to non-vendor claimants," SAIA and SAIBA say in their statement.

In the transitional period, SAIA has recommended that its member companies do not adjust the sums insured for VAT purposes in respect of policies due after September, but rather indemnify policyholders against the VAT impact in such "transitional claims".

All sums should be reassessed at the next renewal after VAT has been introduced, SAIA says.

Lesotho scheme draws backing from SA money market

SOUTH Africa's money market is the main financing pool from which the Lesotho Highlands Development Authority (LHDA) obtains cash to pay contractors working for the water transfer part of the Lesotho Highlands Project.

Repayment is by means of the more than 22 foreign, commercial and export credit loan agreements which will come into effect later this year.

Actual scooping from the pool is being done by a phalanx of banks.

B Day 21/8/91

Initial

Joint Permanent Technical Committee financial controller Johann Claassens says: "We refer to the two initial bridging finance operations as 'CMA (Common Monetary Area) Phases I, II'.

"Phase I, of R135m — repaid in March — was arranged by Volkskas, Volkskas Merchant Bank and Rand Merchant Bank.

"Phase II's R750m comprises two loans of R370m each from the same consortium and Nedbank respectively and also E10m from Barclays Bank in Swaziland.

"This is the money we're drawing down at the moment and will be repaid either late this year or early next year.

"After that, it will be on to Phase III — a basic R1bn plus finance charges — through Standard Bank and First National Bank. This will be more than bridging finance, and is still being finalised.

The funding operation has been praised by overseas merchant bankers.

In the longer term, the SA capital market will have funds drawn from it, jointly by the Trans Caledon Tunnel Authority and LHDA.

Mechanism

Discussions on the mechanism to be used are taking place and one possibility is that one or other merchant bank will be chosen as market-maker in issued stock.

"This is an example of First World sophistication being put to use in the Third World," says Volkskas Merchant Bank's Jan de Kock.

QUOTES

MERCHANT banking's fundamental resource is intellect. You have to have people who seek self-fulfilment and fun in constructing deals ... and until the deals arrive you wonder how you're going to pay the lights and water. — FirstCorp MD Dave Lawrence

We survive on the edge and the biggest difficulty is finding people able to train themselves. However, as in normal banking, the key to success is proper rating of credit risk. — Investec Merchant Bank acting MD Bernard Kantor

The CEO has to be hands-on in this business. One MBO can make a huge difference to the relationship between your assets and your liabilities. — Volkskas Merchant Bank MD Jean Brown

This is a seasonal business, with constant switching from listings to rights issues, to MBOs, to acquisitions and so on. There's no question of firing on all cylinders at once. — Finansbank executive director Willie Ross

Merchant bankers are ambitious bastards who think they can do everything. — Anonymous

French banking group opens SA office

ROBERT GENTLE

PARIBAS, France's largest private banking group with offices in more than 60 countries and assets of R500bn, has set up a representative office in Johannesburg.

Francois Gelinet, vice-president and senior representative of the new office, said in an interview yesterday that it would seek to offer specialist merchant banking services to SA clients.

Top on the list was helping SA to tap world capital markets through Paribas's international contacts and expertise. As a first step, he said, Paribas would play host to delegates from the SA Finance Ministry on August 26 at its Paris headquarters.

They would use the occasion to address 200 to 300 potential French investors on SA and the state of its finances, Gelinet said.

The local Paribas office would also seek to provide commodity-related business in areas such as oil, gas and minerals.

It would also use its role as an industrial bank — which places it on the boards of many big European companies — to develop investment and trading opportunities between SA and Europe.

Act will enhance the support for new developments

58

B Day 21/8/91

SOUTH Africa's sophisticated merchant banking sector provides much needed support for development.

Still greater effectiveness should result from the Deposit-Taking Institutions Act, in effect since January.

Aligns

This aligns the country with Bank of International Settlements requirements, and under the Act the role of Registrar of Deposit-Taking Institutions (DTI) Hennie Van Greuning is streamlined.

In the sector old and new names jostle competitively and the outcome has been a plethora of new products and markets, taking the sector far from the common perception of being concerned only with listings, mergers and acquisitions.

HENNIE VAN GREUNING

It has been innovative in project financing (as in the Lesotho Highlands Water Scheme and toll roads), housing for the masses and creation of markets for derivatives — futures and options.

DTI has been welcomed for moving the regulatory emphasis from prescription to risk management and easing expansion outside the country. The unwelcome VAT-surrogate turnover tax on financial services at least has the corollary of monthly returns useful to risk management.

The tax's threat to certain futures and options operations — at one time thought deadly — has been removed by Inland Revenue after consultation.

Safeguarded

With that merchant bank preserve safeguarded, there's also the prospect of inroads into share-trading should deregulation recommended by the Financial Services Board be accepted.

The age of commercial paper — company-backed loans outside the JSE — is dawning. The merchant banks feel it is they, rather than commercial banks, who will weigh up the "loan power" of different companies.

Using merchant bank treasuries for issuing and making markets in the stock of capital market newcomers such as the Roads Board and the Department of Water Affairs would save pressure on a limited pool of expertise.

As fee and trading income becomes all-important for merchant banks and risk management vital, Van Greuning's office is intent on enhancing it.

"Evaluation of the risk management process" is the supervision key in place of outdated prescriptive rules, he said in a paper delivered overseas.

Supervisors have to "act as facilitators in finding common ground and risk-based management accounts that reflect the best market practice".

Acufin exploits a niche market

BDay 2/8/91. (58)

MERCHANT banks handle the big and medium-league changes of ownership in business, and business brokers registered with the Estate Agents Board the small ones.

Between these two levels there's a niche to be exploited.

A firm doing this is four-year-old Acufin, whose directors Sandor Donner and John Gordon began their careers at the IDC and the Schlesinger Group respectively.

Donner says there was a case of a small paint manufacturer which came on the market and which no business broker was successful in selling.

"We expanded the field of inquiry into the chemicals industry and a company which wasn't looking at the businesses-for-sale columns became the buyer."

As a result of the renewed confidence in SA, the local subsidiary of a UK-based group has asked Acufin to identify a packaging/food processing company for acquisition

Always only an intermediary when underwriting is involved, Acufin handles more than mergers and acquisitions. Unlike most merchant banks, it will seek venture capital, though never from public sources, and it helps with financial restructuring

"We found an overseas connection for a local leak-sealing business which has enabled it to expand operations to Saudi Arabia and Kuwait.

"For a coastal landowner we have structured a hotel and golf course project to put to developers and hotel operators."

Apart from an upfront "commitment fee", payment to Acufin rests on performance.

Merchant banking

Senbank can offer a complete range of direct funding

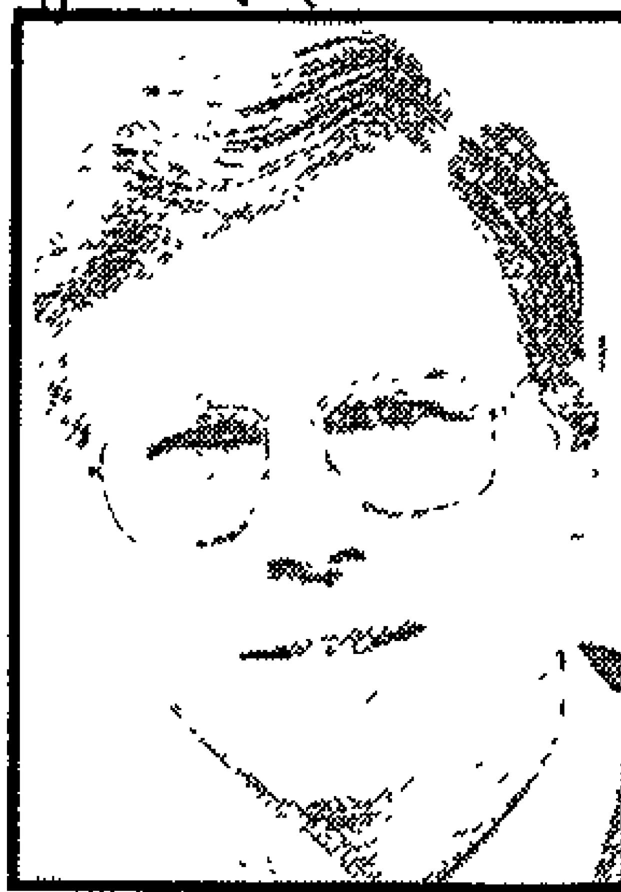
BDay 21/8/91. (58)

"The complete corporate and merchant bank" — as Senbank says it has become in the restructuring of the Bankorp group — sets a precedent in the SA banking scene.

Senbank senior general manager Estienne du Toit says: "Our comprehensive delivery system means all merchant and commercial banking services and products are accessed through a single relationship."

Absorbed

Add the fact that when it absorbed corporate banking and project finance from TrustBank — staff rose from 265 to 730 — the new Senbank's asset base started off at R11bn, or three times higher than the nearest merchant bank competitor's.



ESTIENNE DU TOIT

"Clients don't have to go to two or more banks to meet their needs," says Du Toit. "We can provide direct funding on a scale beyond that of most merchant banks."

A need to restructure and replace debt with some form of equity had arisen from stringent monetary policy and increased demand for corporate finance expertise. "We've been busy with a number of restructures to address gearing problems and enhance focus.

"We've also been able to adopt a more entrepreneurial approach with greater emphasis on dealmaking. This after we already had a tremendous client base — 70 of the FM's top 100 companies in 1990 — and the biggest share of business in terms of value and number of projects handled by merchant banks and issuing houses."

Sceptics of the new format argue in favour of a merchant bank being a small, tight ship. Some opinions:

"Providing cheque accounts means you descend into bureaucracy, losing the short lines of communication, quick decision-making and innovation that lie at the heart of merchant banking."

"A merchant bank must have its own treasury and not use a group's, with many demands upon it. A match of funding to need can be more important than tapping less expensive retail money."

Centralised

But Senbank says Bankorp's centralised treasury — with the largest dealing room in the southern hemisphere — improves service delivery and cost-effective funding.

The division is headed by former Senbank MD Doug Anderson, supported by former Senbank senior general managers Jurie Bester and Helmut Bahrs.

The "new guise" bank may well come up with the goods.

Old Mutual comes out on top in the recession battle

BDay 21/8/91

(58)

SEAN VAN ZYL

OLD Mutual has lifted total income by 13% to R12,1bn for the year ended June despite recessionary conditions and relatively high interest rates over the period, chairman Mike Levett said yesterday.

Including off-balance sheet assets of R9,6bn (1990: R7,1bn), the life assurance company's total managed assets grew 21% from the previous year to exceed R72,4bn.

The off-balance sheet assets covered managed investments, pension funds and unit trusts.

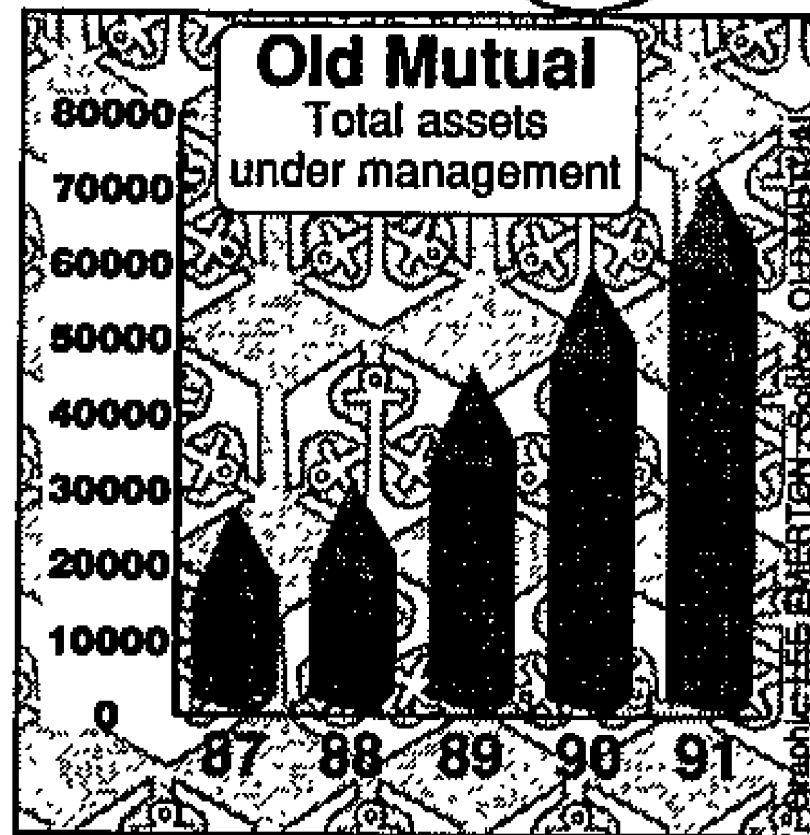
In addition, the assurer has disclosed a handsome 20% increase in benefits of R4,5bn (R3,7bn) paid to members in the past financial year.

Old Mutual's premium income rose by 13% to break R8bn (1990: R7,1bn) with investment income climbing 14% from the previous year to more than R4bn (R3,5bn).

Although the year's premiums written showed a modest increase compared with the stronger growth in new business recorded in the previous year, Levett said Old Mutual had gained market share in the 1991 trading year.

The 1990 financial year's strong growth in premiums resulted to a large degree from the Namibian independence which saw a large portion of pension monies being rechanneled into life assurance single premium contracts, he said.

As a result single premium business reflected a slower growth trend in the 1991 financial year. Levett said relatively high interest rates over the period, coupled with market uncertainty of a withholding tax on investment returns, also resulted in a large number of investors deferring long-term saving decisions and leaving their money in the bank.



Old Mutual achieved a 10% growth in individual premium business to R5,1bn (R4,6bn) while group premium business rose 18% to R2,9bn (R2,4bn) for the 1991 trading year.

Levett said Old Mutual's recurring individual premium income climbed by 20% to R3,3bn (R2,8bn) which he noted was the "backbone of any insurance business".

However, the value of individual policy surrenders also climbed 45% to R413m over the period, which Levett ascribed largely to recessionary pressures.

Also, the assurer's employee benefits' recurring premium rose 22% to R2,3bn (R1,9bn).

Levett said the record payout in total benefits to members was boosted by a 28% rise in annuity payments.

"We believe this trend shows the increasing willingness of people to plan sufficiently for retirement."

Including group scheme business, Levett said premiums written in the black market were growing the fastest. Despite the township unrest and recent industrial strikes, the black market accounted for about 50% of the assurer's new business.

Although investment income growth decelerated over the period but kept pace with inflation of about 14%, the market value of Old Mutual's investments climbed 19% to R61,1bn (R51,2bn).

Levett ascribed the modest increase in investment income to the poor dividend returns currently paid on equity investments.

However, he noted at least half of the assurer's 17,3% growth of more than R6bn in the value of the share portfolio to R36,1bn (R29,8bn) was achieved through higher capital appreciation of equity investments.

As a result, Levett said Old Mutual had invested heavily into equities during the year.

"Fully invested against market sentiment, our bold strategy proved right when the market turned."

As a result, Levett said he was confident the JSE would continue to provide long-term value.

Old Mutual's split on investments at June stood at: Equities 59%, government and public stock 18%, debentures, mortgages & loans 2,5%, money on deposit 9,5% and property investments 11%.

Besides minor market adjustments, Levett felt Old Mutual's present investment structure was adequate.

- 6 -

- 5 -

Suggested solution to Question 2 (continued)

2.3 Maximum stock level:

$$\text{E.O.Q.} = \sqrt{\frac{2 \times 81 \times 25500}{1,5}}$$

= 1 660 units

∴ Maximum stock level equals 1 660 + 8

= 1 740 units

Independence for financial services industry mooted

Star 21/8/91.

By Frank Jeans

(58)

The financial services industries could be self-regulated rather than controlled by the public sector, Minister of Finance Barend du Plessis has hinted.

This could come about with the establishment of a Financial Services Act, which would require all providers of financial services to register and state the nature of their activities.

Opening Old Mutual's twin showpiece buildings in central Johannesburg yesterday he said regulatory principles should be based on market forces.

On the question of disclosure, he said that moves internationally had been towards full disclosure for all financial institutions in terms of generally accepted accounting practices.

Acknowledging that insurers and retirement funds had benefited from inflation at the expense of deposit-taking institutions, he said they had also enabled the "little man" to gain some protection from inflation.

"By offering comparatively inflation-resistant savings alternatives to the little saver, the large institutions might have prevented the personal savings ratio from declining even lower than it has done."

He was bullish about economic prospects: "We are now poised for sustained economic growth but the extent that growth will be dependent on our readmission to the IMF and world banking circles."

Jacobs has some bad news for the saver

By Derek Tommey (58)

Star 21/8/91.

Savers can wave goodbye to hopes of getting special tax concessions on their interest payments.

Banks and building societies can wave goodbye to hopes of getting a more level playing field in their fight with life insurance companies.

This emerges from an address yesterday by Dr Japie Jacobs, special economic adviser to the Minister of Finance.

Dr Jacobs is chairman of the Committee on the Promotion of Equal Competition for Funds in Financial Markets, better known as the Jacobs Committee.

However, Dr Jacobs had one pleasing point for financial institutions.

He said the authorities were not in favour of using them as a milk cow for deserving and socio-economic projects.

Dr Jacobs said the Government was often criticised for not using tax incentives to promote savings, and referred to its investigation earlier this year of a final withholding tax on interest income accruing to individuals.

But the difficulties of implementing it had for all practical purposes eliminated its use — which was to be regretted, he said.

Dr Japie Jacobs . . . interest-bearing financial assets unattractive savings vehicles

It might have been advisable to have retained the building societies' tax privileges in order to finance houses.

But the elimination of the differences between banks and building societies had made such an option unworkable.

Referring to the call by banks and building societies to compete on a fairer basis with insurance companies for the public's savings, Dr Jacobs said it was not possible to escape the verdict of the market place that interest-bearing financial assets were unattractive savings vehicles in the present environment.

But the suggestion that the competitive disadvantages of banks and building societies could be overcome by granting them the same freedom to invest as the insurers had little practical merit.

He referred to the argument that the insurance companies had an advantage over deposit-taking institutions because, while taking in deposits, they did not have to keep the same reserves as banks and building societies.

Dr Jacobs said payments to insurance companies were not regarded as deposits.

In addition, steps had been taken to prevent insurers marketing investment products which provided a policyholder a maturity, surrender or loan value within five years.

This was based on liquidity considerations as seen from the investor's point of view, and was regarded as a workable solution.

The insurer was also unable to guarantee the investor a certain return.

Dr Jacobs indicated that he could be in favour of lightening the tax on insurers.

According to the "trustee principle" their average rate of tax should be the same as that of their policyholders, he said.

But they were paying the maximum marginal rate of 43 percent.

Dividends were taxable in their hands, though not in the hands of other taxpayers, and expenses were not fully allowed for.

"It seemed inconsistent that the Government, on the one hand, provides tax incentives for certain savings such as contributions to pension funds and annuities, and, on the other, imposes taxes aimed at reducing the net effect of these tax incentives."

Dr Jacobs said there were growing calls for financial institutions to provide funds for the upliftment of the underprivileged.

"It is necessary to stress that savers would by-pass those institutions or, even worse, save less, if interventionist policies exposed financial institutions to undue risks.

"It would be better to use existing specialist institutions to address these gaps in the provision of finance than to intervene in the financial system as such in order to divert resources to certain deserving causes."

Off-market deals will be allowed

B/Day 22/8/91

LINDA ENSOR

CAPE TOWN — The Financial Services Board (FSB) has withdrawn the provision prohibiting off-market dealings in the proposed amendments to the Stock Exchanges Control Act

FSB CEO Piet Badenhorst said on reconsideration it was thought unnecessary to change the present Act which prohibits people from buying or selling securities as a business on behalf of a client except through a broker. The Act covers all beneficial transactions and exemptions in the present Act would still apply in the new Act.

Dealings between two pension funds would depend on their contractual relationship to the company administering them and on whether the shares were shifting in one common pool of assets or being sold at arms length from one fund to the other.

But Badenhorst's understanding of the change is different from that of the life offices some of which believe that the lifting of the proposed ruling will allow direct selling between two principals.

Badenhorst said portfolio managers in the mutual societies who engaged in the buying and selling of shares on behalf of clients would be regarded as conducting a business and would still be required to go through brokers.

He said a clarifying circular would be sent out shortly. However, the controversy on the issue is likely to mount as the life offices are strongly opposed to this requirement.

Old Mutual's GM (investments) Johannes van der Horst previously objected to the "sweeping" rule that all trade in quoted securities had to be through a stock exchange.

And Life Office's Association director Jurie Wessels said the LOA was strongly opposed to the requirement that all deals be done through a broker because of the expense this would involve and because of the need in certain circumstances to keep details of strategic deals confidential.

JSE president Tony Norton yesterday emphasised the need to prevent the stock market from becoming a market of last resort as this threatened the integrity of prices.

Fictitious

He stressed that it was necessary when there was a change in the beneficial ownership of shares for the price to be tested on the market otherwise someone would be the loser.

Frankel Max Pollak Vinderine's Sydney Frankel said the prices on the stock market would become fictitious if they did not truly reflect the relationship between supply and demand, which they could not do if large volumes of trade took place outside the market.

"You can only have a real market if there are proper volumes otherwise the market becomes a meaningless institution," Frankel said.

Another stockbroker also said he would like to see as much trade as possible coming through the market as this made it possible to get a sense of the size of trade in the market.

Saambou, Fedlife deal challenged

(58)

B/Day 22/8/91.

SUSAN RUSSELL

TWO Saambou shareholders this week made their third application in the Rand Supreme Court to have the agreement giving Fedlife a controlling stake in the company nullified.

Nuwe Suid-Afrikaanse Prinsipale Beleggings and C C Exchange are challenging the agreement's validity on grounds that it contravenes the new Deposit-Taking Institutions Act which came into operation on February 1.

In terms of the agreement between the two companies on January 31, Fedlife sold Planet Finance Corporation to Saambou for R55m in return for convertible debentures. This meant Fedlife upped its 2,6% stake in Saambou to 31,5%.

Under the agreement Fedlife had until March 31 1994 to convert the debentures into Saambou shares.

Debentures

Fedlife in fact gave Saambou notice of its intention to convert the debentures the day after the Rand Supreme Court dismissed the first application brought by Nuwe Suid-Afrikaanse Prinsipale Beleggings, and C C Exchange challenging the validity of the merger deal.

A second application was postponed and the third is being argued in the Rand Supreme Court.

The two shareholders are seeking an order declaring that the issue and allotment of the conversion shares in terms of the January 31 agreement contravenes the Deposit-Taking Institutions Act.

They have also applied for an interdict preventing Fedlife from exercising voting rights or receiving a dividend on any of the conversion shares. The order they seek would also prevent Saambou from recognising any vote exercised by Fedlife or paying out a dividend on the shares.

At issue is whether the Minister of Finance and Registrar of Deposit-Taking Institutions were entitled to grant four simultaneous applications increasing Fedlife's stake in Saambou from 2,6% to 31,5%.

In terms of the Act, a shareholder must wait 12 months or a time period "deemed fit" by the Registrar before he can increase his stake in a deposit-taking institution. A shareholder can hold 10% without permission from the registrar. His permission is required for levels between 10% to 30%, while a holding of more than 30% requires the Minister's permission.

Suid-Afrikaanse Prinsipale Beleggings and C C Exchange argue that the Minister and Registrar could not give consent for four simultaneous leaps up the ladder.

Saambou and Fedlife argue that the Act gives the Registrar an unfettered discretion to shorten the time periods.

Volkskas sees 50 pc chance of interest rate drop this year

Star 22/8/91

By Roy Cokayne (58)

There is a 50 percent chance of Bank rate being lowered this year and it should drop by a few percentage points next year, Volkskas says in its latest economic report.

It adds, however, this will happen only if government finances move in the right direction.

"Taking into consideration the poorer business climate, under-utilisation of production factors and the fact that the inflation rate is largely being driven by cost-push factors, it might rightly be asked whether an attempt should not now be made to stimulate the growth factors by further fiscal action and a relaxation of monetary policy.

"At first glance it would appear that a case could certainly be made for this.

"However, if one closely inspects the working of the economy and its dynamics, it becomes clear that such a step remains undesirable at present and economically contra-optimal in the medium to long term."

Reserves too low

Three matters are of particular importance:

- South Africa's net foreign exchange reserves are still too low, which means an economic upswing brought about by increased domestic expenditure could not be accommodated for long.
- The inflation rate continues at high levels and any stimulation of the domestic expenditure components would lead to higher inflationary expectations and a higher inflation rate.
- With the abolition of financial sanctions against South Africa, the country must prove it has the determination and will to meet all international liabilities promptly on their due dates if foreign investment is to be attracted.

South Africa will follow the optimum economic policy if it waits for an upswing in the world economy, which would then lead to greater exports.

It appears the lower turning point of the business cycle will be reached later this year and, consequently, domestic demand and the growth rate could still decline this year.

But slightly improved business conditions can be expected next year, with possible contributory factors being:

- The slow recovery in the world economy, which could lead to an increase in international trade in the second half of this year but more definitely next year.
- The strong decrease in inventories in the past year which contributed to lower production levels but with few further decreases expected.
- The scaling down of trade sanctions against South Africa could cause export performance to improve.
- The scaling-down or elimination of financial sanctions could mean that debts falling due could be reinvested to a larger extent.
- After two years of poor harvests, the chances are good of next year being a better agricultural year.

Growth rate

However, Volkskas says a decrease in the growth rate is still foreseen this year and a real gross domestic product growth rate of about two percent next year, while the inflation rate should slow down to about 12 percent next year provided monetary policy is not relaxed now and government expenditure is restricted.

Volkskas's economic reports will in future be compiled and published by the centralised Absa economic research unit.

Fresh court action over Fedlife stake in Saambou

Finance Staff

Star 22/8/91

A third attempt at overturning Fedlife's acquisition of a 38 percent stake in Saambou has been launched in the Rand Supreme Court.

Nuwe Suid-Afrikaanse Prinsipale Beleggings and the CC Exchange yesterday brought an application against Saambou, Fedlife, Investec Bank, Coleman Properties and the Registrar of Deposit-Taking Institutions to overturn the acquisition of Saambou shares by Fedlife.

The applicants argued the debenture conversion was in conflict with the Deposit-Taking Institutions Act, and the consequent conversion into shares should be declared null and void.

Fedlife was not entitled to make an application to the Registrar to waive the prescribed waiting periods for four levels of share acquisition, nor was the Registrar entitled to grant it, John Myburgh, SC, argued.

M D Kuper, SC, for Saambou, argued before Mr Justice W P Schutz that the time periods mentioned in the Act were not mandatory. (The Act allows for shareholders with less than 10 percent to hold shares for a period of one year or less before acquiring between 10 and 17,5 percent).

"The Registrar has an unfettered power to restrict the time periods. The words 'such lesser period' extends to a minute, an hour or a day."

"There is no discrepancy between what actually happened and what ought to have happened. The time periods were imposed for the benefit of the Registrar and he may waive them."

Fedlife, through its nominee Coleman Properties, converted debentures on May 16. According to the agreement, Fedlife had until March 31 1994 to convert its debentures into shares.

An urgent application brought by Nuwe Suid-Afrikaanse Prinsipale Beleggings and the CC Exchange to declare the agreement null and void was dismissed in June by Mr Justice R H Zulman, who said Fedlife had not acquired shares in Saambou.

The hearing continues.

LIFE ASSURANCE — 1 (58) FM 23/8/91

Out of Africa

Old Mutual (OM) stuck to the JSE when the market turned down last year and other portfolio managers were betting on gilts.

In the year to June 30, the market value of its share portfolio rose R6,2bn. Chairman Mike Levett tells the *FM* the society remained fully invested in the JSE, against the general sentiment, "to the extent that shares on our buying list were available."

OM ended the year with total assets under management of R72,4bn, up 21% on 1990. Levett notes that members received R4,5bn benefits during the year — roughly equivalent to the GDP of Malawi. Income from premiums and annuity investments rose from R10,7bn to R12,12bn, investment income from R3,6bn to R4bn and policyholders' assets rose from R51,5bn to R61,7bn.

By recent life industry standards, investment results look unexciting. Levett maintains the society was prepared to accept what amounted to a sideways year to invest at near rock-bottom in the first part of the year, with an eye to future asset growth.

Some longer-term strategies are becoming apparent. The society has been funding its UK subsidiary Providence Capitol which, though a minor player in British terms, would rank about sixth in size in the SA league. It has specialised in providing unit-linked life assurance and manages niche unit trusts; but also acts as OM's barometer of trends in the wider world of life assurance.

A month ago, OM revealed it is designing a London-based closed-end investment trust. Levett says this will enable UK portfolio managers to invest in SA shares at a time when there is renewed interest, without any compulsion to set up infrastructures to monitor SA on a day-by-day basis.

Clearly, OM has a long-term vision, embracing freedom from exchange control and an ability to move policyholders' funds to whatever market seems most attractive. Levett acknowledges this is part of the plan, but is emphatic it is not tomorrow's scenario. "Perhaps in the year 2000 we can start thinking about a freely transferable rand." ■

LIFE ASSURANCE — 2 (58)

Heady stuff

FM 23/8/91

Sanlam would be the first to agree that its 500 Plus portfolio is not for the faint-hearted. But first-year results — net growth of 38,2% on retirement annuities and 29,6% on other policies — might just tempt the more adventurous widows and orphans.

Marketing actuary Jacques de Villiers is emphatic: 500 Plus is designed for people who have made sufficient savings provision and now seek the highest return on discretionary income. The 500 Plus was created

FM 23/8/91 (58)

after the abolition of prescribed assets for life offices, to seek growth in the most aggressive manner. Offering potentially high returns, it carries concomitant risk.

The fund is managed at Sanlam's discretion and, so far, so good. Sanlam has read the markets correctly. The portfolio was invested mainly in shares until about August 1990, then, as the bear phase developed, switched to gilts. In the past four months — a bull phase — it has been back in shares. ■

House price increases average 11,9%, says United Bank

PETER GALLI

THE average price of all houses rose by 11,9% over the four quarters to the end of the second quarter of 1991, the latest United Bank housing review shows.

While the increase in the price of medium-sized and larger houses continued to grow at a year-on-year rate of 13% and 9% respectively, new house prices continued to soften, moving only 1%, the review says.

The average price of a medium-sized house rose to about R116 400, with a larger home now costing R158 000 on average and a smaller home firming 15% to R98 300.

Building costs in the second quarter of 1991 rose by 12,9%, once again below the rate of inflation. "The stickiness of the inflation rate and the comparatively high money supply growth rate are bound to keep the Bank rate at its current level for some time to come," the review says.

"A lowering of the Bank rate is only foreseen in the first quarter of 1992, with the result that the mortgage rate will remain positive in real terms well into the forseeable future."

Nominal mortgage payments on a 20-year bond of 80% of the value of a medium-sized house — a bond of R93 100 — amounted to 15,1% more at R1 581 than a year ago.

The housing market was likely to remain under pressure on the back of the expected continuation of the economic downturn and interest rates remaining positive in real terms by a substantial margin.

"For the 12-month period to the end of the first quarter of 1991, house plans fell by 14,5% and the general expectation is that the number of houses completed will drop in 1991," the review says.

House prices are expected to increase by about 14% over the year.

Overseas investors are optimistic about future

B/Day 23/8/91 (58)

OVERSEAS investors are optimistic about South Africa's long-term future and demand for investment property is strengthening, says Syfrets group property finance GM Brian Button.

"The perspective is that property in SA is among the best investments in the world," he says.

Confident

"Whereas local investors are hesitant, adopting a wait-and-see attitude, overseas investors are confident SA's problems are on their way to being solved and are eager to snap up good properties at bargain-basement prices."

Demand is generally strongest in the coastal areas, perceived by investors as being more stable and further away from trouble spots.

"Johannesburg is a boom or bust city. There are a lot of inquiries parallel to the development opportunities there — but the property market on the Reef is cyclical.

"Even Durban is favoured over the Reef, despite the unrest of the past few years in Natal.

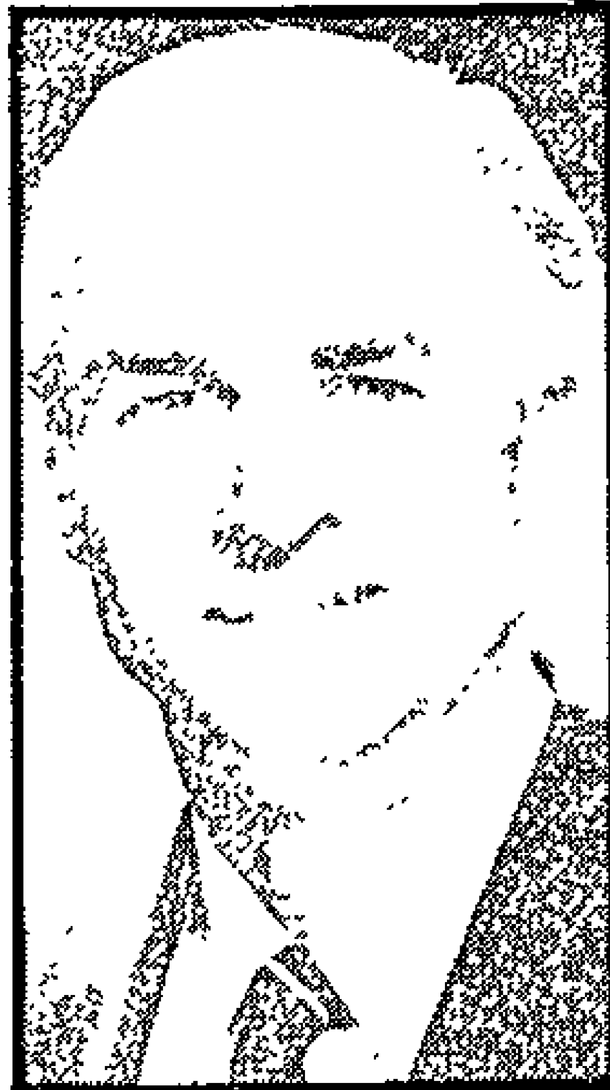
"In fact, it also outranks Cape Town because its proximity to the Reef enables it to offer more industrial development opportunities."

Durban and Cape Town remain the focal points of the investor's interest in SA coastal property.

While entrepreneurs say Port Elizabeth's future as an industrial centre is assured, especially with the lifting of sanctions, investors consider it too dependent on the volatile motor industry to be a safe bet.

But wherever they put their money, Button says, investors are becoming selective of the tenants occupying their properties.

"No company dependent on tax concessions will attract a second glance from an investor — and investors won't go into subsidised areas because they are perceived as lacking long-term security.



BRIAN BUTTON

"Subsidisation has a worrying effect on the investment potential of properties.

"No one can deny that some tax concessions are necessary, but government's decision to link subsidisation to profitability is welcome.

"Straight subsidisation encourages inefficiency, and because it cannot be relied on in the long term its presence is a deterrent to property investment."

Today's investor looks for properties housing viable tenants with proven track records who can be expected to continue paying rent on a steady basis.

In selecting office developments, investors are sensitive to gearing.

"Space oversupply is not a major problem provided sophisticated investors recognise that, because of the cyclical nature of the property industry, it is difficult to time projects perfectly," Button says.

"Developers who are too sensitive to the risk of medium-term oversupply can risk missing the boat in the long term.

"By developing later in an inflationary environment their projects can be less competitive than buildings completed during a glut, and because they risk being too late to take up the slack when demand for space catches up with supply.

Gearing

"In today's investment climate, a well-located development will have little difficulty in finding a backer — provided the level of gearing is right."

Developers must balance the costs of building later, in an environment in which building costs increase at close to 20% a year, or holding onto empty space during an unfavourable letting market.

"High gearing, because of the unpredictability of interest rates, can play havoc with the medium-term viability of a project and is a deterrent to investors," says Button.

Attractive features can be spoiled by loading capacity

B/Day 23/8/91

IF A development overloads the carrying capacity of a coastal environment it degrades rapidly.

The features which attracted people are destroyed — sometimes irrevocably — and the long-term ecological and socio-economic consequences can be devastating.

Haphazard development has dealt a death blow to many parts of the overcrowded Natal South Coast and the Wilderness area and the pressure of population expansion coupled with the projected growth of the tourist industry could put more areas at risk if developers and government do not act to prevent it happening.

The committee for coastal and marine systems of the Council for the Environment, headed by Dr Allan Heydorn, has established the foundations of a comprehensive policy on coastal zone management (CZM).

Heydorn says: "We are not anti-development. Economics and conservation are mutually dependent and any policy must take into account the needs of people living in the coastal zone or wanting to use it for recreation.

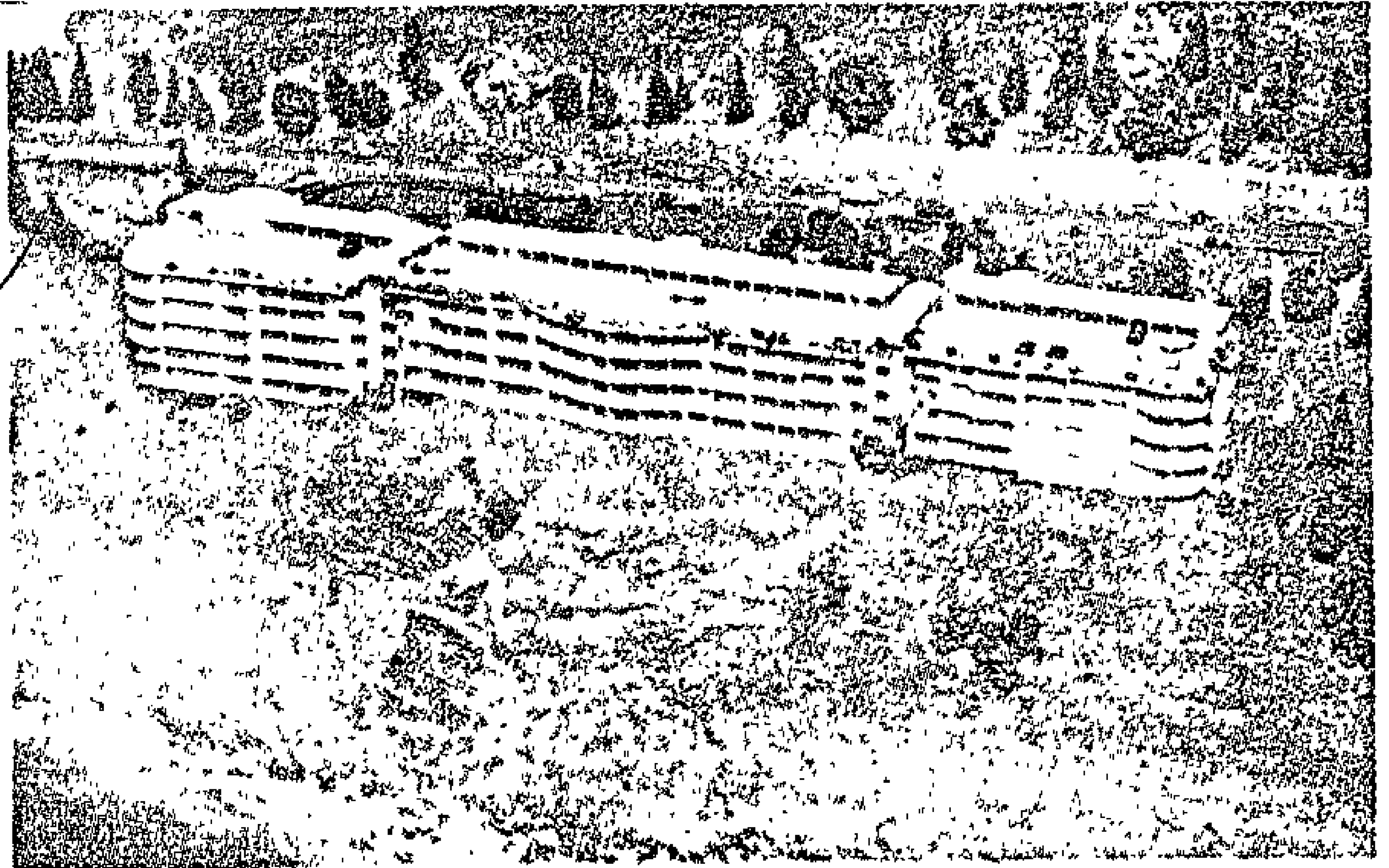
"But development must be carried out in a way that is sensitive to the environment. This is in the interests of the developer and the nation.

"The aim of CZM is to ensure development in the coastal zone is regulated to benefit the greatest number of people while at the same time safeguarding the environmental features and ecological processes of the coast."

Developers ignore the implications of CZM at their peril.

Developments which destabilise the natural vegetation of a coastal dune area, for instance, can leave them vulnerable to driftsand, and waves can destroy structures built too close to the high tide mark.

Sound financial planning takes environmental issues into account.



1 Chapman's Peak Drive overlooking Hout Bay.

The new Time Projects development overlooking Hout Bay — 1 Chapman's Peak Drive — was nearly the scene of an environmental disaster when the original developer destabilised the cliff face to the point of collapse before abandoning the project and part of the Port Alfred Marina development — designed as an exclusive holiday playground — is under liquidation as a result of bad financial planning.

In its first report on CZM, which outlines its principles and objectives, the committee defines the coastal zone as the narrow strip which includes such features as coastal lakes, lagoons, estuaries, dunes, beaches, rocky shores and some offshore islands.

Liberty justifies share price

By Sven Lünsche Star 23/8/91

(58)

The interim results released by Liberty Life today justify the sharp 60 percent rise in its share price since the beginning of the year.

Liberty Life's surplus attributable to shareholders increased by 21 percent to R109,3 million, compared with R90,3 million last year.

Earnings per share were up from 42,3c to 51,1c, resulting in a 32 percent increase in the interim dividend to 43c (32c).

The acquisition of a substantial stake in UK group TransAtlantic from Richemont had a substantial impact on Liberty's balance sheet.

Total shareholders' capital and reserves rose by 43,8 percent to R9,2 billion from R6,4 billion following the inclusion of TransAtlantic in the balance sheet.

Total assets after the consolidation of TransAtlantic rose by 41,4 percent to R30,4 billion. At the end of December assets totalled R21,5 billion.

The value of freehold and leaseback properties increased from R2,8 billion to R8,1 billion, reflecting the consolidation of its UK real estate assets in which Liberty has a 28 percent interest.

The market value of the group's investment rose from R26,47 billion at the end of December to R28,74 billion, with shares and unit trusts making up the bulk of the growth — they increased from R11,48 billion to R13,83 billion over the six months.

Holding company, Liberty Holdings, largely mirrored the increases reported by Liberty Life.

Attributable earnings were up 19,2 percent from R61,4 million to R73,2 million, which translated into a rise in earnings per share from 134,8c to 160,7c.

Taxed profits increased 19,1 percent to R128,1 million (R107,6 million).

The interim dividend was lifted 46,7 percent from 75c to 110c, in line with a new dividend policy, which saw the interim set at half the total dividend for financial 1990.

Liberty's UK subsidiary First International Trust (FIT) reported a drop in earnings to 19c (20,3c) a share, while the interim dividend was maintained at 7c.

FIT says that earnings would have remained at last year's level, but for foreign exchange losses incurred during the period.

However, the severity of the recession in the UK property market has undoubtedly had an impact on its results.

During the six months FIT took control of 53 percent of TransAtlantic.

But the directors say that certain proposals are being examined, which could reduce its interest below the 50 percent level.

Property subsidiary Capital and Counties has decided not to capitalise its interest in the Thurrock Lakeside project beyond June 1991.

The directors say that this move, coupled with the downturn in the UK property market, should see FIT's earnings for the full year fall below those of financial 1990.

● Liberty's short-term insurance subsidiary Guardian National increased its earnings per share from 134,5c to 170,1c in the first half of the year, while the interim dividend has been raised 10c to 65c.

Net premiums were up from R165,5 million to R192,5 million but the high incidence and cost of claims experienced in the crime category saw the underwriting loss only slightly down at R4,67 million (1990: loss of R5,48 million).

Absa merger gets off to a flying start

By Derek Tommey

Star 23/8/91

How do you merge the staff of three banks into one? Very successfully, says Piet Badenhorst, chief executive of Absa, which now houses United, Volkskas and Allied.

At the time of the proposed merger at the beginning of the year some contended it would take years to overcome cultural differences.

But Mr Badenhorst said yesterday the merger process had gone much better than expected.

Members of Absa's management confirmed that the merger had proved easier than was initially thought.

One reason, said a senior manager, was that with three banks involved there was no dominant company. This meant the staff of each bank was considered for every post.

It was business as usual, with Allied, in particular, doing some good loan business.

Bob Aldworth, MD of Allied, said the company had lent R270 million in mortgages last month, which was slightly higher than in June.

Demand for loans was particularly good from Natal.

He said Allied was to become a pure retail bank doing consumer and smaller corporate client business with maximum advances of R5 million to R10 million.

Allied was seeking to move into a slightly more upmarket field with a special cheque facility.

Mr Badenhorst said certain support functions had already been rationalised, with positive effects on costs and efficiency.

Absa would become a deposit-taking institution trading on international and domestic money markets and also for certain corporate banking services.

Other marketing and customer services would continue under the United, Allied and Volkskas names.

One of the six computer centres in the group had been sold. Absa planned to retain only two of the centres, with possibly a third kept as a back-up.

Wesbank, FNB division to merge

(58)

FIRST National Bank announced on Friday that the corporate arm of its Wesbank subsidiary and the bank's First Industrial Division would merge on October 1. C/Press 25/8/91

Wesbank will assume responsibility for the combined operation.

First National Bank senior general manager Jimmy McKenzie said: "This step will improve synergy in this sector of the group's business and will in due course provide major benefits to both staff and customers.

"The new area will focus on the retail and corporate segments of the market as in the past, and will be in a position to provide an enhanced service to these sectors," he said.

The merged operation will be the largest and only independent operator in its sphere of business.

SA banks in line for BCCI arm

BIDAY 26/8/91

MELANIE SERGEANT

THE massive financial scandal surrounding the Bank of Credit and Commerce International (BCCI) could end happily for local banks.

Most of BCCI ceased to function on July 5 after regulators discovered some of its executives had committed massive fraud.

BCCI had operations in 62 countries, and most ceased operation, with the exception of Botswana, where the bank was carefully monitored by the Bank of Botswana which has strict banking regulations.

The Bank of Botswana took over the reins on an interim basis, while looking for a buyer of the BCCI subsidiary.

The potential buyers, it is believed, are Standard Bank, First National Bank (FNB) and the Botswana Development Corporation which is heading up a bid by a citizen group consortium.

The consortium is believed to be asking Volkskas to handle the technical or management aspects of the bank's future operations. A source close to the negotiations said Volkskas could buy a stake in the bank.

The Botswana operation is believed to have a net worth of some 14-million pula, but goodwill, its good reputation, and other factors are expected to increase the value substantially.

(58)

A party involved in negotiations says a final decision on the deal is expected early next week.

"There are two routes which can be taken. The first would be to approach shareholders and sell the bank off completely. This would be more attractive to the shareholders because they would be closed to any possible future claims against the bank."

The second approach, which would be more attractive to the successful buyer, would be to extract all assets and liabilities and to retain the services of the bank's staff.

A source said if the bank was bought as a whole it would provide less of a tax shelter.

While Standard Bank of SA and First National Bank have already been granted provisional licences to operate in Botswana, it is expected that they will open shop only next year.

However, there are attractions associated with taking over an existing banking operation because of the high cost attached to setting up infrastructure and of training local staff.

Existing banks in Botswana are Standard Chartered, Barclays, and Zimbank.

THE MONEY MARKETS by Sharon Wood

Market back in the doldrums

B Day 26/8/91

AFTER a small twitch in rates on Wednesday the money market slumped back into the doldrums, ahead of a what is expected to be a liquid month-end.

Markets reacted neutrally to the news on Wednesday night of a reduction in the VAT rate and the simultaneous petrol price hike.

The smaller rise in inflation as a result of lower VAT is expected to be counter-balanced by higher transport costs.

But the news did push expectations of an interest rate cut into the distance because government agrees tight monetary policy will be maintained to contain more buoyant consumer expenditure this year.

Money market rates moved sideways and trading activity centred on longer term one-year market instruments because of uncertainty regarding interest rate direction and not much paper was created in three-month NCDs.

There was no demand for rates under 17,40%.

Twelve-month NCDs moved up to 17,50% on Wednesday after hovering around 17,45% during the first half of the week, but Finance Minister Barend du Plessis' statement on Wednesday night saw the rate move down to 17,45% again on Thursday.

The Reserve Bank rolled over R500m in Treasury Bills on Monday and Thursday leaving R800m in special Treasury Bills in the market. The rollovers increased the market shortage to R1,851bn from R1,350bn on Wednesday.

Indications

When the shortage drifts below R1,5bn the Reserve Bank drains liquidity from the market.

The Bank will have its work cut out to maintain a decent shortage on Friday because all indications point towards an easy month-end. Month-end promises to be liquid because R2bn of RSA government stock is maturing and R1bn interest is being paid out.

The shortage will probably remain at current levels — unusual for a month-end when it is normally relatively high.

Mining tax payments, which would take money out of the system, are not that substantial this month.

The Bank will probably use dollar swaps and short-dated Treasury Bills to mop up liquidity and may sell short-dated assets.

Money supply figures show M3 growth remained relatively static with the target used by the Reserve Bank to monitor monetary policy falling below 20% for the first time since the figures were distorted in February. The M3 annualised growth rate from the base of the guideline year rose by 19,38% in July from 20,22% in June.

The reasonably good money supply figures will probably be ignored by what is expected to be another disappointing rise in inflation in July, when the consumer price figures are released today.

Markets may show some movement when Reserve Bank governor Chris Stals delivers his annual address at tomorrow's ordinary shareholders meeting.

COMPANIES

GDM clients feel the economic pinch

B Day 26/8/91

Business Day Reporter

GDM Finance is again set produce increased earnings for the coming financial year, says MD John Cowper.

Speaking after the annual general meeting held in Johannesburg on Friday, Cowper said that while the economy continued to slow the company was well financed and had sound credit granting policies.

"However, it is extremely difficult for anyone in business to withstand the multiple onslaughts of boycotts, strikes and unrelenting inflationary pressure.

"These are the pressures with which our clients have to contend daily.

"Our clients, spread across South African commerce and industry, are naturally feeling the pinch of the downturn as well as the uncertainty of SA's current socio-political situation." (58)

Cowper said that in spite of the downturn the company was confident that it would be able to increase earnings and dividends again in the next financial year.

Since its listing in September 1987, GDM has achieved an average annual increase in earnings a share of 45% and dividends a share by 35%.

Three into one goes, says Absa chief

(58) ARG 27/8/91

Business Staff

JOHANNESBURG. — How do you merge the staff of three banks into one? Very successfully, says Piet Badenhorst, chief executive of Absa, which now houses United, Volkskas and Allied.

At the time of the proposed merger at the beginning of the year some contended it would take years to overcome cultural differences.

But Mr Badenhorst said the merger process had gone much better than expected.

Members of Absa's management confirmed that the merger had proved easier than was initially thought.

One reason, said a senior manager, was that with three banks involved there was no dominant company. This meant the staff of each bank was considered for every post.

It was business as usual, with Allied, in particular, doing some good loan business.

Bob Aldworth, MD of Allied, said the company had lent R270 million in mortgages last month, which was slightly higher than in June.

Demand for loans was particularly good from Natal.

He said Allied was to become a pure retail bank doing consumer and smaller corporate client business with maximum advances of R5 million to R10 million.

Allied was seeking to move into a slightly more upmarket field with a special cheque facility.

Mr Badenhorst said certain support functions had already been rationalised.

Absa will become a deposit-taking institution trading on international and domestic money markets and also for certain corporate banking services.

Bankers to beef up derivatives desks

B/Day 27/8/91.

ROBERT GENTLE

BANKS are recruiting overseas traders in an effort to beef up their derivatives trading desks ahead of an anticipated surge in futures and options trading volumes.

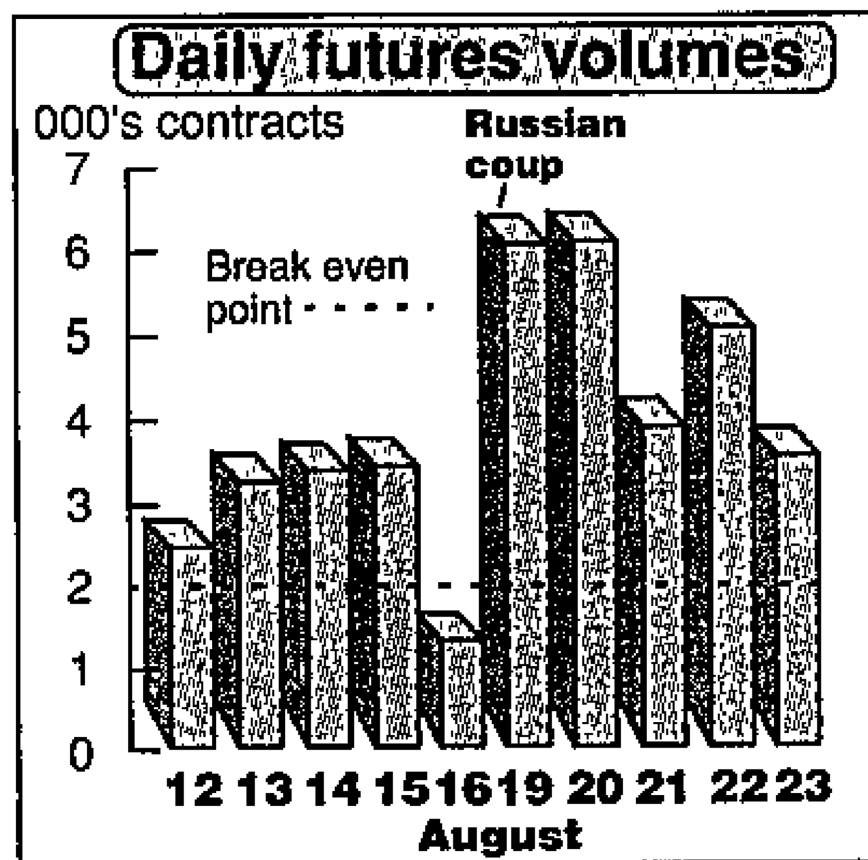
Figures released by the SA Futures Exchange (Safex) yesterday showed that the already strong daily volumes were boosted last week by the uncertainty caused by the abortive coup in the Soviet Union.

Standard Merchant Bank recently advertised in the Financial Times in London and Europe for specialist traders in equity derivatives, interest rate derivatives and currency options. Over 140 responses were received and 45 people were interviewed.

SMB GM treasury Chris Kenny, who has just returned from London, said one candidate had already been signed on and four others were on the short list.

"We anticipate an increase in derivatives activity with increased foreign participation and new developments at Safex and the JSE," he said.

First National Bank (FNB) chief dealer Tony Laycock said FNB was also looking into the possibility of recruiting experienced overseas traders in fields like foreign exchange and currency derivatives.



Two months ago, FNB brought in a team of options experts from London to deliver two weeks of in-house lectures.

Mark Parker, deputy GM in Nedbank's international treasury division, said Nedbank might well look overseas for expertise not available locally.

Rand Merchant Bank executive director Russell Loubser said RMB was expanding its derivatives desk, but not from overseas as it was policy to recruit locally and train people.

Two fail in court move to overturn Fedlife deal

SUSAN RUSSELL

TWO Saambou shareholders yesterday lost a third court attempt to have an agreement giving Fedlife a controlling stake in the company declared null and void.

Mr Justice Schutz dismissed with costs the application brought in the Rand Supreme Court last week by Nuwe Suid-Afrikaanse Prinsipale Beleggings and CC Exchange.

The two shareholders had applied for an order declaring the agreement giving Fedlife a controlling 31,5% share in Saambou null and void on the grounds that it contravened the provisions of the new Deposit Taking Institutions Act which had come into effect on February 1 this year.

Sold

Fedlife and Saambou concluded their agreement on January 31 this year.

In terms of the agreement Fedlife sold Planet Finance Corporation to Saambou for R55m in return for convertible debentures in Saambou.

Fedlife gave notice of its intention to convert the debentures into Saambou shares the day after the Rand Supreme Court dismissed the first application, challenging the agreement, brought by Nuwe Suid-Afrikaanse Prinsipale Beleggings and CC Exchange earlier this year.

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BDay 27/8/91.

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FIT share price plummeting

Star 27/8/91

By Jabulani Sikhakhane

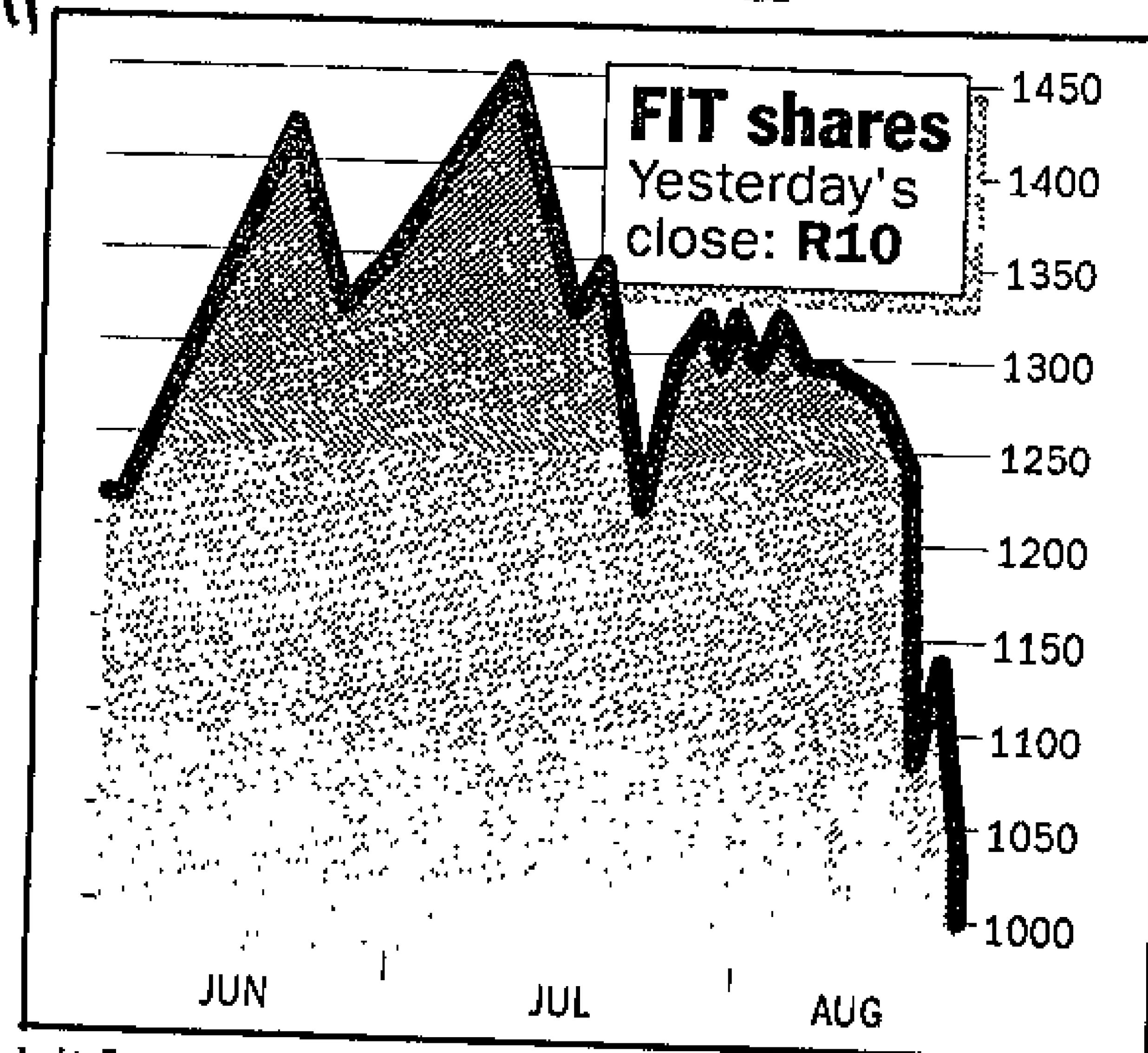
The share price of First International Trust (FIT) has fallen 425c, or 30 percent, since mid-July to yesterday's close of R10 amid rumours that some investors are short-selling the shares ahead of the R375 million rights issue.

The rights offer of 30 share for every 100 held, which is underwritten by Liberty Life, is pitched at 900c.

Liberty owns 42,4 percent of FIT, but controls 50,3 percent of the voting rights.

FIT plans to use part of the proceeds from the rights offer to repay Liberty Life the amount it advanced to FIT to buy 15 million TransAntlantic shares from Compagnie Financiere Richemont for a consideration of £52,5 million.

The deal was done through FIT's wholly owned subsidiary, Conduit Insurance Holdings.



Liberty acquired the other 28,021 million shares and the deal resulted in FIT and Liberty jointly controlling 67 percent of TransAtlantic's equity, of which Liberty Life's share is about 36 percent and an effective 28 percent of Capital & Counties.

According to last week's announcement, the proceeds of the rights offer will also be used to reduce FIT's gearing and provide a limited amount of additional working capital.

Market speculation yesterday was that some investors were selling FIT shares short in the hope of picking them up later at lower levels.

But Ed Hern Rudolph analyst Peter Brown said FIT's price was being pulled down by the recent falls in its major underlying investment in Capital & Counties.

Capital's share price fell from 332p at the end of July to to 263p on Friday.

TransAtlantic Holdings owns 75,8 percent of Capital's equity and Capital contributes over 70 percent of TransAtlantic's pre-tax earnings.

Mr Brown said the financial rand, which has a normal impact on FIT's share price, has not moved that much against the pound sterling.

At the end of July the financial rand was trading at R5,45 to the pound and on Friday it closed at R5,49.

Another analyst said the share price was being depressed by last week's interim figures showing earnings a share down from 20,3c to 19c. The dividend was maintained at 7c a share.

Foreign banks lining up to enter SA — registrar

BIDay 28/8/91

ROBERT GENTLE

THE Reserve Bank was continuing to receive many applications by foreign banks to set up operations in SA, Registrar of Deposit-Taking Institutions Hennie van Greuning said yesterday.

"There is a lot of interest and we are processing their applications," he said.

He was not at liberty to disclose exact figures, but banking sources believe up to 10 foreign banks could be involved. These include requests for representative offices and for full banking licenses.

There were already 32 foreign banks in the country, mostly via representative offices, according to a KPMG Aiken & Peat study released yesterday.

Certain local bankers have privately expressed concern about foreign representative offices not being subject to the same capital constraints under the Deposit-Taking Institutions Act as local banks.

Van Greuning has dismissed the argument, saying that even if a representative office facilitated the granting of loan to a local corporate, its parent overseas would be subject to capital requirements.

Standard Bank divisional GM Rocco Roussow said the key issue was that SA banks were not able to gain access easily to international capital markets because of the debt moratorium.

This put them at a disadvantage to overseas banks — and therefore their local representatives — when it came to granting foreign loans to local SA clients.

In an interview yesterday Société Générale MD Peter Gray said the bank was doing good volumes of business here.

Société Générale, France's fourth largest bank, operates through its wholly owned subsidiary the International Bank of Johannesburg (IBJ), acquired in May.

Gray said the bank was mainly active in the corporate market, providing banking services to public and private sector corporations as well as international companies based in SA.

Key areas of business were trade finance, provision of confirmed letters of credit, and foreign exchange activities in which Société Générale used its international dealing network for spot and forward currency transactions.

Since the move into IBJ, turnovers had more than doubled, Gray said. Forex turnover, for example, was running at about R750m a month. About 40% of the bank's R600m local asset base was foreign denominated business.

Société Générale would also be embarking on a "major drive" to provide services to offshore brokers and investment banks for their clearing and settlement requirements relating to their activity in the SA financial markets.

Claims rate of concern to M & F

BIDay 28/8/91

WILLIAM GILFILLAN (58)

THE acquisition of National Employers' General Insurance (NEG) helped short-term insurer Mutual & Federal (M & F) lift earnings 14% to R101m off R88m for the 12 months to June.

This was on the back of gross premiums which increased 36% to R1 203m from R883m.

The declaration of a final dividend of 32c (24c) a share brought the total dividend for the year to 52c (40c) a share.

MD Ken Saggers said he was pleased M & F had managed to produce an underwriting profit at a time when the short-term insurance industry as a whole was recording record losses.

About 12% of the growth in gross premiums had resulted from the acquisition of NEG in June 1990.

Saggers added that the NEG acquisition had been an outstanding success.

GM Pen Warden said in terms of the acquisition, the NEG component to the total results was of the order of 10%.

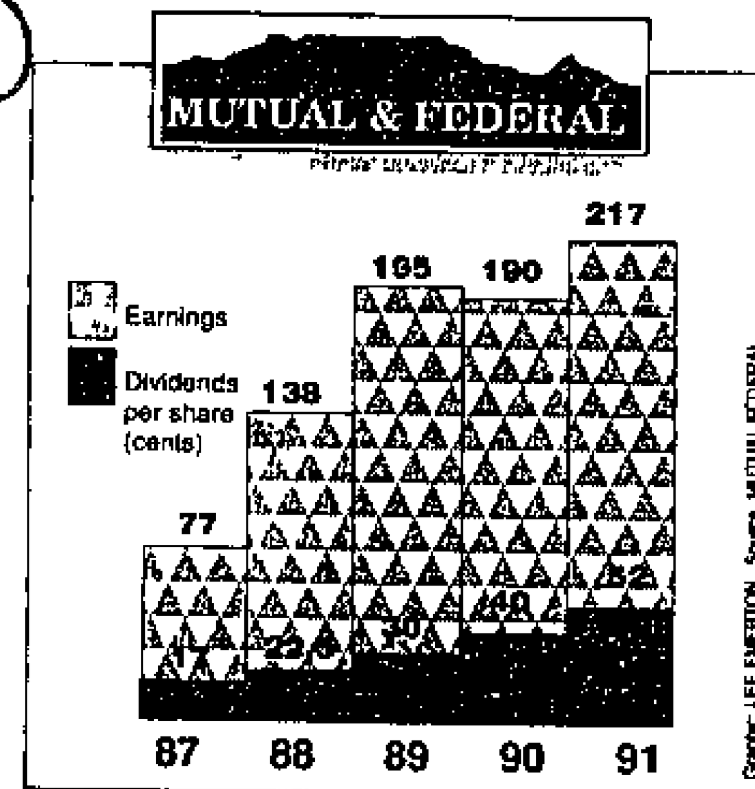
Therefore without the inclusion of NEG's results, earnings would have increased by about 3%.

Saggers said: "Competition in the commercial and industrial market is extremely fierce with rates deteriorating to absurdly low levels which are patently inadequate to cover the risk exposures."

He appealed for a return to responsible underwriting in the industry.

Claims surged 29% to R742m from R574m.

Saggers said the extraordinary high number of claims was a source of concern to M & F and the industry as a whole.



In the commercial and industrial area there had been a lot of fraud and fire-related claims.

Claims related to personal insurance had remained abnormally high with crime-related losses continuing to soar, he said.

Saggers said the modest income growth of 8% was primarily a result of a switch from interest-bearing investments to equity investments.

This had proven to be a profitable capital growth move as evidenced by the 21% increase in the market value of the group's investments, he said.

Declining interest rates, reduced cash flows from underwriting and static dividend flows on equity investments were other factors contributing to the small income growth.

The increase in the value of investments took total assets through the R2bn mark for the first time.

At 120%, the solvency margin, which was the ratio of shareholders' funds to net premiums, was well above the statutory requirement of 15%.

M & F recorded a 14% rise in earnings a share to 217c (190c) and net asset value a share increased 22% to 2 751c (2 251c).

BUSINESS

FNB leads Botswana race

MELANIE SERGEANT

NEWS that FNB may win the three-way bid for the Bank of Credit and Commerce Botswana would give the bank a flying start into the lucrative Botswana banking market — and pit it against former owner Barclays Bank.

Standard Bank and FNB had already been granted provisional licenses to operate in Botswana and with A Z Grindleys also having been granted a licence, there are fears that the market in Botswana will become overtraded, says Standard Chartered MD Chris Mallard.

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Appeal

"However, it's understandable that as SA starts to operate normally in a political sense, SA banks will want to service their customers throughout the continent."

Adding Botswana's appeal, Mallard says, is that banks in that country are very profitable.

Barclays (Botswana) MD Eric Clark says his bank recently reported interim profit increases of 89% over 1990 for the six months to end-June. The bank is forecasting pre-tax profits of about 30-million pula for this year.

FNB's senior GM Viv Bartlett agrees that Botswana banks are profitable, and reckons his bank will be well-placed to improve service levels currently available in that country through advanced technology which will be supported from SA.

"Overtrading is a concern, but we can't ignore the opportunity to move into profitable areas — especially if there is a need to service clients there," he says.

Barclays' Clark says if Botswana continues to show good growth, there will be space for the new banks.

"In fact, their entry has taken longer than many have expected," he says, adding that if SA's political situation improves, then southern Africa becomes a big market for SA banks.

"While competition is necessary in this market, the banking sector could become too diluted, and loss of customer confidence could be a threat to its wellbeing."

Developers take on more paperwork

B Day 28/8/91

Reports by PETER GALLI

PROPERTY developers in the affordable housing market are taking on more responsibility, and becoming more actively involved in much of the bureaucratic background work involved in obtaining bond finance.

In addition, the implementation of VAT was expected to add 6% to the price of every home in the "affordable" market. This would mean that costs would have to be cut even further, depressing the market.

"The government subsidy has also not been adjusted to take VAT into consideration, so both the prospective buyer and the developer will be hit by this," said Time Housing MD John Williamson in an interview.

"We are responsible for explaining all aspects of home buying, bond finance and the like to prospective home buyers.

"In addition, we have to check their credit-worthiness, and should there be a problem we do not even attempt to apply for a bond," Williamson said.

There was no shortage of buyers who could afford the homes, but finance was creating an obstacle to this, he said. But the institutions were slowly coming back into the market.

Institutions believed the present system of low-cost housing, serviced stands and spiralling interest rates did not work, and were not keen to re-enter the market.

"At the end of the day, pressure will probably be exerted on the life assurers to play some part in the low-cost market, even if it is standing guarantee rather than providing upfront money," Williamson said.

"We have to endure enormously high overheads, but we are confident we have reached the bottom of the recession in affordable housing and that the market must becomer more active."

What the market needed was a more stable community, a flat interest rate and an overall, single government policy that looked at the upgrading and inclusion of existing areas rather than just developing new ones, he added.

The low-cost market had been in a downswing for the past 18 months and would probably improve only in the second quarter of 1992.

M & F surprises industry

Star 28/8/91 (58)

Mutual and Federal has announced a 14 percent increase in after-tax profits for the year-ended June, and shown an underwriting surplus at a time when the short-term insurance industry as a whole has been reporting record losses.

After-tax profits increased to R101 million from the R88 million achieved last year. This translated into a corresponding increase in earnings a share to 217c (190c).

Gross premiums amounted to R1202,6 million, a 36 percent increase on last year. Net premium income rose to R1014,0 million from R748,4 million in 1990, an increase of 35 percent.

A final dividend of 32c a share was declared making a total of 52c for the year, 30 percent above last year's distribution of 40c a share.

The underwriting surplus for the year under review was higher at R18,9 million (R11,6 million), representing a ratio to earned premiums of 1,9 per cent.

Managing director Ken Saggers said that in the commercial and industrial market, competition was extremely fierce, with rates deteriorating to absurdly low levels.— Sapa.

Liberty to take on medical aid industry

B/Day 29/8/91

LESLEY LAMBERT

LIBERTY Life plans to take on the R6bn medical aid industry with a comprehensive new health insurance product launched in Johannesburg yesterday.

Liberty's Medical Lifestyle insurance package has been registered as a medical benefit fund, which means it qualifies for the same tax advantages as medical aids and it appears to be significantly more cost effective.

"This is where we start competing directly with medical aids," said Liberty Life joint MD Dorian Wharton-Hood.

The package offers a high cover plan which can be used as a substitute for medical aid and an extended cover plan which will supplement medical aid.

The high cover will pay benefits commensurate to the actual costs, rather than the medical aid tariffs, of major medical procedures. The extended cover will fill the gaps between the actual costs and medical aid reimbursements of minor treatments.

The package is being marketed as an alternative to medical aid schemes as the gap between actual medical costs and medical aid reimbursements widens.

(58)

"The cost of medical inflation is rising at double the rate of inflation and the shift in limited government funding to primary health care is making private health care prohibitively expensive," Liberty executive director Yves D'Halluin said.

While he conceded that deregulation of the medical aid industry would enable it to offer the same benefits as the life assurance industry, he said life assurers would maintain the competitive edge because of the financial muscle they have to provide adequate stabilisation reserves, established distribution channels and investment expertise.

A breakdown of current total health care expenditure in SA shows that the assurance industry accounts for only R50m of the R19,1bn spent on health care each year. The bulk, R8bn, or 42%, is spent by the state.

But the remaining 58% of the market offers potential business. Medical aid schemes account for R6bn, self-insurance R3,6bn and R1,5bn is not covered.

Old Mutual ranks with world's best

OLD Mutual has been ranked as the world's 33rd largest assurer by Fortune magazine. An announcement says that Old Mutual, the only South African life assurer to appear in the survey of the world's top life companies, achieved an eighth position in terms of net income for mutual life assurers. A feature of the survey is that the top six are all mutuals and that 33 of the top 50 are mutual companies. — Sapa. (58) ARG 29/8/91

Old Mutual ranks high among world's assurers

B/Day 29/8/91 (58)

LINDA ENSOR

CAPE TOWN — Old Mutual has been ranked as the world's 33rd largest assurer by Fortune Magazine, and takes eighth position among all mutual life assurers in terms of net income.

The only SA assurer to make an appearance in the prestigious list, Old Mutual's ranking was based on its 1990 total assets of $20,4bn. The world's largest assurer was Japan's Nippon Life with assets of $157,7bn.

At end-June 1991, Old Mutual's total assets under management were valued at R72,4bn (R59,6bn).

A feature of the survey was that the top six and 33 of the top 50 assurers were mutual societies.

Old Mutual's chief operating officer Gerhard van Niekerk said: "The survey once again demonstrates the dominance of mutuals the world over. Being a mutual is no guarantee of success, but a successful mutual is a real winner.

"Old Mutual's performance is all the more remarkable when one considers the dramatic drop in the value of the rand in recent years. The comparison is done in US dollars."

Van Niekerk said Old Mutual's exposure on the international market through the launch of an investment trust in Europe, and its growing business in the UK and elsewhere, would make the international community realise that SA had an assurer of world stature.

Bankers join forces on housing projects

Star 29/8/91.

By Frank Jeans

WILD COAST — Major banks and finance houses are joining forces to tackle housing projects.

Speaking at the Institute of Estate Agents convention yesterday, Mike Vosloo, MD of Standard Bank, said: "To enable home lenders to stay in the market and to progress to the point where adequate finance can be made available, we will have to adopt new approaches to the market.

"These include close co-operation by institutions in areas generally considered to be outside the bounds of competition.

"This is already happening. Standard Bank recently came to an agreement with the Perm and First National Bank to work together on housing projects. The intention is to avoid the duplication of expensive infrastructures, to share expertise and new thinking and to share risk in certain areas."

"Close co-operation with developers has been used successfully by Standard for the Urban Foundation Loan Guarantee and we are now expanding it to include all development lending," he said.

Welcoming the "re-involvement" by foreign banks in the new SA, Mr Vosloo said this could only lead to more ompetition.

Referring to the controversial issue of institutional involvement in real estate, Mr Vosloo said: "Concern has been expressed that the purchase of equity will lead to control and manipulation of those firms, and ultimately of the industry.

"Some see those institutions that have purchased equity as having set themselves up in opposition to other agents.

"There is concern that the purchase of equity is not in the interest of the home purchaser, who may feel coerced into applying for finance from the institution concerned, even if he is a long-standing customer of another bank.

"We do not intend to influence estate agents to sell our broader range of financial services," he said.

PENSIONS — 2 FM 30/8/91 (58)

Defining ownership

Ownership of a pension fund surplus is legally a grey area, though most life assurers and fund managers are adamant surpluses do not belong to employers. There are employers who would argue otherwise. It remains a vexed issue, agrees a spokesman for the Financial Services Board (FSB).

A surplus in a pension fund belongs to the fund and should never be refunded in cash to an employer, says Sanlam GM Francois Marais. He spoke strongly on the issue at a pensions conference last week, following basically the same line as a Life Offices Association sub-committee which reported earlier this year. Others at the conference,

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particularly some associated with self-administered funds, argue that since employers created the surpluses, they should have access to the money.

If a company needs the money to escape insolvency (and so protect jobs), Marais believes it might be equitable to draw the surplus if an overwhelming majority of fund members agree. Even that leaves him uneasy because it will create precedents and there can be no guarantee that insolvency will be averted. In the US, he points out, where it is accepted that employers own surpluses, there have been severe abuses by take-over predators. Canada has put a moratorium on employers raiding surpluses.

Conventionally, employers regarded their contributions to pension funds as a fringe benefit. "With the rise in popularity of provident funds and defined contribution schemes, it's a public perception that employers' contributions are deferred compensation — they cannot be taken back."

Yet employers can take contribution holidays when a scheme is excessively overfunded. Reducing the surplus over two or three actuarial valuations is reasonable, Marais considers. Withdrawing a surplus in a lump sum is definitely not acceptable.

He argues: "Ten years ago, most private pension funds were in deficit. They now show surpluses, because of strong investment performance through the Eighties. But that can change. A future government may make it difficult for fund managers to achieve high investment returns and even decide on a policy which encourages high rates of salary and wage increases. That combination would quickly send funds into deficit again."

Most fund rules are vague on surplus ownership. Few determine what happens when a fund terminates. Though the FSB intends some amendments to pension legislation to go through parliament next year (see "Hammering managers"), surplus ownership is not on the agenda. The issue is unlikely to be resolved before 1993, when a complete overhaul of pension law is intended. ■

FM 30/8/91 (58)

FOREIGN BANKS FM 30/8/91 (58)

Fair game

"Competition from foreign banks is fine," says First National Bank (FNB) MD Barry Swart, "as long as the playing field is level." But FNB complains that foreign banks can offer domestic borrowers trade finance at preferential rates.

This much is true: a first-class borrower can obtain offshore trade finance more cheaply from a foreign than a local bank, because SA banks must first themselves borrow the funds from a foreign bank.

Other than that, the playing field is level. Representative offices of foreign banks are precluded by the DTI Act from conducting banking business. They may act only as intermediary between clients and the parent banks, which are subject to prudential requirements in their own countries. Foreign-owned banks operating a full service, like French Bank and Bank of Lisbon, have to be licensed and are fully subject to the DTI Act.

The DTI office maintains that the provisions of the Act are in line with Bank for International Settlements norms and less stringent than those of Britain and Germany.

Were an SA bank to open a representative office in London, it would require Bank of England approval, but the conditions would not differ much from those applying here Banking business could, at the Bank's discretion, be conducted only through a fully-fledged subsidiary, which would be subject to UK prudential requirements. But competitiveness would be limited by the small capital base allowed by exchange control ■

FM 30/8/91 (58)

PRIMA BANK

Staking a claim

If the Master of the Supreme Court and Cape Investment Bank (CIB) liquidators approve, Prima Bank will buy stakes in three CIB subsidiaries. Prima MD Johan Bellingan will not reveal details until the deal is finalised but says the bank will take 70% in CIB Leveraged Investments (known as Corvest), 50% in CIB Project Finance (its name will be changed to Genfin) and 100% in Top Edge Information Services, a computer software development company.

Details will be published within two weeks. The payment will go to CIB's liquidated estate.

The takeover is part of Prima's plan to increase its size and the number of niches it operates in. Because of the stigma which has been attached to small banks since the failures of Alpha Bank, CIB and Pretoria Bank, banks like Prima feel the need to increase net capital and disclosed reserves.

The annual report for the year ended June 30, released this week, records net capital and disclosed reserves for Prima Bank Holdings rose 94% to R7,8m and for major subsidiary Prima Bank rose 70% to R6,3m. Group net income rose 150% to R3m and

Continue →

total assets by 111%.

Bellingan agrees the bank can't continue on this growth path. "But we have to show these kinds of profits to increase capital and reserves," he says. Prima aims to increase capital further, mainly through profits and by raising additional secondary capital.

Bellingan attributes the better profit to an improvement in general banking activities, correct funding from reading interest rates right and additional business activities. The CIB book was kept separate when Prima managed the now liquidated Cape bank and had no impact on Prima's results.

Prima has also become involved in the securitisation of mortgage loans. Its first tranche is to be issued soon in conjunction with Discount House Risk Management, which issued SA's first mortgage securitisation for United Building Society.

In addition, Prima acquired 60% of Volkskas Property Trust, now called Prima Property Trust Managers. Bellingan says the group aims to sell the existing property portfolio and start again from scratch.

It sold most of its 56% stake in Caribbean Estates, a holiday resort development on the Natal coast, mostly because Prima wanted to reduce its exposure to property development and the downturn in the economy caused a slowdown in unit sales.

Also, Prima is developing its instalment credit book, now R35m. Bellingan says only three single loans exceed 10% of capital, the amount allowed before the Registrar of Deposit-Taking Institutions must be advised. "We aim to have none," he says.

The newly acquired Cape Town branch is expected to start showing profits. ■

MULTILISTING

Logging on to competition

(58) FM 30/8/91

It's Absa versus the rest as competition boils over for the lucrative residential mortgage bond market. The lending institutions are squaring up for a commercial Star Wars in which all the major weapons are hi-tech.

The establishment of one small company, Comprehensive Property Services (CPS), staffed by 10 people in nice new Rivonia offices seems innocuous enough. Furthermore, CPS's stated objective, to computerise the real estate industry, is a noble one. Nor can there be any quibble at the fact that the organisation is backed by six institutions — Standard, FNB, Nedbank, Natal Building Society, the Perm, and EP Building Society — and has issued an open invitation to all other institutions to participate.

As CPS MD Stefan Swanepoel, a leading property consultant and author of several books on the residential market, points out: "Fewer than 10% of estate agents are computerised at present and the financial institutions felt the creation of a national computer network, not dissimilar to Saswitch, would be of mutual benefit."

In the first of five phases, CPS will provide a property listing service, deeds office access, links with city councils, electronic banking facilities and an electronic mail service. There will also be a referral service, bond application facilities, instant computerised credit ratings, and comparative market analysis from various statistical databases. Swanepoel notes: "This will probably be the single biggest task ever undertaken in the SA real estate industry. It's costing millions of rands, expenditure that could not be justified by any one institution."

It's the mention of the multilisting service — listing properties on a computer database that can then be called up by agents linked to the network — which gives the first hint of the pending struggle. United Bank, the mainstay of Absa, has a 33,3% share in Multi-Listing Services (MLS). It has used this, along with buying a stake in estate agencies, as the linchpin of its campaign to defend its dominant share of the mortgage market in the face of increasingly aggressive moves by Standard, FNB and others. This encroachment began when deregulation allowed the banks into the arena.

The big prize they all seek? The hearts and minds of estate agents who are pivotal in deciding who will fund their customers' bonds. Because of this, great play has been made of the supposed desirability of protecting the agents' independence. In fact, this independence already seems largely a thing of the past — since most of the large agencies are either partially owned by institutions or they take advantage of preferential finance offered by others.

MLS MD Bruce Wilson claims everything set out in Comprehensive Property Services' first phase is already being done electronically by MLS. It has had five years in which to learn, while CPS must still learn to walk. "Furthermore," he adds, "we already have more than 1 200 estate agency offices as members with more than 7 000 estate agents working out of those offices. We're now listing more than 4 000 new properties on our database each month."

Wilson adds that five years ago he spoke about the potential for a multilisting service with executives of all the CPS-linked institutions. The only one with the foresight to go with the concept was United. "The others have now effectively endorsed the system and I'm thrilled about that," he says.

He believes that the net result will be a multilisting boom in SA — and he says he welcomes the competition.

In an apparent bid to compete head-on with MLS, the Southern Transvaal branch of the SA Institute of Estate Agents launched an electronic property service earlier this year (*Property* February 1). It provided a multilisting service. At the time some criticised the institute for overstepping its boundaries by moving into direct commercial competition with its members. Others saw it as a deliberate ploy to block the growing — and some say insidious — trend of the lending institutions securing market share by buying into estate agencies. There are also several small listing services including Property Bank in Natal, Agent Link in Krugersdorp, and Home Link in Roodepoort.

According to Swanepoel, planning of CPS was already well advanced when the institute launched its service. After negotiations it was decided that the institute service would fall away when CPS comes on line at the beginning of next year. He asserts that the CPS service is far broader and is not being established to compete with United Bank. He does concede that it would be difficult not to interpret the inclusion of a multilisting service as a challenge to MLS. Furthermore, in describing CPS, the benchmark he uses for comparison is MLS — and he concedes magnanimously that CPS has no objection to MLS members signing on.

However, it would appear that MLS has already taken steps to block anything like that happening — by insisting that its subscribers sign participation agreements which bar them from also subscribing to comparable or compatible organisations. CPS would obviously be considered such an organisation.

The two sides seem relatively evenly matched at present. CPS appears to have attracted a broad base of institutional participants and is negotiating with Bankorp and Saambou. Set against that is the fact that United Bank, along with Allied, still dominates the bond market. Hopefully the

continued

RACING START AT KYALAMI

Prospects seem much improved for an early return of Grand Prix international motor racing to the Kyalami circuit north of Johannesburg. In turn, developer Ampros hopes this will boost its chances of a checkered flag in the property stakes for selling sites at the Kyalami Business Park which overlooks the Formula One circuit.

The developer is unashamed about linking its park — zoned for offices, warehousing and retail development — with the racetrack. The theme of its recent bash to launch the scheme was a vintage car exhibition.

On a serious note, Ampros's Peter Gardiner says the launch generated considerable interest in the 60 ha complex. Several sites starting from 2 000 m² were sold at an average rate of R100/m². There were also nearly 100 serious inquiries. One buyer is reported to be planning a viewing pavilion atop his building, next to the circuit, so he can entertain business guests to motor racing.

A 16 000 m² shopping centre is included in plans for the project.

FM

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winners in the contest will be the homebuyers who will benefit from increased competition and a more efficient all-round service.

□ CPS's Rivonia offices are owned by Sage Properties — part of the Absa group. ■

The big squeeze on banks!

FM 30/8/91

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Alan McConnochie is research director of Ed Hern, Rudolph

New legislation brings the capital ratios of SA banks into line with First-World standards. This is necessary if they are to rejoin the international banking community. The Deposit-Taking Institutions Act requires banks to maintain a minimum ratio of capital to risk-adjusted assets, which will be phased in to reach 8% by 1995.

Most banks will need capital ratios of well below 8%, as various assets are given different risk weightings — home loans, for instance, only 4%. Most large banks should require a ratio of capital to unadjusted assets of 5%-6,5% depending on the asset mix.

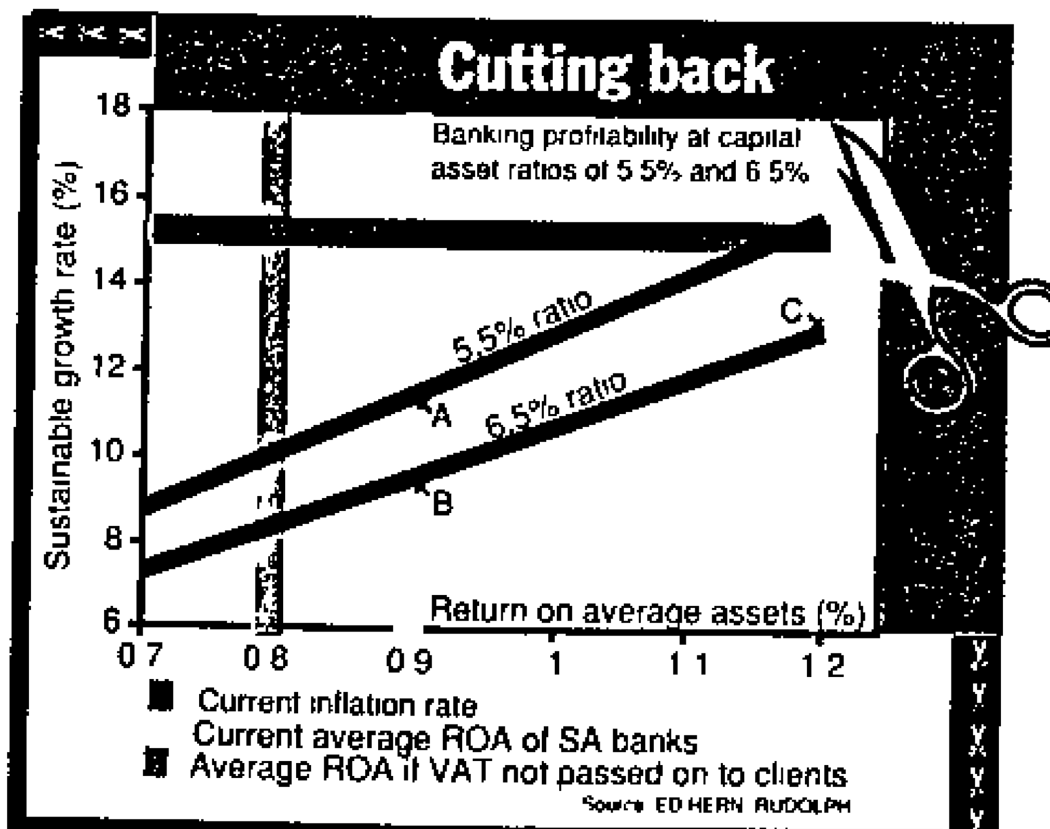
How will capital requirements affect profits? Adversely. There is limited scope for expanding margins, so profitability depends largely on growth in volumes. However, asset growth, which would increase turnover, is now limited by the new capital requirements.

Most large banks earn a similar return. The average bank now manages a return on average assets (ROA) of about 0,9%. Fierce competition ensures that the interest rates and fees they charge customers are virtually identical and their costs are similar. (To a great extent, levels of profitability are determined by the influence of the Reserve Bank on interest margins.)

Assume banks maintain an ROA of 0,9% and three times' dividend cover. A bank needing a 5,5% capital ratio (Nedcor at its current asset mix) can grow assets and dividends by 11,4% a year (point A on graph).

However, another bank with a different asset mix, for example, a smaller proportion of home loans, might require a capital ratio of 6,5%. This 1% variance in capital ratios makes a huge difference, as the second bank can grow by only 9,5% (point B).

High inflation is the greatest threat to capital adequacy and dividend growth. If ROA remains constant, to increase dividends in excess of the inflation rate requires asset growth to exceed inflation.



A bank requiring a 5,5% capital ratio can currently grow by 11,4% (see point A). If inflation were running at a First-World level of, say, 6%, this bank could show 5,4% real growth in assets, earnings and dividends.

At current inflation of 15,2%, real growth of this bank will lag by 3,8% a year, unless profitability can be enhanced or the capital position improved. Dividend growth will eventually suffer if inflation remains high, unless capital requirements are relaxed.

For banks to increase ROA requires, firstly, highly favourable treatment from the authorities. For instance, if the Reserve Bank did not remove excess liquidity from the system, the marginal cost of money from the lender of last resort would be lower.

And, if the authorities stopped disintermediation, it would reduce competition from non-banks. Lower tax rates would also help. For their part, banks must continually increase charges, eliminate unprofitable business and reduce costs.

In addition, an improving economy is needed to cut bad debts.

If a bank with a 6,5% capital requirement could raise ROA by an unlikely 30%, asset growth could be increased from 9,5% (point B) to about 13% (point C). But note that even an increase of this magnitude would be inadequate at current inflation rates.

Will a change in government worsen trading conditions for banks and squeeze profitability, making it impossible to sustain the new capital requirements? Banks' vulnerability is illustrated by the proposed turnover tax in lieu of VAT: unless it can be passed on, ROA may drop to 0,8%, limiting asset and dividend growth to less than 10%.

Most banks will be able to meet the fully phased-in requirements for 1995 and sustain capital adequacy for some years thereafter, even at the current inflation rate.

There are numerous ways to increase capital ratios, ranging from well-timed rights issues to the unlocking of unrealised profits. However, further increases in inflation or a reduction in ROA will bring forward the day when dividends become squeezed.

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MONEY SUPPLY

Counting change

(58)

Revised money supply figures for June are substantially higher than the preliminary figures published a month ago, as a result of two technical adjustments.

One relates to negotiable certificates of deposit, which form part of money supply only when held by the private non-banking sector. The change of ownership which takes place as these instruments pass from the hands of banks to their clients was not fully reflected in the preliminary figures. The second adjustment relates to a larger than usual flow of "net remittances in transit" — cheques not fully cleared through the clearing mechanism. These too were fully reflected only in the revised figures.

The new figures show growth in M3 over

contin

12 months to June of 15,77%, to R175,8bn. Preliminary figures a month ago showed growth of only 14,66% to R174bn. Calculated from the base of the current target year (November 1990) M3 rose 20,22% to a seasonally adjusted R176,2bn instead of 18,38% to R174,5bn as initially reported.

A more useful calculation is growth from February as, that month, legislative changes relating to deposit-taking brought massive re-intermediation and distorted figures over longer periods. Between February-June, M3 rose a seasonally adjusted annualised 11,3%.

Preliminary figures show that, in the five months February-July, M3 grew at 11,7% annualised to a seasonally adjusted R178bn.

So, despite the upward revision, the pace at which M3 has grown in recent months is below the rate of inflation and within the guidelines set by the Reserve Bank.

Between February-June, credit extended to the private sector grew a seasonally adjusted annualised 13,8%.

□ Preliminary figures for July show 12-month M3 growth of 15,94% to R176,4bn, and growth from mid-November of 19,38% to a seasonally adjusted annualised R178bn. Revised June figures show M2 grew 20,19% over 12 months to R147,3bn, M1 14,94% to R57,3bn and M1A 16,94% to nearly R30bn. ■

ALAN McCONNOCHIE

INSURANCE

FM (58) 30/8/91

Plumbing the depths

30/8/91.

There's no end in sight to the saga of General Accident Insurance (GA) and the firm RTS Techniques & Planning (in liquidation). What started as a routine investigation into a fire claim has added ingredients. These include allegations of invasion of privacy of the family of ex-RTS owner Bernard Cutler amid assertions that family members and friends have been "tailed" by investigators. Also emerging are details of a fraud allegedly committed (and admitted) by Cutler.

Meanwhile, a ski-boat once owned by Cutler, over which there was a successful insurance claim, has been recovered from a watery grave. There are now suggestions the boat was scuttled.

A R2,1m fire loss is usually of only passing interest. The *FM* has followed this case because it is making a certain kind of insurance history in the extraordinary tenacity displayed by both parties.

To recap: there was a fire at RTS in March. A forensic expert found no evidence of arson. GA did not immediately pay or repudiate the claim but ordered an investigation into not only the fire but also the financial state of RTS and its sole director and 95% shareholder, Cutler.

After receiving a financial report from a firm of accountants, GA "avoided" the policies and tendered a refund of premiums. Meanwhile, Cutler's attorneys arranged a magisterial hearing under Section 417 of the Companies Act to establish why GA had not paid the claim and why, as a result, RTS had gone into liquidation. This hearing has so far been inconclusive.

On August 23, Cutler's attorney, Peter Soller, wrote to Deneys Reitz (the firm acting for GA) and faxed a copy of the letter to the *FM*. This document alleges that the loss adjusters working for GA have embarked upon a course of action that is "a witchhunt and invasion of the privacy of the parties for whom we act."

Acts mentioned by Soller include having people followed; reactivating the investigation into the circumstances in which the ski-boat foundered almost 18 months ago; and causing a chain of events that resulted in the police confronting a child at school "for explanations pertaining to what was at the end of the day, investigations which have long ago ceased."

Soller demanded a written undertaking by 9 am on Monday that GA, its attorneys and other representatives or employees, would desist from the type of action complained of. The witchhunt, he noted, had no bearing on the claim of RTS against GA.

Deneys Reitz replied, the same day, that Cutler's activities were relevant, in view of:

- ☐ The circumstances of the fire at RTS;
- ☐ A communication made to GA by the broker acting on behalf of RTS, that he was suspicious of the claim RTS submitted;
- ☐ The existence of two audited sets of accounts of RTS for the financial year to February 1989. One contains a book entry of R1m, which does not appear in the other;
- ☐ The fact that RTS had been trading unprofitably before the fire; and
- ☐ "The fact that Bernard Cutler, to your knowledge, appeared in Court on August 22, 1991, on charges of fraud allegedly perpetrated on Broderick Motors — we understand that he pleaded guilty and that the matter has been postponed in order that he might give evidence in mitigation."

"The fact that the ski-boat ... appears deliberately to have been scuttled: the person who salvaged the boat found it weighed down with steel railway sleepers, paving blocks and rocks, the sump of the boat having been removed," the letter said. The engine number of the recovered boat corresponded with that of Cutler's.

Deneys Reitz's response, on behalf of GA, also repudiates responsibility for any actions that may have been taken by the police during investigations into the ski-boat loss or alleged fraud. *Bryan Deans*

ECONOMIC OUTLOOK 30/8/91

Touchdown

FM

In 1988, when economic activity expanded at the rate of 4,1% and the surplus on the current account of the balance of payments fell to a dangerously low R2,7bn, the monetary authorities had no alternative but to halt the upswing. As rising consumption sent imports soaring, they moved to contain demand and rebuild the surplus. The central concern then was how to do this without damaging the fabric of the economy. 30/8/91

Looking back over the period since the second quarter of 1989, when GDP first started to decline, it is clear that they achieved the required soft(ish) landing. The downturn has proved far more moderate than those experienced in 1984-1986 and 1981-1983 (see graph). Since the second quarter of 1989, GDP has fallen only 0,5%. Over the nine quarters, private consumption rose 1%, government consumption climbed 4% and gross fixed investment fell only 2%.

It was not until the second quarter of this year that the recession reduced private consumption spending — the latest edition of the *Reserve Bank's Annual Report* records an annualised decline of 0,5%.

Reasons for the fall are not hard to find. Since the start of the year, there has been:

IGI/HOSKEN

More reliant on life business

FM 30/8/91. (58)

Activities: *Short-term insurance. Investments in other insurance areas.*
Control: *Hosken Consolidated Investments 55,5%.*
Chairman: *I M A Lewis; MD: P S Denniss.*
Capital structure: *15m ords. 109 000 10% compulsorily convertible pref shares. Market capitalisation: R94m.*
Share market: *Price: 625c. Yields: 7,7% on dividend; 28,8% on earnings; p:e ratio, 3,5; cover, 3,7. 12-month high, 675c; low, 300c. Trading volume last quarter, 190 000 shares.*

Year to March	'88	'89	'90	'91
Total assets (Rm)	363	771	1 036	1 028
Net premium inc (Rm)	292,1	338,1	362,6	496,5
Underwriting income/ loss (Rm)	8,5	19,2	(6,3)	(9,1)
Taxed income (Rm) .	23,7	35,3	34,6	33,8
Earnings (c)	191	227	201	180
Dividends (c)	30	38	42	48

IGI chairman Michael Lewis believes that the ratings war in the short-term industry has become less intensive. Even so, he says that IGI's core SA short-term business increased gross premium income by about a fifth, "without taking indiscriminate rate increases across the board."

In common with most short-term insurers, IGI made an underwriting loss for the second consecutive year. Lewis says that last year was the worst in insurance history. Lloyd's has been hardening up, as losses have hit members pockets, which has forced insurers all over the world to follow suit. Profit was, however, bolstered by the contribution from 41%-held Saflife (see "Growth continues").

After tax income generated in SA fell by 14%, through IGI's subsidiaries outside the country had more promising results. Attributable income from IGI Botswana increased by almost two-thirds and the Bophuthatswana and Ciskei operations both made underwriting profits, but this was not enough to offset the SA losses. The solvency margin fell from 48,4% to 47,1%, still well above the statutory minimum of 15%.

The group has taken criticisms about its high dividend cover to heart. IGI's cover, which has been as high as about five times, has been blamed partly for the unexciting performance of the share, as indicated by the earnings multiple of only 3,5. The cover has now been reduced to less than four.

Hosken Consolidated Investments (HCI), which holds 10% of Saflife directly, as well as a 55% interest in IGI, improved its attributable earnings by 9,6%. As the table indicates, it is deriving a greater proportion of its income from the life business. Lewis says the life business is inevitably eclipsing the rest as it is more repetitive and certain.

IGI's Lewis ... *rates war easing*

INCOME SOURCES

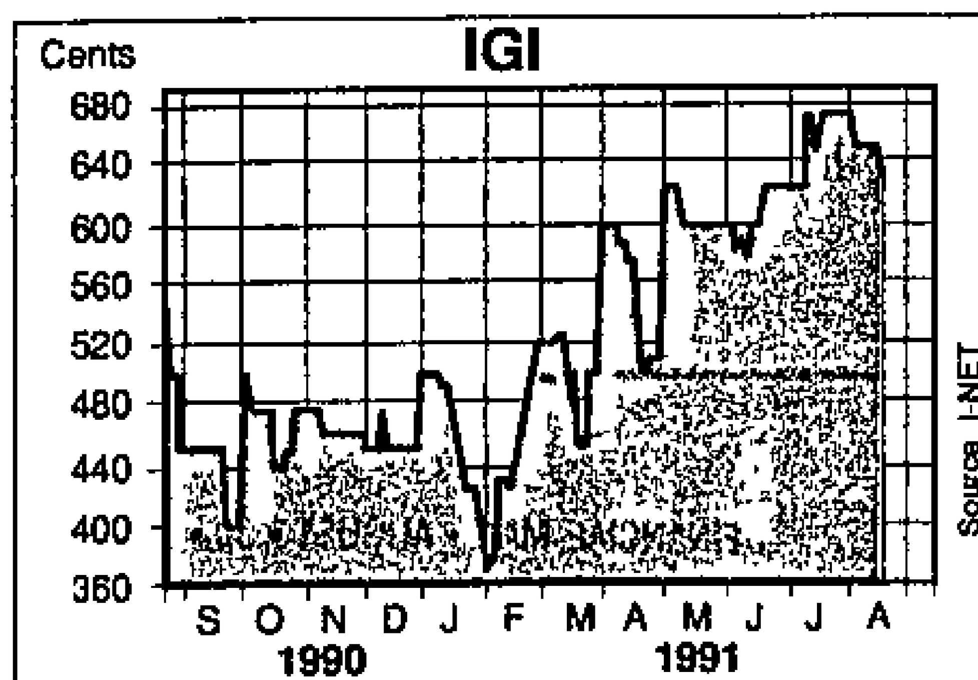
Attributable profits from subsidiaries of HCI

	1990 Rm	1990 %	1991 Rm	1991 %
Life assurance	2,8	18,4	5,4	34,3
Short-term insurance	12,1	78,0	9,4	59,1
Property	0,5	3,5	0,2	1,4
Investment income .	0,05	0,1	0,8	5,2

He says the performance of the short-term activities has always been cyclical, but the cycles are now shorter and the downturns more severe.

HCI's share price and rating has followed IGI's closely, though it trades on a higher p:e (4,3) and a lower dividend yield (6,2%). At 725c, it has fallen 15% since the beginning of the year.

The uncertainty still attached to the short-term insurance interests makes it unlikely that there will be a substantial rerating of these shares in the near future. *Stephen Cranston*



SAFLIFE FM 30/8/91

Growth continues (58)

Once again, Saflife strongly outperformed its short-term sister, IGI. Chairman Michael Lewis says Saflife managed to compound its after-tax profit by 40% for the seventh year running on a year-on-year basis. In view of this, and the steady dividend growth, it is hardly surprising that Saflife has a p:e about four times that of IGI.

Activities: *Long-term insurance.* (58)
Control: *IGI 41%. Hosken Consolidated Investments has ultimate control.* FM 30/8/91.
Chairman: *I M A Lewis.*
Capital structure: *29,6m ords. Market capitalisation: R185m.*
Share market: *Price: 625 c. Yields: 4,4% on dividend; 7,4% on earnings; p:e ratio, 13,5; cover, 1,7. 12-month high, 700c; low, 300c. Trading volume last quarter, 98 000 shares.*

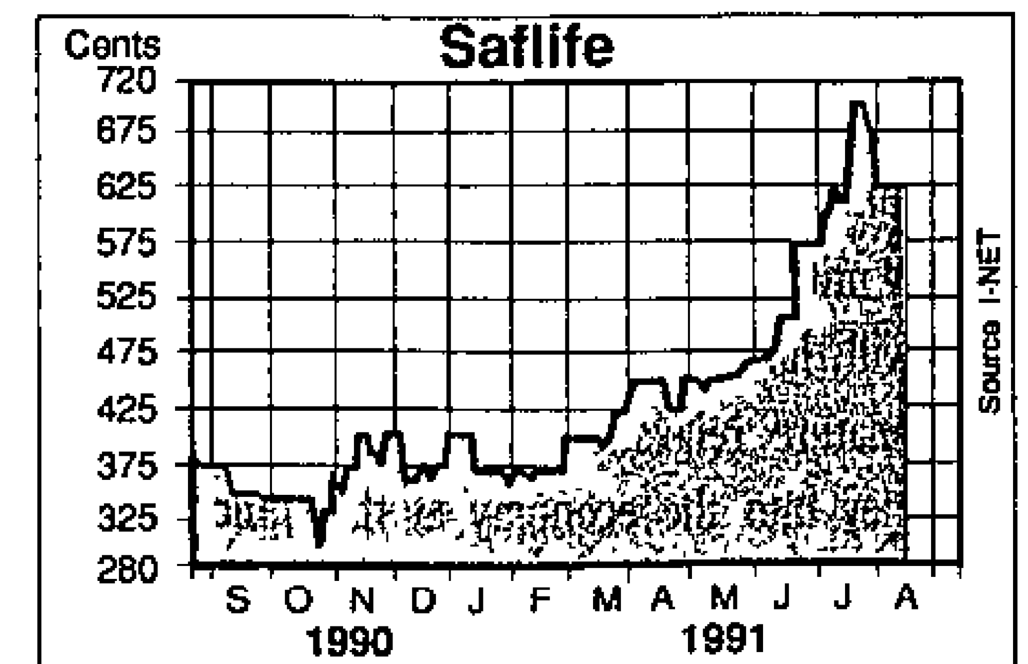
Year to March	'88	'89	'90	'91
Total assets (Rm)	96	417	633	748
Life fund (Rm)	54	357	563	674
Total profit (Rm)	3,0	6,2	9,8	14,7
Earnings (c)	10,5	21,4	32,8	46,8
Dividends (c)	7	12,5	20	27,5

Saflife has built up a speciality in the blue-collar market, and has been rewarded for its strong showing in this sector. Recurring premium income increased by three-quarters, thanks largely to the Protector policy.

IGI Life specifically focused on new business, computer systems and the improvement of policy services. It developed a series of soccer clinics, which had some success in raising awareness of the company.

The funeral fund business, Safrican Association, saw a strong increase in group funeral schemes, developed as part of the employee benefit package. Traduna has improved its cost structure since it was acquired by Saflife in 1989.

There were some favourable changes in the group balance sheet. Long-term liabilities were reduced from R11m to R600 000 and shareholders' funds increased by R5m to R41m. In the R672m investment portfolio, fixed securities were reduced by 27%. Cash deposits increased by almost two-thirds; equities at cost by 13%; and properties, 19%.



Outside the life area, Safegro Holdings acquired a substantial shareholding in Mercantile Bank, to broaden its expertise in financial markets. Saflife is continuing to show real growth in its chosen area. The p:e makes the share look expensive, but with a dividend yield of 4,4% it could provide some value. *Stephen Cranston*

PENSIONS — 1 FM 30/8/91 (58)

Hammering managers

Using pension or provident fund contributions to support a company's working capital is not thought to be a widespread practice. Yet it seems to have happened often enough to concern the Financial Services Board (FSB) and has resulted in a toughly worded circular, PF74.

Potential penalties mentioned in PF74, a fine of R10 000 or 10 years' imprisonment, are clearly aimed at outright fraud or embezzlement. However, it seems that all instances where pension moneys are handled too casually will result in more than a slapped wrist.

Under the revised rules, an individual will be nailed in cases of non-compliance with reporting requirements: the principal officer of a self-administered fund, or the insurer where the fund is underwritten. Insurers have also been warned that they can be held responsible for late receipt of pension money.

The tougher attitude has the full support of the Institute of Retirement Funds and the Life Offices Association (LOA). Yet policing the regulations may be difficult. Southern Life deputy GM Rodney Sleep notes that contributions should be received by the fund within seven days of being deducted. That does pose practical problems, particularly where an employer has many sites and more than one type of retirement benefit scheme.

Underwriters also find it sensitive that they must force brokers to conform Some get as much as 80% of their pension business through brokers and do not want to bite the hand that feeds them. Sleep notes that "dealing with professional brokers is a real pleasure." There may be cases, he agrees, where brokers sit on funds, either to earn interest or because systems are inadequate.

FM 30/8/91 (58)

It is doubtful that brokers are the main target of PF74, though the FSB says it will not allow funds where contributions are in arrear to be switched by intermediaries from one underwriter to another.

Of more concern are cases where funds have been deprived of contributions for anything from two to six months. Where a company uses employee benefit contributions for working capital in this way, suggests the LOA's Jurie Wessels, the firm is likely to be unstable and the members are truly at risk.

FSB executive officer Piet Badenhorst has already ordered inspections of some funds. "Any contraventions will be referred to the Attorney-General." Badenhorst adds that legislation is likely to go to parliament next year to tighten up procedures for "subtracting, receiving and dealing" with contributions, by employers, intermediaries and portfolio managers.

There have been suggestions by insurers that, in addition to punitive remedies for dealing with late payers, market-related interest should be charged. This would restore losses caused to members by late payment. It would also be a method of decriminalising minor cases of non-compliance. ■

Foreign banks look to corporate market

B.Day 30/8/91. SHARON WOOD (58)

SA BANKS will not welcome foreign banks lending directly to corporate clients, say banking sources.

Spokesmen agreed yesterday that the foreign banks setting up representative offices in SA were aiming for niche markets, with corporate lending top of the list.

Nedbank international division executive GM Derek Muller said foreign banks were generally quite happy to deal through the local banks because of their longstanding relationship with SA banks.

Domestic banks usually acted as intermediaries between foreign banks and corporate clients.

SA banks must expect competition, he said.

Standard Bank international division GM Rocco Rossouw said foreign banks probably perceived they could offer something SA banks could not offer, which was probably in the corporate market.

But Standard Bank was confident it could look after its corporate clients.

Rossouw said the key disadvantage facing SA banks was they could borrow money overseas only at a premium of about 1% above the London Inter-bank Offered Rate (Libor) because of the debt moratorium.

At the time of going to press the Registrar of Companies had not responded to Business Day inquiries as to what the official line would be if SA banks had to compete unfairly.

Stals slams banks for allowing use of mortgages for luxury buying

B Day 30/8/91

SHARON WOOD

RESERVE Bank Governor Chris Stals yesterday slammed banks for causing a huge increase in consumer credit by allowing customers to use mortgage loans to buy cars and pay for holidays.

Speaking in Johannesburg at a JCCI meeting, he said he was not satisified that bank credit was under control.

He said the use of "home loans" as a means of credit was reflected in the sharp increase in mortgage loans extended to the private sector, while hire purchase credit was declining.

Banking sources said yesterday mortage rates were currently running at an average of 19,75%, while hire purchase rates varied between 27% and 29%.

Hire purchase and leasing finance rose by only R113m, or 0,4% in June, resulting in a total loan market size of R28,9bn.

This represented a huge 87,6% slowdown in growth compared with the first quarter of 1991, said Nedfin CE Christopher Beatty.

Stals said that in contrast, total credit demand had risen by about 15% over the past year, which was still unacceptably high.

The shift towards providing consumer credit on mortgage loans was due to the lower capital requirements on mortgage loans, he said.

Banks had half the amount of capital to service on mortgages.

He said banks had to comply with a 4% capital requirement on mortgage loan assets, as opposed to 8% for hire purchase financing.

Banks also had a better underlying security on a mortgage loan, which was based on the value of the property.

The capital requirements were tightened when the Deposit-Taking Institutions Act was implemented in February. The Act required that banks hold more capital against assets than was previously demanded.

FNB senior GM Viv Bartlett said: "Yes, the facility (raising finance on mortgage loans) is available at most banks, but we try to encourage customers not to use it.

"A mortgage is the only real wealth and equity a person has and if they constantly access it for current consumption, they are mortgaging their future."

An Absa spokesman said the amount of lending done by Absa, which might be used for purposes other than housing and home improvement, was negligible.

The lending of any funds was always done at market-related rates and thus the tax advantages were negligible.

He added that the reason mortgage lending required a lower capital reserve ratio was because the lending was always secured by the fixed property.

"As such, it represents a very secure, low-risk form of lending," he said.

Nedbank MD Richard Laubscher said: "Competition in the market would suggest that if the practice became the norm, all banks who participate in the market would have no option but to follow.

"The question as to whether it is prudent from the client and the bank's long-term view is the issue that needs to be addressed."

ANC warns Deutsche Bank on bond issue

BILLY PADDOCK

THE ANC warned yesterday that plans by the German Deutsche Bank to facilitate a public bond issue to raise finance was a contravention of financial sanctions and could threaten negotiations.

It said in a statement: "This premature public bond issue will take pressure away from the apartheid government at this critical time in the process towards a democratic society."

The ANC said financial sanctions had been critical in pushing the process of political transformation to where it was. To undermine this would send the wrong signals to the international community.

The ANC urged the Deutsche Bank and all international financial institutions not to subscribe in this bond issue until the negotiations process was completed.

The statement by government that this bond issue would contribute to the financing of social development programmes was "devious".

"Our experience, recently confirmed by Inkathagate and other disclosures, indicates the danger inherent in availing additional financial resources to this government which could be similarly misdirected."

Bankorp back in the black

Bday 30/8/91

(58)

ROBERT GENTLE

BANKORP has started to reap the benefits of the hard-nosed recovery programme instituted by executive chairman Piet Liebenberg by engineering a R433m turnaround from loss into profit for the year to end-June.

The main names in the Bankorp group are commercial bank TrustBank, merchant bank Senbank and lease and hire purchase bank Bankfin (formerly Santambank).

After a year Liebenberg described as "the most difficult one in Bankorp's history", net taxed income was R64,5m compared with a loss of R368m last year.

Earnings a share based on average shares in issue were 15,9c compared with a loss per share of 267,5c last year. The total dividend per share was maintained at 25c.

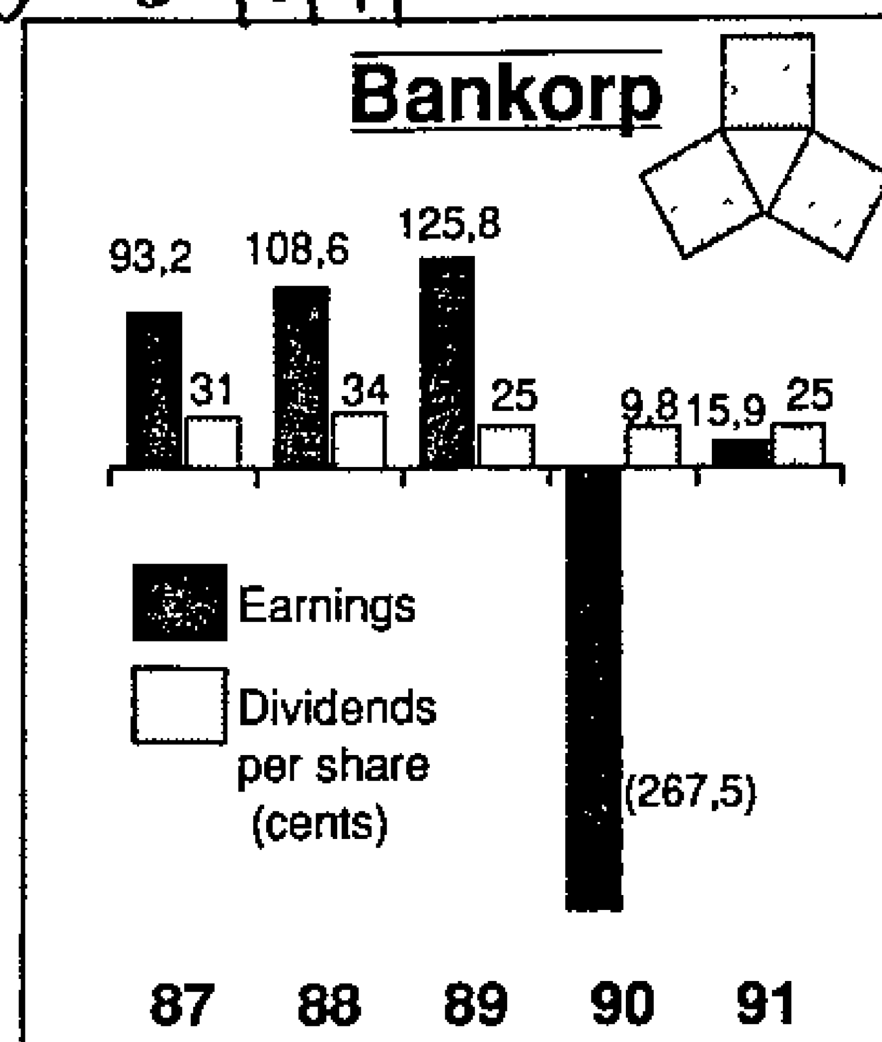
Despite the turnaround, Liebenberg said it was going to be a long haul.

"These are but the early stages of a recovery phase we expect to take three to five years."

Accordingly, his contract as executive chairman had been extended by three years until 1997.

Progress to date had been slower than orginally expected, he said, but he remained confident Bankorp would achieve its objectives.

In a dramatic new policy on disclosure which Liebenberg described as "the right thing to do", Bankorp for the first time released details on its net interest margin — the difference between interest income and interest expense, a key indicator of operational performance.



It shot up 40% from R747m to R1,048bn, mainly as a result of the rationalisation process which saw the merging of Bankorp's three previously separate treasuries into one integrated unit.

Liebenberg was reluctant to provide a breakdown of overall operating expenses, which rose by 15%.

He said: "The challenge for all banks is to contain costs and improve productivity."

On the operational level, prudency was the watchword as the lending book continued to be cleaned up, bad debts scaled back and the asset mix balanced.

On top of a R284m provision for doubtful debt came a special R100m provision which will be held back for a rainy day.

Asset growth dropped 8,5%, just short of the targeted 10% instituted to overcome the effects of the unchecked growth rates of 40% a year of the late '80s which were instrumental in putting Bankorp in the hole it is now digging itself out of.

"By the end of the present financial year, all our exposures will be squarely within our new credit and risk exposure policy," said Liebenberg.

Bankorp was comfortable with its capital adequacy levels, which at 5,8% exceeded present requirements.

However, the group was considering broadening its capital base through the issue of secondary capital instruments like debentures.

An indication of the long haul ahead for Bankorp is its return on total assets, which at 0,19% is way below the 0,8%-0,9% of banks like Standard, Nedcor and First National.

"We believe we will eventually match the competition.

"We are back in the market place and are now aiming for long-term profitability," said Liebenberg.

interest grows

LINDA ENSOR

CAPE TOWN — Foreign interest in investing in the Cape is picking up, with 70 known job-creating investments having been made in the last two years, says Western Cape Growth Organisation (Wesgro) executive director David Bridgman.

Over 550 jobs were created indirectly.

Bridgman says in the past year 367 businessmen from 31 countries — many of which did not have contact with SA for over a decade — have contacted Wesgro. B/Day 30/8/91.

However, there is still concern over links with SA.

"While a number of well publicised officially sanctioned business delegations have visited SA, many countries still do not wish to acknowledge business contacts with us and this is a situation we must recognise," he says.

DBSA 'could be financial powerhouse of Africa'

B/Day 30/8/91

LESLEY LAMBERT

THE Development Bank of Southern Africa (DBSA) could become the World Bank of Africa, distributing and allocating international development resources in sub-Saharan countries, Sacob director-general Raymond Parsons said yesterday.

Addressing the Scandinavian-South African Business Association in Oslo, Norway, Parsons said the bank's expertise in channelling limited funds to many competing projects could be put to good use in Southern Africa now that political obstacles were falling away.

"The DBSA was originated with this aim of a broader Southern African perspective in mind," he said.

Currently, the bulk of DBSA funds flow into South African projects. Activities outside SA are limited mainly to Lesotho, Mozambique and Namibia.

Referring to current debate on the possibility of SA joining the Southern African Development Co-ordinating Committee (SADCC), Parsons said it could happen soon if SA "played its cards skilfully".

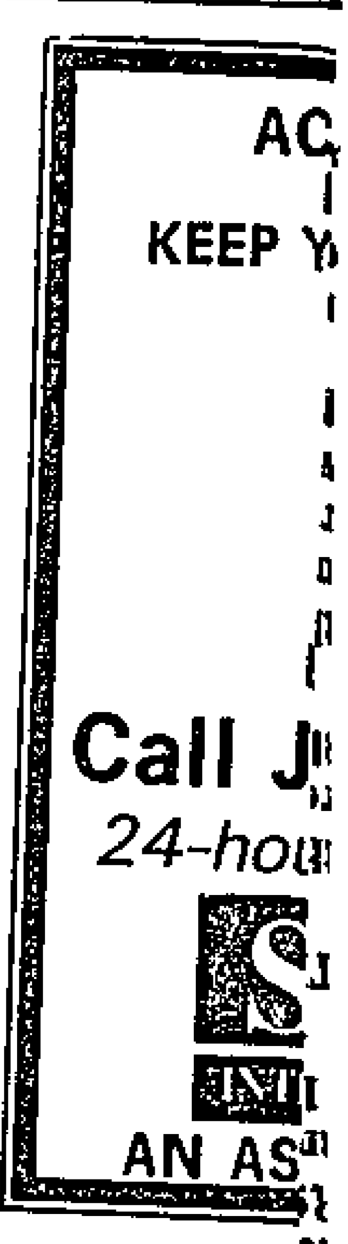
It would have to be sensitive to fear in the region about its economic domination. "Southern Africa does not wish to be recolonised by the new South Africa," he said.

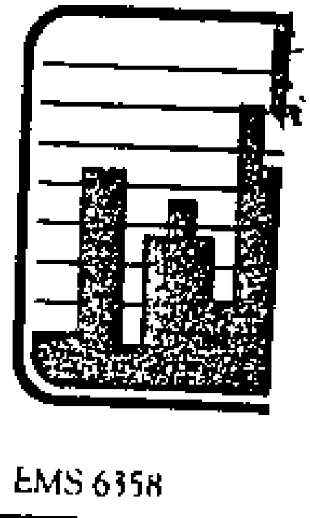
But the SADCC could not afford to ignore the value of SA's role in the region. With only 40% of Southern Africa's population, SA was responsible for more than 80% of its GNP. It harvested more than 50% of the region's maize, about 90% of its wheat and supplied 70% of its meat. Hundreds of thousands of southern African workers were employed in SA, Parsons said.

In recent years, the value of the SADCC's trade with SA was about four times intra-SADCC trade, while about 70% of the region's trade volume passed through SA.

SA's total trade with southern Africa amounted to R6bn in 1987. Its non-bank investments in Africa were R3,4bn in 1988. The value of SA's exports to the rest of Africa rose by 40% in 1989 and by an estimated 22% in 1990.

Looking further north, he said economic co-operation between Africa's four economic powers — Nigeria, Egypt, Kenya and SA — could treble SA's economic growth rate with significant benefits for its southern African neighbours.

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Liebenberg to stay on to help Bankorp

Star 30/8/91

(58)

By Magnus Heystek
Finance Editor

Although the recovery process at Bankorp is well under way, it is taking much longer than originally expected, says executive chairman Piet Liebenberg. For this reason he has agreed to stay on until 1997 to enable the group to achieve its objectives.

Bankorp yesterday announced a net profit of R64,5 million in the first full year after its massive restructuring and traumatic change of management.

Although this is a commendable turnaround from the loss of R368,4 million the previous year, the group is "still at an early stage of recovery after the most difficult year in its history", Mr Liebenberg said in an interview yesterday.

The earnings per ordinary share, based on the weighted average of shares issued, were 15,9c after the previous year's loss of 267,5c a share.

The final dividend is 15c (1990:15c), bringing the total dividend to 25c and matching the previous year. However, in order not to deplete its reserves, the cash dividend will not cost the group more than R6 million, as main shareholders Sanlam and Sankorp are again taking bonus shares in lieu of dividends. This option is available to all shareholders.

This will strengthen the group's capital base by R89 million.

Margins

For the first time Bankorp has disclosed its net interest margin, which shows an improvement of 40 percent to R1 048,3 million (R746,9 million). The net interest margin is the difference between income from funds and interest expenses.

Although all three banking divisions, Bankfin, Senbank and Trustbank, functioned profitably at the operational level, net profits remained adversely affected by the high carrying costs of non- and under-performing assets.

This is still a legacy of the old Trustbank's aggressive drive for market share and assets in financial years 1988 and 1989 when assets increased by 40 percent annually.

This factor will contine to act as a brake on Bankorp's profitablity for some time. This is clearly indicated by the following statement by Mr Liebenberg:

"One of the most important challenges of the recovery process has been the need to upgrade the quality of the whole debtors' book, which will require a high level of provision until we have achieved this objective and entrenched a prudent and profitable risk-assessment philosophy."

In order to provide for additional write-offs, Bankorp has transferred an additional amount of R100 million to internal provisions in view of the recessionary conditions which complicated recovery.

In the previous financial year Bankorp made provisions totalling R386,5 million in lieu of write-offs, provisions and transfers to contingency reserves, in line with the more conservative approach after Mr Liebenberg took control in the June last year.

Debt problem

Non-performing assets and doubtful debts are still a problem in Trustbank and Senbank, Mr Liebenberg said. In the case of Senbank, this problem was entirely due to the portfolio of corporate clients taken over from Trustbank during the past year.

However, the cost of funding these non-performing assets would reduce annually from its highest level in the current financial year to significantly lower levels in year five of the recovery process, he said.

This extended time-view to put Bankorp back on to a profitable footing was one of the main reasons why he decided to extend his management contract with controlling shareholder Sankorp.

Bankorp's drastic rationalisation programme, which has resulted in a reduction of the group's work force by more than 1 500 to just over 15 000, resulted in several management changes and a new corporate structure.

All merchant and corporate banking is conducted via Senbank, the commercial and clearing activities are done through Trustbank while Bankfin, formerly known as Santambank, handles all instalment sales.

The implementation of the restructuring proved to be a mammoth task. Altogether, 1,2 million accounts were transfered between divisions, involving R5 billion in assets and R3,5 billion in liabilities.

More than 100 branches were closed and 80 offices and service points opened.

. . . but Stals hits at borrowing on bonds

By Derek Tommey 30/8/91

Dr Chris Stals, governor of the Reserve Bank, says the banks are frustrating attempts to limit credit creation by allowing borrowers to use the proceeds of mortgage loans to buy cars and pay for holidays.

He made this claim at the Johannesburg Chamber of Commerce and Industries meeting yesterday and critised the banks for this practice.

The banks say, however, that house buyers have always borrowed back against their mortagage repayments when they have needed extra cash. In today's tight money conditions it is only normal for people to do this.

Dr Stals appears to believe the banks might be pushing mortagage loans instead of hire purchase facilities for luxury purchases and that this would be more profitable for the banks.

In recent months bank loans for HP and leasing have hardly grown but mortgage advantages have risen strongly.

But bankers claim this is partly results of a still fairly buouant property market — people with property assets using them to their best advantage.

"It does not make sense for a person to buy a car on HP and pay a rate of interest of 28 percent for the money when he could borrow back against his mortgage loan and pay just under 20 percent," a banker said.

The practice of borrowing back against mortgage bonds is clearly worrying the monetary authorities. Last week Dr Japie Jacobs, former deputy governor of the Reserve Bank, and now a special adviser to the Minister of Finance, also had some harsh words to say about it.

Big slowdown in credit expansion

Star 30/8/91 (58)

Finance Staff

The economy is now slowing down very rapidly. Several signs indicate that it is at long-last responding to the tight monetary conditions.

But analysts fear the slowdown might be only temporary and that credit expansion can improve again after the introduction of VAT at the end of September.

An analysis of the BA9 returns indicates a huge slowdown in hire purchase and leasing credit creation by banks throughout the banking sector.

The analysis for the quarter ended June, done by Nedfin Bank, shows that banks' growth in total receivables grew by only R113 million, or 0,4 per cent, resulting in a total market size of receivables extended by banks of R28,9 billion.

This represents a huge 87,6 per cent slowdown in growth compared with the first quarter of 1991.

Measured on an annualised basis, the hire purchase and leasing markets have grown by only R3,05 billion, or 11,8 per cent, compared with the previous average annualised growth figures of R4,3 billion, or 19,4 per cent at the end of March 1991.

The sharp decrease in growth of receivables is due to the fact that hire purchase credit only grew by R26,1 million over the last quarter. Leasing finance supported the sideways trend by only growing R86,9 million over the last quarter.

Nedfin chief executive Christopher Beatty says the decline in growth of credit creation was not unexpected as the inflation rate seemed to have stabilised at 15,2 per cent."

What was unexpected was the magnitude of the drop.

tors of Wooltru Ltd.

Jon Lavies, head of Wooltru financial services, has been appointed to the board of directors of Wooltru Ltd.

Bankorp in R433m turnaround to profits

(58) CT 30/8/91

From ROBERT GENTLE

JOHANNESBURG. — Bankorp has started to reap the benefits of the hard-nosed recovery programme instituted by executive chairman Piet Liebenberg by engineering a R433m turnaround from loss into profit for the year to end-June.

The main names in the Bankorp group are commercial bank TrustBank, merchant bank Senbank and lease and hire purchase bank Bankfin (formerly Santambank).

After a year Liebenberg described as "the most difficult one in Bankorp's history", net taxed income was R64,5m compared with a loss of R368m last year.

Earnings a share based on average shares in issue were 15,9c compared with a loss per share of 267,5c last year. The total dividend per share was maintained at 25c.

Despite the turnaround, Liebenberg said it was going to be a long haul.

"These are but the early stages of a recovery phase we expect to take three to five years."

Accordingly, his contract as executive chairman had been extended by three years until 1997.

Progress to date had been slower than orginally expected, he said, but he remained confident Bankorp would achieve its objectives.

In a dramatic new policy on disclosure which Liebenberg described as "the right thing to do", Bankorp for the first time released details on its net interest margin — the difference between interest income and interest expense, a key indicator of operational performance.

It shot up 40% from R747m to R1,048bn, mainly as a result of the rationalisation process which saw the merging of Bankorp's three previously separate treasuries into one integrated unit.

Liebenberg was reluctant to provide a breakdown of overall operating expenses, which rose by 15%.

He said: "The challenge for all banks is to contain costs and improve productivity."

On the operational level, prudency was the watchword as the lending book continued to be cleaned up, bad debts scaled back and the asset mix balanced.

On top of a R284m provision for doubtful debt came a special R100m provision which will be held back for a rainy day.

Asset growth dropped 8,5%, just short of the targeted 10% instituted to overcome the effects of the unchecked growth rates of 40% a year of the late '80s which were instrumental in putting Bankorp in the hole it is now digging itself out of.

"By the end of the present financial year, all our exposures will be squarely within our new credit and risk exposure policy," said Liebenberg.

Bankorp was comfortable with its capital adequacy levels, which at 5,8% exceeded present requirements.

However, the group was considering broadening its capital base through the issue of secondary capital instruments like debentures.

An indication of the long haul ahead for Bankorp is its return on total assets, which at 0,19% is way below the 0,8%-0,9% of banks like Standard, Nedcor and First National.

"We believe we will eventually match the competition.

FINANCE - GENERAL

1991

SEPT.

INSURANCE — 3FM 27/9/91

White knights (58)

Anyone who has made a substantial insurance claim, private or commercial, knows about loss adjusters. They are impartial but are paid by the insurers. Now, enter the public adjusters. They represent the interests of the insured.

One public adjuster, Michael Gaines of Durban, made a reputation when he confronted Brian Seach, chairman of the SA Insurance Association, in an early morning chat show. Gaines, who has hired public relations consultants TWS to promote his cause, also got prominence because he represented RTS Planning & Techniques in its highly publicised campaign to persuade General Accident to pay a R2,1m fire claim — a claim still in contention.

Now Transvaal has a public adjuster, Stewart Lench. Like Gaines, he was a registered loss adjuster before switching fealty to act only on behalf of the consumer. He is definitely not in business to knock the recognised loss adjusters who, he says, mostly try to effect settlements that are fair to both insurer and insured. But, says Lench, the loss adjuster is paid by the insurer and that instinctively makes it a compromised relationship.

Public adjusters are new to SA. Lench explains: "Few people know what their insurance rights are. Essentially, they have bought the right to be returned to the financial position they enjoyed before the loss. Most people who insert a claim end up poorer than they were before their loss."

In many cases, an insurance contract allows the insured party to claim, as well as the material loss, the cost of preparing and prosecuting a claim. That is a small print clause few claimants know about.

To justify the emergence of the public adjuster, Lench points to the Catch 22 position that is now evident in the short-term industry: "Insurers look for arguments to repudiate or reduce claims. Claimants know this, so they tend to inflate claims in the hope they will get a settlement close to what they really lost." The role of the public adjuster, he says, is to prepare a claim at the outset that matches the eventual settlement.

An efficient broker will do much that a public adjuster offers but brokers tend to

continue →

FM 27/9/91 (58)

come on the scene only in the case of large claims or where dispute has already arisen. For corporate clients, where loss exposure can be substantial, services like Lench's operate mostly on a no-cure, no-pay scale of 5%-15%, depending on the complexity of the case. To private insureds, there is a flat scale R25 a month service, Claimguard, which guarantees the adjuster will be at the insured's side from time of loss to eventual payout.

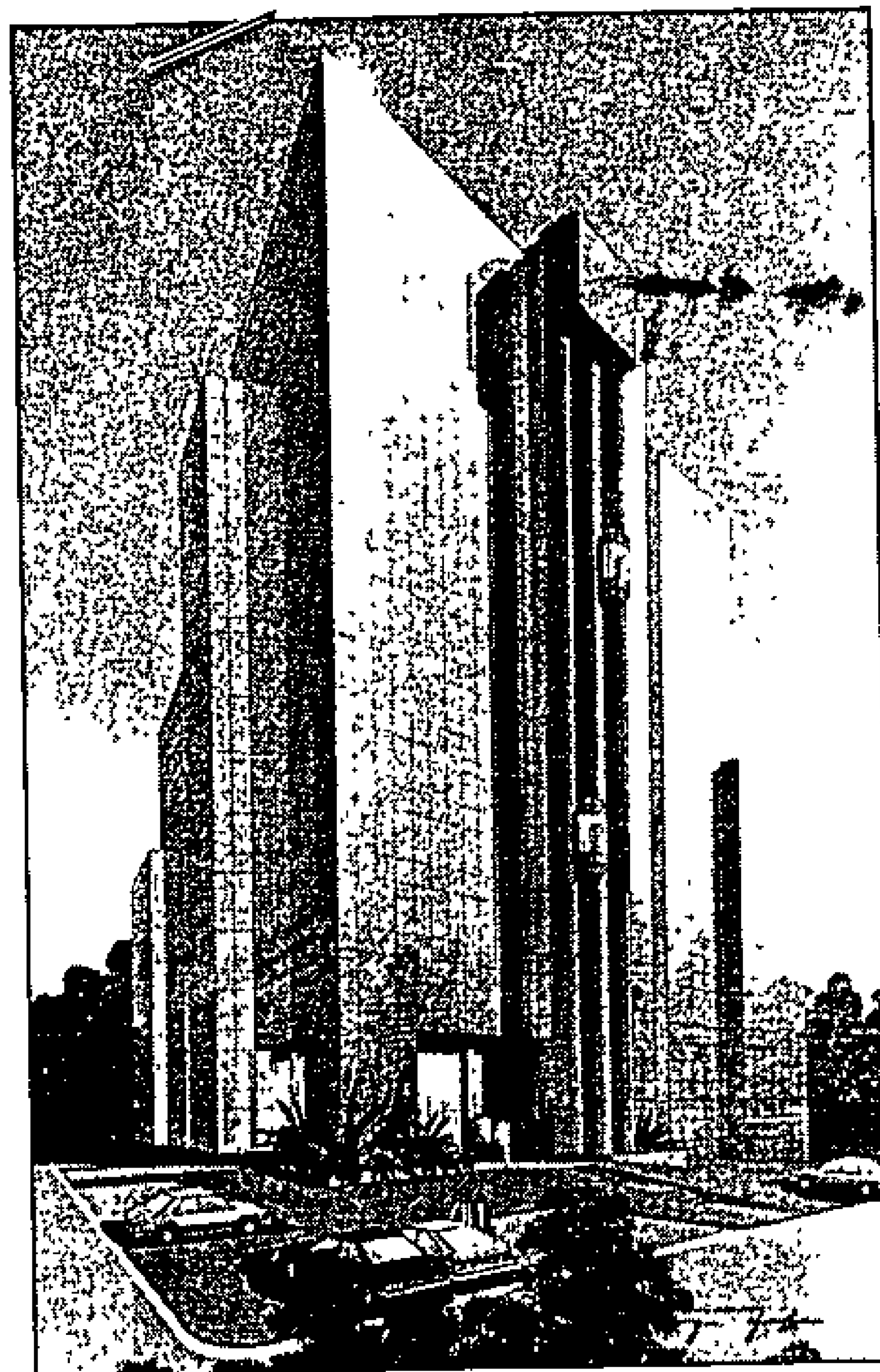
As the average consumer will experience a major insured loss in three-five years, the arithmetic is: R300 annually to ensure that the insurer makes full, rather than partial, reimbursement. ■

Outward bound

Backed by a European consortium, SA short-term insurer Auto & General (A&G) will enter the UK market next year, in the first foray of its kind by a homespun insurer. Steve Klinkert, MD of the SA operation, and half a dozen key executives, are seconded to start the new business, probably around April next year.

The UK, then Europe, are about to be introduced to A&G's heavily systems-based "paperless" direct sell. In the first year, Klinkert has a modest 10 000 policies targeted. In year four, he wants 140 000 on the books. By then, European Community short-term insurance legislation should be standardised on the UK and Dutch models, so the whole of Europe becomes one marketplace.

A&G's growth after pioneering telesales marketing, has been rapid and sometimes controversial. It is still small by industry standards, with R140m of gross premium income in 1990 and a projected R200m this year. But its growth has come off an insignificant base after it took over the Crusader licence and settled into its current personality in 1985. Like most of its competitors, it recorded an underwriting loss in 1990 but a bottom line profit after adding back investment income.



A&G HQ ... *the paperless empire strikes out*

A&G is a somewhat flamboyant company. Its flagship building in Johannesburg was opened by F W de Klerk, its public relations director is MP Dave Dalling. The founder and chairman Douw Steyn has a lifestyle that has attracted headlines. Competitors have been openly critical of A&G's business style.

Yet its aggressive selling methods have undoubtedly been successful. The company possesses a database that enables it to quote, by phone, at competitive rates. It records every verbal quotation so that, if disputes arise, it can verify the correctness of client information. It has a trained telesales force that is backed by intense advertising campaigns. This year it has moved from 19 to 14 in the *FM's Short-Term Insurers' League*.

When the UK company, as yet unnamed, is licensed and operational, A&G will maintain an option to acquire 30% of the shares. Meanwhile it will use the A&G know-how supplied to Alpha Paperless Systems UK (controlled by A&G), with an override on Alpha's turnover accruing to A&G.

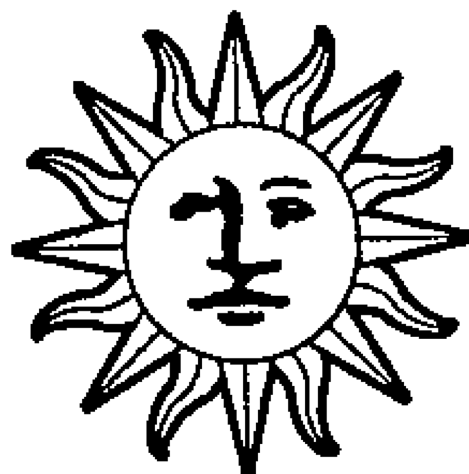
The operation will concentrate on personal lines, mainly motor insurance, with little interface with brokers. The emphasis, as in SA, is to be on direct — telephonic — contact with the public. Klinkert emphasises, however, that, in SA, a pattern has been established where about one-third of business comes through intermediaries, so he will not shut the door to brokers in the UK. ■

TRANSATLANTIC-UAP-SUN LIFE

An assurance of life

(58) FM 27/9/91.

Gordon's presence is positively felt in the City — and Europe lies ahead



Three years ago, Sun Life chairman Peter Grant persuaded Jean Peyrelevade, chairman of UAP — France's biggest life assurer — to embark upon talks intended to lead to a merger of the two groups. Grant's objective then was to stymie the influence on the Sun Life board of TransAtlantic and Liberty Life chairman Donald Gordon.

Now Gordon and Peyrelevade have emerged as full-blown partners and they have taken joint control of Sun Life. An offer is being made to Sun Life minorities, though in London this is being regarded as a formality. For Gordon, the arrangement brings to fruition a plan he has patiently nurtured over almost a decade to gain a dominant influence in Sun Life.

But the form it has taken promises sweeter fruits than simply gaining control of a large UK life assurer. Gordon feels that the partnership with UAP will prove even more important. UAP is not only the biggest insurance company in France; it is one of the largest and best-connected companies in Europe.

Though the French government controls about 65% of UAP's equity, the company is listed on the Paris stock exchange and, in Gordon's view, is run by "very entrepreneurial people." He believes that UAP and the Liberty-TransAtlantic axis have much in common.

"We are working together extremely well," says Gordon. "They think the way we do and their investment policies are very similar — far more similar than anyone here in the UK, for example.

"We can do great things together. We have a tremendous knowledge of insurance in the Western world and they have great knowledge of the European insurance industry. There are very different ways of doing things. We are looking at a very exciting future." Gordon adds: "I wish I was a bit younger."

Though Gordon is now citing the potential synergies, it's notable that these would come out of an alliance of two unusual men. Gordon's financial wizardry and persistent concentration on long-term goals, with the risks minimised wherever possible, have become familiar, if deceptively so.

While Gordon, as an outsider, has had to fight a long battle to establish himself in London, Peyrelevade is a leading, if unorthodox, figure on the European corporate stage. In a varied career, in which political links have played a prominent role, Peyrelevade has been an aircraft engineer, a banker, an advisor to Socialist Prime Minister Pierre Mauroy, a banker again — and is now France's most powerful insurance executive.

This places him at the hub of cross-shareholdings that link many of France's largest companies. UAP has extensive direct investments (see box), including stakes in major French banks, and Peyrelevade is on eight French company boards, the maximum allowed. But, though clearly a figure of great influence, Peyrelevade plays down his image of corporate power broker.

According to the *Wall Street Journal*, he operates by "carefully weaving a consensus among friends and allies." That description is apposite to the role he has played between TransAtlantic and Sun Life. Yet he has also retained a public image as a man of integrity and independence.

Despite the unpromising start to the relationship between Gordon and Peyrelevade — considering Grant's original intentions in inviting UAP to take a stake in Sun Life — they found they could do business together.

After the battle in Sun Life's boardroom, in which the merger plan between Sun Life and UAP was voted down, TransAtlantic gained two seats on the Sun Life board. These are held by Michael Rapp (formerly head of Liberty's property arm, Rapp & Maister) and the Marquess of Douro.

Gordon

From this point on, as Gordon puts it, the major shareholders were obliged to work together. By 1989, UAP and TransAtlantic struck up an accord which amounted to TransAtlantic undertaking it would not bid for Sun Life. In exchange, TransAtlantic acquired the right that, at any time of its choosing, it could require UAP to acquire its holding at a price determined by TransAtlantic.

UAP would then, in effect, have the right either to acquire TransAtlantic's Sun Life holding or to sell its own holding in Sun Life at the same price per share. This provided stability and allowed the Sun Life board to get on with running the business. But before long, there was also growing co-operation between TransAtlantic and UAP.

When Sun Life held a £67,5m rights issue last year, TransAtlantic and UAP jointly underwrote the issue to the fullest extent possible, without either party going over 30% (which under London rules would have required a full bid). However, TransAtlantic sold UAP sufficient rights in the issue to equalise the two companies' shareholdings in Sun Life at 27,7% each.

"There were very good reasons on both sides why we shouldn't break up that relationship," says Gordon. "It's developed extremely well, to a point where we've moved from a negative situation to a positive one."

Gordon's own considerable achievements have not been overlooked in the City. Even so, a London insurance analyst noted this week that Gordon tends to be regarded with respect but also with circumspection — simply because he continues to be viewed as a "foreigner." A tie-up with UAP should help to open more doors.

"People in London find it difficult to take foreigners seriously," says Gordon. "But this really does establish us. People will have to take us very seriously. That could work in numerous ways. When you visit bankers, and you have UAP as your second biggest shareholder, they have to listen to you."

With the Sun Life deal on the table, the attention is focused on the UK. But benefits could extend well beyond the UK industry. A partnership with the French should ease the way for a move towards Europe, on which Gordon has long taken a wary stance. Any such move would not come hastily or easily — but would come from a much firmer base.

Just as important are the intangible gains through entry to a network of powerful contacts and personal relationships. Some six months ago, Gordon was invited to join UAP's international advisory board, whose members include the likes of Umberto Agnelli. This, he feels, should be even more interesting than joining UAP's main board.

Making the coup that has been pulled off even more impressive is the fact that, just a few months ago, Gordon appeared to have lost an important partner with the break-up of Liberty-TransAtlantic's business alliance with the Rupert family, when Richemont relinquished its stake of 20%-odd in TransAtlantic. With the present arrangement, Liberty's interests are probably served better. Incidentally, Gencor, whose chairman, Derek Keys, is a TransAtlantic director, also has a major interest; its investment arm, Genbel, last year put all its international holdings into 12,8m convertible preference shares in TransAtlantic.

There are three main elements to the plan. UAP and TransAtlantic are acquiring 3,02m shares in Sun Life at £11,60 per share from Sun Alliance Group Plc. This will be done through a jointly controlled company, Rockleigh Corp Plc, for £35m (R171,2m) cash. Then, once regulatory approvals have been obtained, UAP and TransAtlantic will transfer their existing holdings in Sun Life to

P.T.O.

RETIREMENT FUNDS (58)

Modest vintage

FM 6/9/91.

Analysis of 163 retirement funds' investment performance confirms that 1990 was a sour vintage. Given the inflation rate (CPI) of 14,6% and an average return on investments of 8,3%, there was a negative influence on existing and future retirement benefits.

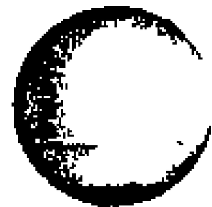
The analyses, by consulting actuaries J A Carson, Alexander Forbes Shepley & Fitchett and Malan & Partners, show the usual diversity of performance, from an upper quartile of 10,9% to the lowest of -3,7%.

As always, the actuaries insist that one year's performance is no basis for summary judgment. It's simply ironic that 1990 was the first full year in which the detested precribed assets were replaced by investment guidelines, giving managers more freedom in choice of investment avenues.

In the five years to 1990, the 163 funds which participate achieved an average real rate of return of 6,5%. Over 10 years the real return has been 4,3%. Not that the actuaries lightly dismiss even one poor year. The liabilities of almost all participating funds are directly linked to salary inflation.

"The level of pension increases that can be provided depends almost entirely on the investment performance of the assets matching the pensioner liabilities and it therefore goes without saying that investment performance must be optimised to maintain the purchasing power of the pensions."

The real rate of return, the excess over the rate of salary inflation (not necessarily the same as CPI), becomes important in determining the actuarial liabilities of a fund. ■



INSURANCE FM 6\9\91

Insuring proxies (58)

Companies that successfully defend themselves against hostile takeover bids will now be able to recoup their costs under a special "takeover insurance policy."

The cover is being launched by Accident & Miscellaneous Acceptances (AMA), a specialist underwriting agency for Standard General Insurance. AMA MD Bernard Weinfas says it is a niche policy and follows the introduction of similar insurance in the UK, where it is estimated there are at least 10 bids or predatory approaches a day.

In SA, Weinfas concedes, few companies are vulnerable to such bids because of the pattern of control. But he is looking ahead to an economy in which conglomerate power may be reduced. He says he knew when he put the package together that prospects for

Continued

FM 6\9\91 (58)

selling it are less favourable here than abroad, but he wants to offer it as a service.

The policy provides cover from R50 000 up. The premium, depending on the size and vulnerability of the policyholder, ranges from 3,5% to 5,5%.

AMA recently launched a medical protection package, Expatsecure, in conjunction with Europ Assistance SA. Aimed at South Africans posted abroad, it is available on both an annual and six-monthly basis.

The policy protects the expatriate against major medical bills of up to R500 000. A R500 excess excludes minor claims, while cosmetic insurance is not covered at all. The annual premium is R4 800 per person; or, excluding the US, R2 500. Cover for spouse and dependants is 75% and 50% respectively of the principal's premium, while the cost of a shorter policy is 65% of the annual policy.

Cover includes a 24-hour medical assistance service that guarantees any medical bills incurred abroad. Europ Assistance will, if necessary, also provide transport to an appropriate medical facility or repatriation to SA for treatment. This policy, says Weinfas, has attracted a lot of interest. ■

FM 27/9/91 (58)

JOINT ANNOUNCEMENT

by

SOCIÉTÉ CENTRALE UNION DES ASSURANCES DE PARIS

("UAP")

TRANSATLANTIC HOLDINGS PLC

("TransAtlantic")

LIBERTY LIFE ASSOCIATION OF AFRICA LIMITED

("Liberty Life")

and

FİRST INTERNATIONAL TRUST LIMITED

("First International Trust")

- *Proposed merger of the interests of UAP and TransAtlantic in Sun Life Corporation PLC ("Sun Life")*
- *Formation of jointly controlled company, Rockleigh Corporation PLC, to become controlling company of Sun Life*
- *Acquisition of further shares in Sun Life from Sun Alliance Group PLC (Sun Alliance) at £11.60 (ex interim dividend)*
- *Conditional offer to be extended to minority shareholders of Sun Life at £11.60 (ex interim dividend)*
- *Acquisition of 40 million shares in TransAtlantic by UAP*

UAP (the leading French insurance group) and TransAtlantic (the London-based international investment vehicle of The Liberty Life Group) announce that they have acquired from Sun Alliance 3.02 million shares in Sun Life representing approximately 4.5 per cent. of Sun Life's issued share capital at £11.60 per share excluding the right to receive the interim dividend of 14p per share declared by Sun Life on 18th September, 1991. The Sun Life shares have been acquired by Rockleigh Corporation PLC ("Rockleigh Corporation"), a special purpose English registered company owned jointly and controlled equally by UAP and TransAtlantic.

UAP and TransAtlantic both had a holding prior to the above acquisition of 18,835,000 Sun Life shares, each representing approximately 27,7 per cent. of Sun Life's issued share capital. UAP and TransAtlantic have entered into an agreement which is expected, subject to the necessary regulatory approvals, to lead to a transfer by both parties of their existing respective shareholdings in Sun Life to Rockleigh Corporation which will become the controlling company of the Sun Life group with a 59.9 per cent. shareholding, including the shares acquired from Sun Alliance.

Although there is no obligation to do so, Rockleigh Corporation intends to make an equivalent offer to all the minority shareholders of Sun Life once the necessary approvals and consents aforementioned have been obtained and subject to no material adverse change in the financial position or prospects of Sun Life or in relevant financial markets. Any such offer will be subject to the usual offer conditions and will be at the price paid to Sun Alliance of £11.60 per share on the basis that the interim dividend of 14p per share announced by Sun Life on 18th September, 1991 would be paid to the existing shareholders of Sun Life.

Lurking in the closet

FM 20/9/91 (58)

Russell Harte is a partner in Deloitte Pim Goldby's financial services team

Banks have traditionally been permitted latitude over disclosure. Unlike other businesses, they are not obliged to disclose their true earnings nor the level of reserves to the outside world.

The rationale is clear — as soon as depositors perceive that their bank is having difficulties they will withdraw deposits and the bank, cut off from its life blood, will fail with possibly disastrous consequences for both the banking system and depositors in general.

More recent thinking takes a different view.

Depositors and shareholders, it is argued, are deprived of information vital to the exercise of important business decisions if the truth is hidden from them. Furthermore, management relieved of the responsibility to tell shareholders and depositors what is happening, may be lulled into complacency or even worse be tempted to "bet the bank."

This sunlight-is-the-best-antiseptic philosophy appears to have won the day internationally and resulted in the issue, by the International Accounting Standards Committee, of IAS 30 which comes out in favour of very comprehensive disclosure by banks of profits, reserves, risk exposures and many other matters of interest to shareholders and depositors.

In SA, the Deposit-Taking Institutions Act clearly favours fuller disclosure by banks. For example, undisclosed reserves are allowed to rank only as second-tier capital and Generally Accepted Accounting Practice (GAAP) is sanctioned by the Act.

But what is GAAP in SA as it relates to banks? This question is largely answered by a reading of Part V of Schedule 4 of the Companies Act which gives banks (now deposit-taking institutions (DTIs)) wide exemption from what would normally be considered GAAP.

Most important of these exceptions is that DTIs need to disclose only their profits after taxation and transfers to or from internal reserves. Thus the reader of the financial statements has no clear picture of a DTI's true profits

True profits may be greater than those disclosed, with the excess above disclosed profits being transferred to internal reserves (also not disclosed), or significantly less, with the shortfall being made good in bad times by transfers from internal reserves.

Furthermore, the sources of such profits — interest turn, securities trading or corporate finance fees — need not be revealed. Clearly this situation makes it impossible for the investor (in equity or deposits) to judge properly either the quality or sustainability of earnings.

What is the view of the accounting profession?

The Accounting Practices Committee of the SA Institute of Chartered Accountants (Saica) has recently approved a South Africanised version of IAS 30 and it is envisaged that the document will be issued this month for comment. However, this does not necessarily mean that the SA investing public can look forward to more sunlight

Use discretion

The document will be released as an "accounting guideline" and not as an "accounting statement" which means that DTIs may use their discretion in deciding whether to apply it or not. Auditors will also not be in a position to insist on the full application of its requirements.

In view of the fact that only a number of the major banks practise full disclosure in their financial statements, there are no prizes for guessing which option most institutions will be tempted to choose.

Saica points to the need to hasten slowly and emphasises that it is the objective to convert the document to a statement later. Saica also supports proposed changes to the Companies Act which would remove the above disclosure exemptions. The nature and timing of such amendments have yet to be made public

The bottom line is, however, that the SA investing public will have to wait for a few more years before they know exactly how the deposit-taking institutions in which they have invested are faring.

than when it was announced five months ago

It will take more than promises and fine accords to end violence But a start has been made. ■

CIB SEQUEL (58)

Behind closed doors

Former Chief Justice Pierre Rabie has been asked to act as the arbitrator in an attempt to settle the brewing row between State-owned SA Rail Commuter Corp and the Reserve Bank, as the saga of the failed Cape Investment Bank (CIB) continues. All parties that have entered into arbitration signed a secrecy clause — no talking to outsiders — on Monday afternoon. FM 13/9/91.

This comes after Transport Minister Piet Welgemoed earlier ordered an investigation into Commuter Corp's R249m deposits with the provisionally liquidated CIB. CIB was placed in provisional liquidation in the Cape Supreme Court on April 11.

The inquiry relating to the corporation's deposits has since been completed by attorney Pierre Faure and stockbroker Jannie Mouton and handed over to Welgemoed.

Attorney Alec Brooks of Hofmeyr Van der

Merwe Inc, who represents Commuter Corp, reacted angrily on Tuesday when asked by the *FM* to comment on the arbitration hearing, which was held the previous day. He declined to say anything and warned that "someone will get in touch with you."

The Bank's attorney, Jacobus Luttig, also declined to comment. He would not even disclose the name of the SC acting on behalf of the Bank. "This is a confidential matter between the parties," he said When asked whether the secrecy clause signed between the Bank and the corporation was protected by the Reserve Bank Act, Luttig added: "Every person in this country has the right to privacy and this is how we are using it."

Through a spokesman, Welgemoed told the *FM* that he would not like to speculate on Rabie's appointment as arbitrator. He reiterated an earlier statement that the findings of the investigation by Mouton and Faure would first be handed to the Cabinet. "There are also additional investigations under way," said Welgemoed. The *FM* has meanwhile learnt that the corporation's attorneys have a copy of the report in their possession.

The appointment of Rabie as arbitrator in the CIB saga and the subsequent involvement by Commuter Corp and the Bank in the affair, underlines the tension which has resulted between Finance Minister Barend du Plessis and Welgemoed Rabie's findings may also have an important political influence on some careers.

First reports which followed the provisional liquidation of CIB said that Commuter Corp may have exceeded its legal limits in terms of its deposit with the bank (*Economy & Finance* April 19). The Finance Minister sets maxima for what public-sector bodies may deposit with particular institutions.

Regulations under the Deposit-Taking Institutions (DTI) Act provide that no single deposit with a bank may exceed 10% of its total deposits without informing the Registrar of DTI. According to the Legal Succession to the SA Transport Services Act of 1989, any Department of Transport services must obtain permission from the Minister of Finance to operate in the money and capital markets and fund itself in these markets. While this was apparently done, Du Plessis was never made aware of the extent of the investment with one bank. More than 80% of CIB's deposits come from this source.

On the other hand, liquidation papers have shown that part of Commuter Corp's deposit matured on March 28 and that the corporation was persuaded not to withdraw the money. The *FM* was told that, together with the Prima Bank-controlled CIB board, the Bank advised the corporation not to withdraw its R249m deposit, despite withdrawing its own Should Rabie find against Commuter Corp, the position of chairman Bart Grové could become the focus of an intense political debate. CP MP Jurg Prinsloo has claimed that the NP government is reponsible for appointments to the top structure of the corporation. "The Nats should accept responsibility if there was maladministration of funds," he said.

Prinsloo, together with the then DP finance spokesman, Harry Schwarz (now SA ambassador in Washington), took part in a debate in parliament last year when government was questioned on a R3,2bn forex loss by what was then SA Transport Services (Sats). Grové, who headed Sats at the time of the debacle, was personally vindicated by a commission of inquiry into the loss.

However, the commission found it unacceptable that management, in the light of the size of the forex exposure and the risks attached to it, had not found it necessary to prescribe policy to deal with such risks.

Schwarz asked during the debate: "Who pays for the loss when a private company makes a loss through an error of judgment? The people in the company do." *Eddie Botha*

FEATURE

Checking out the charges

FM 13/9/91

(58)

Bank clients are often unaware of charges on their credit cards, cheque and savings accounts. If they were, they would find that fees for automatic teller machines (ATMs), teller, balance statements, credit cards and cheque services can amount to quite a sum. Even if you shop around through branches of the seven major banks, it can be difficult to compare charges. Most banks do not make these freely available, though recent Nedbank advertisements probably go further than anyone else to explain the basis of charging.

In addition, the variety of products makes comparison difficult. Volkskas, for example, issues seven different credit cards, all of which can be combined with other products, while First National Bank offers about 10 different ways to save money.

Though most banking services are linked to special charges, few of those approached were willing, or even able, to readily supply detailed information on fees and products, without heavy qualifications.

There was considerable variation in the presentation of information. Nedbank, for instance, had an abundance of information, while Volkskas didn't have one pamphlet available. However, most brochures seem designed to attract rather than inform potential clients.

Figures for this survey were provided by banks' headquarters. They concentrate on saving accounts, cheque accounts and credit cards. They show that prices for identical services vary and also that fees — even when calculated on an ad valorem basis — tend to creep up.

While it's difficult to be sure that one is comparing like with like, the fees for cheque accounts in the accompanying table are marginally higher than those in the corresponding table the *FM* published a year ago, with the sole exception of FNB, whose claimed rates and maximum per transaction have actually fallen.

Balance inquiries on savings accounts cost 10c at Volkskas and 50c at Allied Bank.

Nedbank, FNB, United Bank, Standard Bank and TrustBank don't charge anything.

ATM transaction costs for savings accounts vary according to the use of banks' own or other machines. The two important inter-bank systems are Saswitch and Multinet.

All banks surveyed use Saswitch, whose charges are calculated by a complicated formula, but average R1,15 per transaction. The only banks surveyed which use Multinet are Standard Bank, Volkskas and United. Clients pay 75c per withdrawal.

United's fee for a transaction at its own ATM is 25c. For a similar service TrustBank clients pay twice as much, Volkskas clients three times more and FNB and Nedbank clients four times as much.

Teller charges vary even more. Nedbank charges 16 times more than United for some small withdrawals from a savings account but makes no charge on withdrawals over R500. TrustBank and Volkskas offer free service. Banks often don't charge anything if a certain minimum balance is maintained. The required balance ranges between R200 for FNB and up to R500 for Allied.

Charges on cheque (current) accounts are service-fee related, which banks point out are negotiable. This can leave customers in a weak bargaining position, since negotiation is hard without having at least some basic comparative figures.

All banks agreed to reveal basic figures which, as a rule, consist of three parts. Allied Bank, for instance, charges a 50/50 fee for transactions at its ATMs. This means that there is a fee of 50c for the first R100 or part thereof plus another 50c for every additional R100 or part thereof. The total sum for a R500 withdrawal would be R2,50. For the same transaction, United retains 25c and Nedbank R3. In addition, most banks have a maximum fee for any single transaction.

TrustBank's daily limit for ATM withdrawals on cheque accounts is R500. Limits for other cheque accounts are as high as for the corresponding savings account. Fees for Multinet and Saswitch transactions also correspond to those of savings accounts.

Most banks offer special conditions for senior citizens and national servicemen. Allied Bank, for instance, exempts them from all charges.

Conditions for credit cards are as varied. Annual fees, interest rates on outstanding balances and credit balances, lost card protection and transaction fees vary according to product combinations and personal financial situation. Volkskas's lower cost credit card (ordinary card) and Gold Card are free of charges when used in its *Cum Laude* package, which is a special cheque account for higher income groups.

Interest rates on credit balances for the lower and upper cost credit cards, referred to as Credit Cards I and Credit Cards II in the table, work in the same way. For a balance below R1 000, Volkskas pays 8,5%, Allied Bank 9,5%, Standard Bank 9,5% and the others either 14% or 15%. This ratio turns for balances above R50 000, when Standard Bank and Allied Bank will pay 16% interest.

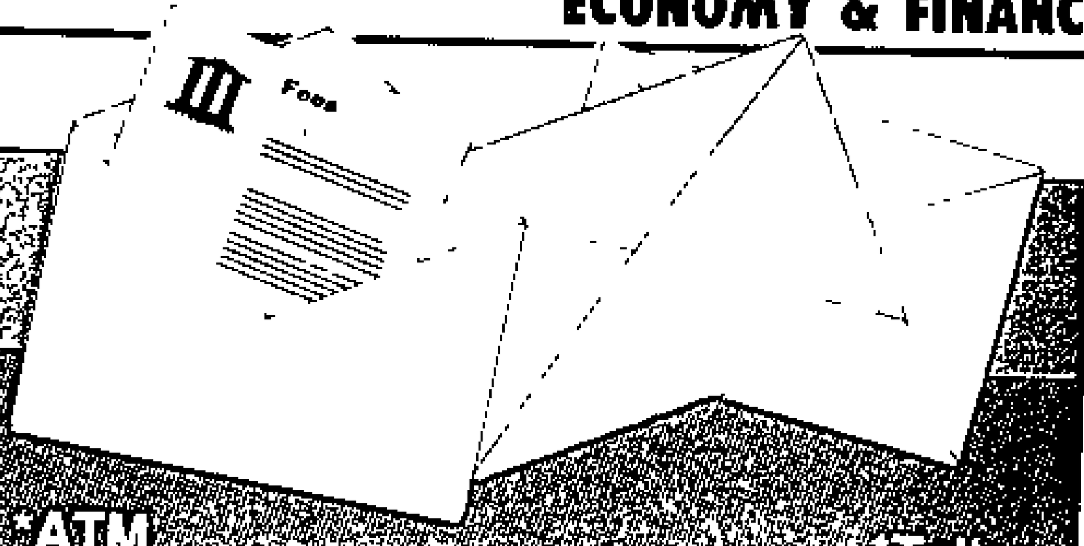
Interest rates on outstanding balances for Credit Cards II are generally lower than those for Garage, Business or lower cost cards. Standard and United Bank's offers are up to three percentage points lower than their major competitors.

Checking out on your fees and comparing them is worthwhile — especially for accounts with low balances, where ranges are widest. But if even an organisation like the *FM* finds it difficult to get properly comparable figures, what chance does the man in the street have? Cynics may feel that most banks actually don't want clients (or potential clients) to be able to make informed consumer choices.

Michael Vilain

Facts on fees

Bank account charges, in rands



Savings accounts

Bank	Daily ATM limit	Balance enquiries	*ATM W/T/P	Saswitch	Multinet	*Teller W/T/P
Nedbank	500	free	1,00	1,25	-	4,00
Standard Bank	500	free	0,70	1,15	0,75	0,70
Allied Bank	1000	0,50	0,70	1,30 / 0,50	-	1,00
FNB	1000	free	1,00	1,15	-	1,00
TrustBank	100	free	0,50	1,15	-	free
Volkskas	1000	0,10	0,75	1,15 / 0,50	0,75	free
United Bank	1000	free	0,25	1,15	0,75	0,25

Cheque accounts

Bank	Balance enquiries	*ATM W/T/P	ATM charges for R500 W/T/P	*Teller W/T/P
Nedbank	free	**0,60 / 0,60	3,00	***0,60 / 0,60 / 11,00
Standard Bank	free	0,70	0,70	0,65 / 0,60 / 12,00
Allied Bank	free	0,50 / 0,50	2,50	0,50 / 0,50 / 10,00
FNB	free	0,60	0,60	0,50 / 0,50 / 10,00
TrustBank	0,30	0,50	0,50	0,70 / 0,66 / 11,47
Volkskas	0,10	0,50 / 0,10	0,90	0,70 / 0,70 / 11,00
United Bank	free	0,25	0,25	0,25

W/T/P = withdrawal / transfer / payment *Fees can be negotiated
**First R100 / each extra R100 ***First R100 / each extra R100 / maximum per transaction

Compiled by the *FM*

Credit card charges

Bank	Card	Annual fee (R)	Interest rate on credit balance (%)	Interest rate on outstanding balance (%)
Garage cards				
Volkskas	Garage	15	8,5 to 15,0	29,0
FNB	PetroCard	24	15,0	28,5
Allied Bank	Garage	18	9,5 to 16,0	28,5
Nedbank	Garage	25	14,0	27,0 to 29,0
Standard Bank	Garage	18	9,5 to 16	28,5
Business cards				
Volkskas	ordinary/Silver	30	8,5 to 15,0	29,0
Volkskas	Gold Card	80	8,5 to15,0	29,0
FNB	Business Card	27	0	28,5
Allied Bank	Business Card	27	9,5 to 16,0	28,5
Standard Bank	Silver	27	9,5 to 16,0	28,5
Credit cards I				
Volkskas	ordinary	28	8,5 to 15,0	29,0
TrustBank	Classic Card	30	15,0	29,0
FNB	FirstCard	27	15,0	28,5
Allied Bank	MasterCard	27	9,5 to 16,0	28,5
United Bank	ordinary	20	14,0	28,0
Nedbank	Visa Classic	25	14,0	27,0 to 29,0
Standard Bank	MasterCard - blue	27	9,5 to 16,0	28,5
Credit cards II				
Volkskas	Gold Card	70	8,5 to 15,0	29,0
TrustBank	Visa Premier	60	15,0	28,0
FNB	Visa Premier	72	15,0	26,5
Allied Bank	Gold MasterCard	60	9,5 to 16,0	28,5
United Bank	Gold Card	48	14,0	26,0
Nedbank	Visa Premier	70	14,0	27,0 to 29,0
Standard Bank	Gold MasterCard	60	9,5 to 16,0	26,0

Compiled by the *FM*

SHORT-TERM INSURANCE FM 13\9\91 (58)

Targeting sitting ducks

In the wake of its worst-ever underwriting year, the short-term insurance industry is rife with speculation of mergers and takeovers. There are four general scenarios:

☐ Foreign parents see the only solution is to grow, not sell, SA interests and will look for acquisitions;

☐ Foreign parents see the only solution as to grow, not sell, SA interests and will look for acquisitions;

☐ Institutional control of some insurers will be reshuffled to create larger, more viable, companies;

☐ US insurers, whose SA interests have lain almost dormant, will want to return, and need larger bases.

The top nine insurers claim 80% of gross premium income, 12 others competing for the balance. Not all are vulnerable, as some have special niches and run at minimal overheads. That applies also to organisations such as Rand Mutual and guarantee specialist Lombard Insurance, which are excluded from the accompanying table, prepared by Quest Insurance Advisory Services.

Conventionally, short-term insurers (and the watchdog Financial Services Board) emphasise solvency margins.

Most insurers have very high solvency, way above the statutory requirements. But solvency is not the cure-all in a market that is contracting in size, in real terms, where large accounts are opting more and more for self-insurance, where the only growth potential is in the black market — of dubious underwriting quality — and where shareholders are unimpressed when underwriting losses frequently exceed investment income, resulting in an overall loss.

Who's the prey?
Net comparison of direct companies

	Expenses %NPI	Op Cost %NPI
Aegis	11,4	24,9
AII	41,5	39,7
Allianz	20,7	32,7
ACA	32,0	41,8
A&G	18,7	34,5
BP	129,8	-14,5
CU	11,4	24,1
Concord	26,1	40,5
Fedgen	26,3	39,7
GA	19,2	34,0
Guard	8,5	21,6
Hollard	6,9	20,9
IGI	24,1	34,8
M&F	11,1	24,4
Pres	22,5	38,4
Protea	19,4	34,4
Regent	7,2	14,1
Santam	13,1	25,9
Sentra	23,6	38,9
SA Eagle	12,1	26,2
Stan	27,3	34,5
Total	14,7	27,8

Source Quest Insurance Advisory Services

Size, measured by premium income, and the cost of maintaining size, is a better measure of survival. The table analyses insurers' latest available operating costs. Quest consulting analyst Dean Harris insists on a caveat: there can be special reasons for very high expense ratios, though generally they indicate the efficiency of an operation.

Brian Seach, MD of Aegis Insurance, agrees. There are companies, he says, where the expense ratio is so high that the only solution is drastic pruning. That can only be achieved by another company taking on the best of the book and eliminating costs, mainly people.

Allianz MD Alfred Gossner thinks annual premiums of R300m are probably the critical size at which a local insurer can be competitive and contain expenses. Allianz itself is below that and its operating costs are 32,7% (industry average 27,8%).

Gossner points out that Allianz is not heavily involved in personal lines, which are both volatile and systems heavy.

One inference is that Allianz could be a willing merger partner; the other, that its powerful German parent will create resources for Allianz itself to go on the acquisition trail. Comments Gossner: "Quick inferences from published cost ratios are to some extent dubious." Allocations of expenses as well as systems investments, which do not occur annually, can distort an assessment.

Of those with exceptionally high expense ratios, President has already pulled out and is running off its book. Several others are special cases — there's talk that Concord's former US parent Cigna wants to be more active in SA. Fedgen has been a subject of speculation for months.

Standard General, with Italy's Generali Group behind it, but a small player here, may have to make the same decision as Allianz. Yet MD Roberto Grandi cautions that his parent has strategic considerations in mind. Having a licence to operate in SA has future regional implications.

"Multinationals like Generali tend to take a very long view — even if that's 50 years," he says. Right now, StanGen is not in buying mode but that, Grandi says, could change.

There is little room for organic growth, so rationalisation will come from mergers. The solvency and powerful backing that most insurers can show makes fire sales unlikely.

Perhaps the least likely predators are the top four, Mutual & Federal, SA Eagle, Commercial Union and Santam. They have operating cost ratios of 24,4, 26,2, 24,1 and 25,9, respectively. Unless size of underwriting book is a goal in itself, there would seem little point in grabbing someone else's mistakes. Most activity can be expected in the middle and bottom of the size league. ■

RAND MERCHANT BANK FM 6|9|91 (58)

No shortage of capital

Though most banks are faced with the problem of having sufficient capital to meet the risk-weighted capital:asset requirements of the Deposit-Taking Institutions Act, Rand Merchant Bank (RMB) does not have to worry. In its year-end figures to June 30, the bank announced it had already met the 8% risk-weighted capital:asset requirement which is to be phased in by 1995. The requirement for end-1991 is 4,5%.

This has been possible mostly because a large proportion of the R2,8bn assets (up 10,7% on 1990) has a low risk weighting. These include call loans (20% weighting); loans and paper issued by the Land Bank and public corporations (10%); and gilts (0%).

Deputy MD Paul Harris says the bank has a philosophy of taking on only profitable low-risk assets. Rather than growing assets, RMB is more concerned with meeting annual targets of a 20% increase in earnings per share and 25% in shareholders' funds.

In 1991, earnings per share rose 20% to 54,9c while shareholders' funds increased 22% to R121,4m. Return on average shareholders' funds fell slightly to 27%.

Net income after tax rose 20% to R30,3m, before a R1,9m extraordinary item on restructuring the investment in Sechold, transferred to non-distributable reserves. Harris says this arose when RMB's investments in some Sechold subsidiaries were transferred to an investment in the holding company.

There was a slight improvement in margins, mainly because of better asset/liability management. "We have adapted computer strength on the trading side to management of our book," he says.

The preliminary statement says all divisions did well and none could be singled out. Corporate finance was restructured into two separate departments: one concentrates on traditional corporate finance, the other on more profitable investment banking.

RMB also has investments in other areas of financial services such as insurance and reinsurance. Harris says this is part of a strategy to spread risk capabilities. ■

PENSIONS FM 6/9/91

Leveraging bonds (58)

A scheme that puts added leverage into the capital repayment of a mortgage bond has been devised by Timelife, youngest and smallest of the life assurers. Its first venture into the employee benefits market, it involves investment in what Timelife employee benefits consultant Bill Els considers is a little-used facility in the Income Tax Act.

This allows pension and provident fund members to invest up to R1 800 a year in additional subscriptions to enhance their pensions. In Timelife's Retirement Enhancement Fund, members can take out annual loans against this investment to make additional capital repayments on their bonds.

Els says a member aged 45 with a R100 000 bond could eliminate it in 14 years instead of 20 by making maximum use of the facility. He expects the scheme to appeal particularly to members in their middle years who would otherwise face the prospect of having a bonded property after reaching retirement age. Els adds that the scheme has been well received by a number of employers, who see it as a valuable but costless additional employee benefit. ■

INSURANCE — 2

Hassles with exports

First-time traders into Africa need protection. It is important that they are aware of increased exposure to financial loss and deficiencies in insurance arrangements originally designed to protect local operations.

Ian Ross, director of special services at brokers Willis Faber Enthoven, says any company entering new territory should carefully review the territorial limits in its existing cover. Many policies restrict cover to losses inside the boundaries of RSA and TBVC countries. "Indeed, some insurers do not have facilities to provide cover outside those areas." FM 20/9/91

Many policies issued in SA restrict legal liability cover to claims presented in SA courts. "This means any judgment made in a foreign court would not be covered even if the judgment were subsequently upheld in an SA court." (S8)

Ross says, also, that companies exploring new export markets should review their employees' medical and accident cover.

Similar concerns have been expressed by other brokers. PFV recently warned clients of the dire consequences which can await an exporter who is held responsible under product liability legislation in countries such as the US. The highest product liability suit on record in the US saw insurers pay out $23m. The EC is now drawing up a product liability code and Australia is expected to follow suit. PFV's advice includes attention to packaging, detailed user instructions and careful vetting of local agents. ■

INSURANCE — 1

FM 20/9/91 (58)

Hardening up

There are some positive signals from short-term insurers but they need to be interpreted with caution. Nico Fourie, Assistant Registrar of Short-Term insurance at the Financial Services Board believes, however, that more realistic premiums and better underwriting practices are having their effect.

The FSB does not disclose its analysis of the quarterly returns from insurers but Fourie says some trends emerged. The board looked closely at the June 30 ratios, compared to a year ago. Claims ratios, management expenses including commissions, and solvency were considered critical.

Year-on-year, there was an improvement in overall loss ratios (this refers to the 20 so-called "typical" short-term insurers). The average was down from 79% to 77% — still a level which is uncomfortable if the industry expects to return to underwriting profits.

There was a comparable decrease in administrative cost ratios, down from 34% to 32%. Solvency margins were down but that reflects the reality, says Fourie, that major operating losses must affect surplus assets and, therefore, this critical ratio. Most insurers are still showing solvency way above the level where the FSB scents danger.

The swing from the March to June quarters took what had been an overall underwriting loss to a profit of about R2m. That could be an encouraging sign, signalling that — with investment income added — the industry is returning to profitability. But the June returns included industry leader Mutual & Federal's results, with its underwriting profit of more than R18m. So, presumably, most of the others are still floundering on their underwriting accounts.

Nor does that sort of profit margin, for the industry as a whole, leave any room if there should be catastrophe claims — from which the local industry has been free for more than a year.

Fourie believes the market is still too soft and rates are still not right, but personal lines business — which produced most of the problems of the past 18 months — is settling down. Clearly, he would like to see more adequate reserves held by the insurers. Possibly, too, there is still a tendency to use this month's premiums to pay last month's claims.

To summarise, the patient's condition is still serious but stabilising. ■

FM 20/9/91 (58)

FM 20/9/91 (58)

INVESTMENT BANKING FM 20/9/91

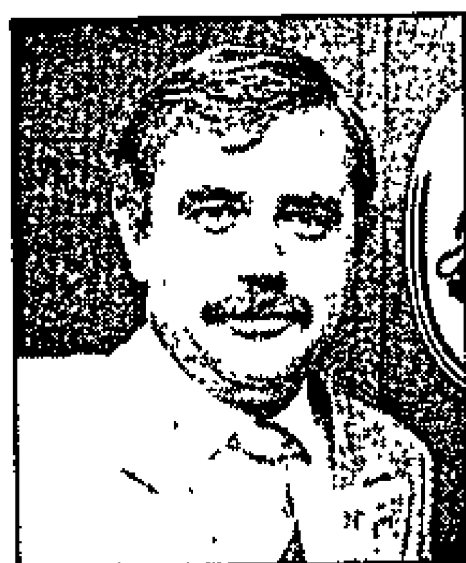
Taking a stake (58)

Rand Merchant Bank (RMB) has taken a 49% stake in former Cape Investment Bank's (CIB's) investment banking company, Corporate Leveraged Investments (Corvest). The deal is effective from August 31. Prima Bank, which acquired 70% of the company when it took over CIB on December 18, retained 30%. The remainder of the shares is held by management.

Prima approached RMB to take a share. Says Prima executive director Clive Ferreira: "From a pure funding point of view, Prima was too small to take the risk of investing alone in Corvest."

RMB's Paul Harris and Sean Jagoe and Prima's Johan Bellingan and Clive Ferreira will sit on the Corvest board.

Both RMB and Prima already do investment banking transactions within their corporate finance departments but, because of the specialist nature of investment banking and the aftercare involved in servicing the business, all transactions will be handled by Corvest. Corvest will benefit from the transaction by receiving business from RMB and Prima as well as having a direct funding line.


Harris

Corvest specialises in leveraged and management buy-outs of companies with pre-tax income of not less than R1,5m. It focuses on mature companies, many of which are in the manufacturing sector, producing consumer related products. "We don't invest in start-up companies," says Corvest MD Neil Page. "Our investments must have a sound structure, good profit track record and a sustainable cash flow to repay their debt."

In a management or leveraged buy-out Corvest usually becomes involved in companies where management can fund only a small portion of the purchase price and commercial bank funding is not possible. Corvest also provides development capital for successful companies that have grown at a rate that requires abnormal funding. It does leveraged equity transactions, where equity holders increase the overall value of their holding by acquiring more equity or by increasing the gearing in the underlying company, so improving the return on equity already held.

Page

Corvest's 11 investments at present make up a book of R36m. But as Page explains, the situation is fluid. Most companies are funded by a five-year loan and equity acquired is generally sold after the debt has been repaid

"The idea is to grow Corvest's business to an optimum size where new acquisitions are funded by realisations from existing ones," says RMB deputy MD Paul Harris.

Corvest's optimum size is R60m-R70m, which would include 20-30 investments. Its total exposure, per investment, is usually not more than 15% of its total investment portfolio. Any investment over this is syndicated to other commercial and merchant banks. Corvest, however, puts in the junior or mezzanine debt, which is funded from the leveraged company's assets but charges a premium for this funding. Additional profits for Corvest come from the capital gain once shares in its investment are sold.

The value of shares of investing companies should increase if Corvest has done its job properly. "We add value to the companies," says Corvest director Dave Rissik. "This is done by becoming involved in the management of our investment and offering management and financial advice. A commercial bank

Bellingan

FM 20/9/91 (58)

would stop at the funding."

But investment banking is high risk, especially in the initial stages when operational losses are budgeted for. But, because Corvest has been operating for nearly two years, it has built up a portfolio of one- to two-year-old investments. "Our risk profile has diminished," says Corvest director Dave Merks. "This is another reason RMB and Prima were interested in investing in an existing investment banking company."

The price paid by RMB and Prima for Corvest is undisclosed but Ferreira says it was "a fair one" and the proceeds, he says, have been placed in the now liquidated CIB estate. Corvest was taken over by CIB when parts of Corbank (formerly Hill Samuel) were sold to the Cape bank in April 1990. ■

INSURANCE — 2 FM 27/9/91

Soft-shoe shuffle (58)

An always uneasy alliance between Norwich Union and Winterthur of Switzerland is dissolving, resulting in outright control of Aegis Insurance reverting to Norwich. Aegis is eighth in the SA short-term insurance league.

Aegis was held 64% by the combination of Norwich and Winterthur, with minorities represented by Norwich Life, Momentum Life, Volkskas and EP Building Society.

FM 27/9/91 (58)

In the reshuffle, Norwich acquires all the 64% holding in Aegis. Winterthur takes control of CIC Holdings and Norwich Winterthur, both of Australia. Aegis MD Brian Seach says the two companies were good friends in some areas, competitors in others and that they have different strategies. Winterthur wants to extend its interests in the US and the Far East, while Norwich has more interest in the Middle East.

Norwich-Winterthur maintain joint reinsurance interests, including Central Re in SA. ■

FM 6/9/91 (58)

BANKORP FM 6/9/91

More big provisions (58)

At the interim stage, it was apparent that banking margins were turning more favourable for Bankorp but management was taking a more cautious view of the economic outlook. That remains the pattern with the release of the year-end figures.

Full-year accounts show a distinct improvement in profitability, in line with the generally more positive trend in margins seen recently from the banking sector. The

Bankorp's Liebenberg ... *danger signal for banks*

net interest margin was up by two-fifths, at R1,05bn, suggesting some improvement in asset and liability management as well as the easing in operating conditions.

However, the final result was heavily affected by continued hefty provisions and by the stringent approach still being maintained towards the quality of assets in the balance sheet. In addition to a R284m provision for doubtful advances, which was slightly down on the previous year's R296m, there is an abnormal item of R100m (following last year's R386,5m), described as additional provisions against advances and transfers to contingency reserves.

Operating expenses increased at a reasonably restrained rate of 15,4% — certainly below average for the sector — but chairman Piet Liebenberg concedes that expenses remain too high. Even so, without the abnormal item, there would have been income before tax of R185,3m, much better than last year's comparative figure of R25,1m. The actual attributable income of R48,8m resulted in EPS of 15,9c, giving return on equity (based on disclosed 323,9c NAV) of 4,9% — still a far cry from Liebenberg's target of 20%.

Liebenberg says the additional provision is not being made because of any deterioration in Bankorp's bad debt position, but simply "as a precaution" ahead of a possible worsening in the economy.

"Late last year, many of us were expecting that the economy would be turning around by the middle of this year," he says. "Now the turnaround forecast has been moved ahead by another year. That is a danger signal for banks. Banks' bad debts usually peak at the end of a recession. So I don't believe that we've yet reached the end of the bad debt cycle. We could still be in for a very tough time."

Total assets not only showed no growth but were reduced by 6,1% or 8,5% including contingencies. This was actually a lower rate of shrinkage than the target of 10%, which was set to improve the quality of the assets. This reduction was aimed primarily at curbing what Liebenberg calls the "balloon accounts," which were too large or too risky relative to Bankorp's capital base.

Modest asset growth of, say, 5%, is expected to resume this year, which, it's hoped, will be "prudent and profitable." This will effectively be a net figure, as the reduction of some large assets will continue. It's planned to announce a refinancing arrangement for Rusfurn later this month.

The capital base is considered by management to be solid enough for now. Primary capital at year-end amounted to R1,3bn or 5,7% of total assets and contingent liabilities, more than meeting the required 4,5% without taking account of secondary capital. Secondary capital may be drawn upon by the 1994 financial year, perhaps by issuing debentures or preference shares, and Liebenberg believes this should ensure the required 8% capital ratio by 1995 is met without recourse to another rights issue of ordinary shares.

Further improvement in the net interest margin is expected for this year. That, with renewed asset growth, would enable a further useful profit advance, but there is no prospect of a dividend increase in 1992. The share continues to languish at 300c, reflecting these prospects.

Andrew McNulty

INSURANCE FM 13/9/91

Security deferred (58)

Legislation to control the long- and short-term insurance industries has been deferred again. There's a chance the two Bills will be enacted to take effect in 1993 but industry pessimists calculate that it will be 1994 before they are on the statute book.

That leaves the two industries labouring along on an Act of 1943, many times amended, and likely to be amended still further during the hiatus. It puts consumer issues, which the revised legislation could have addressed, on the back burner.

The delay is in the finalisation of the draft Long-Term Bill. Because one effect of the proposed legislation is to recognise that the two industries are totally different and need separate legislation, it followed that the Short-Term Bill, on which consensus had almost been reached, must also be stalled.

Probably, the vexed question of commissions, now controlled by statute, will no longer be such a hot topic but, if necessary, the Act could be further amended.

In the life industry, a new draft amendment to the Act is already in circulation. This could permit the introduction of "sinking funds."

These, says Old Mutual manager, legal services, Abri Meiring, are funds invested with life offices in policies where no lives are assured; they would have a minimum investment period of five years, during which they may not be withdrawn or borrowed against; they could be funded by a single premium or regular premiums which may not be increased by more than a nominal amount during the term of the policy.

Meiring suggests the amendment is to enable large depositors such as municipalities to take advantage of life office investment expertise, eliminating the need for artificial "lives" on which to base the policies. As the draft is new, it will be some days before the life offices can properly assess it.

SA Insurance Association (Saia) CE Rodney Schneeberger is disappointed that delay with life office legislation has affected the Short-Term Bill — "not least because of efforts we made against the clock to get comments and recommendations in."

Saia chairman Brian Seach is even more disturbed that the postponement also affects consumer protection. Concerned at the industry's poor image, particularly for repudiation on grounds hidden in small print, Seach had hoped the legislation would stamp out dubious practices.

Schneeberger admits the postponement creates at least one advantage. There will be more time to discuss the financial requirements stipulated in the latest draft.

One, proposed Section 66, could have serious effects on insurers' cash flows because it stipulates that premiums must be paid over by brokers to insurers more quickly than was previously required by regulation — but the

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FM 13/9/91 (58)

new requirement starts only when the broker receives the premium. On the face of it, a friendly broker could extend six months' credit even though the insurer is already carrying the risk.

Also, insurers in theory will pay over VAT immediately after accepting a risk. By agreement with the Receiver of Revenue, that requirement was deferred until June 30 next or until new short-term legislation is enacted, whichever is earlier. Saia will try to negotiate an extension of the VAT concession. ■

MORTGAGE RATES

Homing in

FM 13\9\91 (58)

Home loan specialist Capital Resources is offering mortgages at interest rates of 18,75%-19,25%. By funding short and lending long, it can undercut the market by up to one percentage point. It plans to securitise assets acquired to fund further growth.

Its book is now R40m, which MD Hannes van der Berg says is double that of three months ago. But it does not want more than 1% of the home loan market. It targets a niche market, offering loans of not less than R100 000 and not more than R600 000 Borrowers' repayments may not be be more than 27% of gross income.

It has a staff of only 10, so overheads are low. Thanks to this and because there are no bad debts, Capital Resources can keep margins narrow.

Funding at present is obtained from a number of deposit-taking institutions (Van der Berg will not specify which) on a daily, weekly or three-monthly basis, at rates as low as 16,6%-17,3%.

Capital Resources is "building up pools of assets" — mainly residential mortgages, though commercial mortgages are envisaged — to securitise in due course. Discussions are under way with Discount House Risk Management as the potential securitisor. "Securitisation removes a lot of funding costs," Van der Berg says.

The issue is being rated by Republic Ratings. A R50m first tranche is expected to come to the market not later than January.

Capital Resources offers a standard or an endowment-linked bond — which allows repayment of a bond, after about 14 years, from the proceeds of an endowment policy. Clients may increase premiums by an optional inflation-related 15% a year.

The endowment policy guarantees payment of the bond at the end of the term. If the client feels there are sufficient funds to

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FM 13\9\91 (58)

repay the bond at the end of the term, the premium update can be stopped at any point

Van der Berg says the endowment policy is at present backed by Crusader Life but Capital Resources plans to use other insurance companies in future.

Capital Resources is regulated only by the Companies Act. It is controlled, but not wholly owned, by Prima Bank. ■

FM 24|9|91

58

The agreement between UAP, TransAtlantic, Liberty Life and First International Trust, through its wholly owned United Kingdom subsidiary, Conduit Insurance Holdings Limited (Conduit), also provides that, upon the transfer of the Sun Life shares from UAP and TransAtlantic to Rockleigh Corporation, UAP will subscribe for 35 million new ordinary shares in TransAtlantic at 350p per share for a consideration of £122.5 million. In addition, UAP will acquire a further 5 million ordinary shares in TransAtlantic from Conduit, also at 350p per share. UAP's agggregate holding of 40 million ordinary shares in TransAtlantic will represent a 16.8 per cent. interest in TransAtlantic's increased issued share capital on a fully diluted basis. This shareholding will entitle UAP to representation on the TransAtlantic Board.

As a consequence of these transactions, the holding of First International Trust in TransAtlantic, held through Conduit, will be reduced to 42.9 per cent. on a fully diluted basis. By virtue of a voting agreement with Standard Bank Investment Corporation Limited, Liberty Life controls First International Trust, and, when taking account of its 12.1 per cent. direct holding in TransAtlantic, retains control of TransAtlantic with a combined 55.0 per cent. interest.

No changes in the Sun Life executive or management are currently contemplated and Mr Peter Grant has agreed to continue as Chairman of Sun Life. UAP and TransAtlantic's representation on the Board of Sun Life will be increased to three directors each.

These proposals reflect the desire of both UAP and TransAtlantic to develop further their respective investments in Sun Life while creating a long term relationship in the financial services and property fields in the United Kingdom, in other areas of the English-speaking world and in Continental Europe where the combined expertise of Sun Life, UAP, TransAtlantic and The Liberty Life Group is expected to provide significant benefits for all the parties involved. In particular, both UAP and TransAtlantic believe that the powerful and stable shareholder base resulting from the consolidation of their shareholdings in Sun Life brings exceptional prospects for the development of Sun Life's life insurance business for the benefit of its policyholders, employees and shareholders.

20 September 1991

BOND BOYCOTTS

The last straw?

(58) FM 13/9/91.

Another nail has been slammed into the coffin of the already moribund black housing market. Hammering it in was the Civics Association of the Southern Transvaal (Cast) — and it barely lifted a finger to do the job. All it took was the hint of a nationwide bond boycott aimed at forcing the mortgage lending institutions to reduce bond rates.

However, first indications are that those who will suffer most are precisely the people such a boycott is designed to assist.

The institutions are jittery about lending into the bottom end of the private black housing market, where their financial backing is desperately needed to fuel housing development. The Cast statement will, if anything, make it harder to get housing finance even if the boycott threats do not materialise. Ironically, this comes just when the institutions are reportedly grappling with ways of stepping up the availability of mortgages to the black housing market.

A bond boycott would be a nightmare come true. As it is, they have had a taste of it and have seen the economic devastation that the Soweto rent boycotts brought about.

So too have the civics, the structural inheritors of the Eighties' campaign promoted by the ANC-in-exile to "make the townships ungovernable." Fueled by the conviction that economic sanctions hurt — hurt whites, that is — they presumably hope that the threat will be sufficient to coerce the institutions into reducing borrowing costs. There is no conception that interest rates are a function of supply and demand in the money market — the issue is entirely politicised.

Cast publicity secretary Sandy Lebese stresses that the boycott is only a suggestion at this stage: "It would be used as a last resort to pressure the institutions into lobbying government to make home ownership affordable for low-income groups. Ordinary people are being denied home ownership rights. They can only be afforded by middle-class professional and business people."

Those whose need is greatest are denied ownership because of "profiteering" on land and finance, Lebese adds. "In Mamelodi a patch of land costs about R24 000 and is, therefore, way out of reach to a family with a monthly income of R1 500. We must sit down with the institutions and discuss the matter."

National Association of Home Builders chairman Gavin Hardy believes that the mere suggestion of a boycott could have catastrophic implications: "The institutions are already jittery in the extreme. Some have stopped granting bonds in the black market. Others are, at best, reluctant lenders. So despite the desperate need for houses, we really have to battle for the finance. This kind of thing will just kill it completely. The institutions will just turn the taps off."

That would mean no loan finance available for middle-income black buyers, an exacerbation of the housing problem and increased polarisation of black and white across the wealth divide. "Ungovernability" would also lead to a deterioration of social services and conditions, whoever was in power.

Reaction from the institutions is perhaps predictable, though more restrained than that of Hardy. They point out just how little control they have in setting interest rates and stress that it will be homeowners who will be the real victims of a boycott.

United Bank's Nallie Bosman points out that all lending is done from funds obtained at market-related rates. "United cannot influence these rates, which are based on the prevailing interest rate pattern supported by the Bank rate."

One of the biggest lenders to blacks is the Perm, part of the Nedperm group, which says that 20% of its bond exposure is to this market. Perm individual director Hugh Maclachlan says the Cast suggestion that a bond boycott could solve SA's massive housing crisis is regrettable. "We hope an organisation like Cast, with whom Nedperm has good relations, and with whom we consult in the development of various housing schemes, will be able to bring its good offices to bear on those who believe that the crisis can be solved by a boycott.

"There's an urgent need for a massive private and public sector housing initiative to address the growing backlog and provide for the hundreds of thousands of people who've poured into the metropolitan areas. Such a programme needs government participation, the banking community and leading industrial and commercial organisations."

A bond boycott would erode their willingness to participate, Maclachlan says. "What is required is a discussion between all concerned of ways in which additional adequate housing, together with the necessary infrastructure, can be made available as quickly as possible." He adds: "There're no quick fixes to this crisis."

First National Bank's Pat Lamont says the Cast suggestions must be seen as negative for everyone including homeowners, developers, depositors and lenders. "It would be irresponsible of us to lend to people knowing that they'd be in court having their homes repossessed in a matter of months."

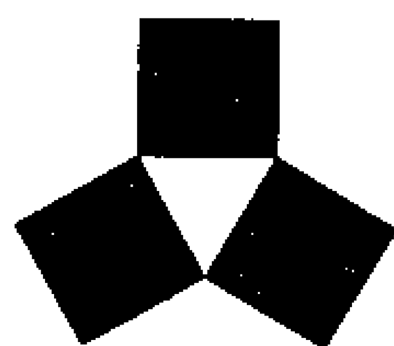
In the event of a broad-scale boycott, the

continue

FM 13/9/91

institutions would most likely close ranks and act with the necessary firmness. That would probably involve widespread repossessions and evictions. The cost of that would be resentment and bitterness that would take a long time to erase. Cast should be aware of this. ■

FM 6/9/91. (58)



BANKORP HOLDINGS LIMITED

(Formerly Bank Holding Corporation of South Africa Limited)
(Registration number 59/00359/06)

REPORT FOR THE YEAR ENDED 30 JUNE 1991

The following are the audited group results for the year ended 30 June 1991.

GROUP INCOME STATEMENT	1991 R million	1990 R million
Interest income	5 153,3	4 728,8
Interest expense	4 105,0	3 981,9
Net margin	1 048,3	746,9
Provision for doubtful advances	284,1	295,8
	764,2	451,1
Other operating income	669,5	655,9
	1 433,7	1 107,0
Operating expenses	1 248,4	1 081,9
Net income before abnormal items	185,3	25,1
Abnormal items (note 3)	(100,0)	(386,5)
Net income (1990 — loss) after abnormal items	85,3	(361,4)
Taxation	(3,6)	(7,0)
Tax equalisation	(17,2)	
Net income (1990 — loss) after taxation	64,5	(368,4)
Attributable to:		
— Outside shareholders	0,1	2,7
— Preference shareholders	15,6	7,4
— Ordinary shareholders	48,8	(378,5)
Retained income at beginning of the year	51,8	440,1
Transfer to capital redemption reserve fund	(2,3)	(0,4)
Available for distribution	98,3	61,2
Dividend on ordinary shares (note 2)		
— Final — 1990	5,3	
— Interim — 1991	3,6	
— Interim — 1990		9,4
	89,4	51,8
Extraordinary items (note 4)	4,3	
Transfer to non-distributable reserve	(4,3)	
Retained income at end of the year	89,4	51,8

GROUP BALANCE SHEET	1991 R million	1990 R million
Capital employed		
Ordinary share capital and premium	1 128,2	582,7
Non-distributable reserve	66,1	47,4
Distributable reserve		
Retained income	89,4	51,8
Tax equalisation	17,2	
Ordinary shareholders' interest	1 300,9	681,9
Scheme preference shareholders	26,6	15,9
Outside shareholders	0,7	0,5
Total shareholders' funds	1 328,2	698,3
Deposits, cheque and other accounts	24 271,9	25 885,4
Liabilities under acceptances	2 587,6	3 423,7
	28 187,7	30 007,4
Employment of capital		
Cash and short-term funds	1 047,7	1 987,5
Government, municipal and other stock	1 615,3	2 101,8
Advances and other accounts	22 123,4	21 803,6
Investments	312,1	291,6
Fixed assets	501,6	399,2
Clients' liabilities under acceptances	2 587,6	3 423,7
Total assets	28 187,7	30 007,4
Assets related to contingencies and repurchase agreements		
Guarantees and letters of credit	2 812,1	3 472,6
Repurchase agreements	841,2	1 305,8
	3 653,3	4 778,4
Total assets including contingencies	31 841,0	34 785,8
Increase (decrease) in total assets	(6,1%)	10,9%
Increase (decrease) in total assets including contingencies	(8,5%)	10,1%

NOTES

1. Basis of presentation

The group has made use of exemptions in terms of the Companies Act for banking institutions. The major consequences are:
- provision for doubtful advances is disclosed after transfers to and from contingency reserve
- the balance of the contingency reserve, which is included under deposits, cheque and other accounts and the movement thereon, is not disclosed.

2. Dividends on ordinary shares

Only those shareholders who do not elect to receive bonus shares credited as fully paid out of share premium, will receive a cash dividend. As a result of the decision of the main shareholders, the portion of the 1991 final dividend payable in cash from distributable reserves, will not exceed R 6,0 million. (The interim dividend for 1991 which, on this basis, was paid in cash amounted to R 3,6 million).

3. Abnormal items

	1991 R million	1990 R million
Write-offs and provisions due to a more conservative approach by management		
— write-offs against carrying values of assets	—	152,9
— additional provisions against advances and transfer to contingency reserve	100,0	233,6
	100,0	386,5

4. Extraordinary items

Consists of net surplus on sale of investments.

SALIENT FEATURES OF THE GROUP RESULTS	1991	1990
Share capital ('000)		
Ordinary shares issued		
End of period	401 589	188 774
Weighted average number of ordinary shares issued	306 778	141 476
Earnings/(loss) per ordinary share (cent)		
Based on the weighted average number of shares issued	15,9	(267,5)
Based on the total number of shares issued	12,2	(200,5)
Dividend per ordinary share (cent)		
— Interim	10,0*	10,0
— Final	15,0*	15,0*
* only payable on the shares where shareholders do not elect to take up bonus shares (refer note 2)		
Net asset value per share (cent)	323,9	361,2

ABBREVIATED REVIEW OF THE GROUP RESULTS

The past financial year has certainly been the most difficult one in Bankorp's history. At the time of an economic recession which became progressively worse during the period under review, we carried out a drastic rationalisation programme, resulting in a new structure with a new top management and a new management style. These changes as well as several other major steps were necessary to secure the group's prospects and to embark upon the long road towards sound and acceptable profit levels.

The process of recovery has been more difficult than initially expected. Good progress in some of the most important respects has been made. For example, the capital and liquidity bases of the Group have been restored and an excellent business structure with a clear focus on our main lines of business is in place. Fully restoring the profitability and professional management capabilities at all levels within the Group are major tasks that will, however, still take several years to complete.

An additional amount of R100 million was transferred above the line to internal provisions in view of the progressively recessionary economic conditions which complicated our recovery.

The published net income after tax of R64,5 million against a loss of R368,4 million last year is therefore not intended to reflect any particular trend at this early stage of the recovery phase. The figure of R64,5 million is slightly more than the net income after tax for the first six months of the past financial year. The final dividend of 15 cents per share (1990:15 cents) brings the total dividend for the year to 25 cents per share (1990:25 cents). As was the case last year, the main shareholders will accept bonus shares in lieu of cash dividends which will further strengthen the capital of the bank. The same option is available to all shareholders. The cash content of the dividend will not amount to more than R6,0 million.

Bankorp's total assets, including assets relating to contingencies and repurchase agreements decreased by 8,5% to R31 841 million during the year under review. In the circumstances, this rate of reduction compares reasonably well with our target of 10% which was set to improve the quality of the assets.

Bankorp's primary capital amounted to R1 300,9 million on 30 June 1991 or 5,7% of total assets and contingent liabilities measured on a risk-weighted basis in terms of the Deposit-taking Institutions Act which came into effect on 1 February 1991. This more than meets the required 4,5% without any use being made of secondary capital. The Board will, however, consider proposals at a later stage to broaden Bankorp's capital base through the issue of secondary capital instruments. This option, together with steadily increasing reserves and the dividend plough-backs into ordinary share capital, particularly by the main shareholders, should provide Bankorp with enough capital up to and beyond 1995 when the full 8% capital requirement comes into operation.

The time scale for the achievement of Bankorp's broad recovery, which commenced during the financial year under review, is still three to five years as we stated previously. Progress to date has been somewhat slower than hoped for, but we are nonetheless confident that Bankorp will attain its objective. The contract of the Executive Chairman of Bankorp has accordingly been extended by three years to 1997.

In the coming financial year we expect a further improvement in profitability at the operational level as some meaningful benefits from rationalisation flow through

BONUS SHARES AND DIVIDEND

Notice is hereby given that Bankorp ordinary shareholders registered in the books of the company at the close of business on 20 September 1991, have a choice to receive out of the share premium account 5 bonus ordinary shares in Bankorp, credited as fully paid, for every 100 ordinary shares held on 20 September 1991.

A final dividend number 51 in respect of the period ending 30 June 1991 of 15 cents (1990-15 cents) per share will be declared on 31 October 1991 payable on 1 November 1991 to shareholders registered in the books of the company at the close of business on 20 September 1991 who do not exercise their option to take up bonus ordinary shares before 16:00 on 25 October 1991.

Fractions of bonus shares arising from a shareholder's entitlement will not be allocated. Shareholders will receive a cash dividend in respect of such fractions, on the basis of the previously stated exchange ratio and a dividend of 15 cents per ordinary share.

The bonus shares, which will be listed on The Johannesburg Stock Exchange, will on issue, rank pari passu in all respects with the existing ordinary shares. A circular setting out full details of the bonus share offer, including election forms, will be posted to shareholders on 23 September 1991.

In terms of the Republic of South Africa Income Tax Act, 1962, as amended, non-resident shareholders' tax of 15 % will be deducted by the Company from dividends payable to shareholders whose addresses reflected in the members' register are outside the Republic of South Africa.

On behalf of the Board:

P J Liebenberg
Executive Chairman

M H Daling
Director

Johannesburg

29 August 1991

ADPLAN INTERNATIONAL

INDEPENDENT DEVELOPMENT TRUST

THE FIRST YEAR

(56) ARG 20/9/91

Wiping out the classroom shortage

EDUCATION

THE IDT is putting the weight of its R442-million education effort into wiping out the classroom shortage and providing pre-school education for the poor.

With these and other programmes in literacy, language and skills bridging, and teacher training, the IDT is promoting and supporting creative ways to beat education backlogs and rebuild the system.

In the year to July 31, the IDT set aside nearly R442-million, or 30 percent of the funds that will go to education, for 68 projects. Its tasks, and the money to be spent on each, are:

- ☐ the provision of 50 000 classrooms over the next three to four years — R300-million;
- ☐ pre-school education which, for poorer children, can make the difference between failure and success in later school years — R70-million; and
- ☐ literacy and bridging programmes for primary school children and disadvantaged candidates for tertiary education, as well as teacher upgrading and adult literacy projects — R60-million.

The objective is educational parity, meaning universal free public education for eight years, and getting more than half of the children who enter the school system through matric. Education director Professor Merlyn Mehl believes this could be achieved in 10 years.

But the system can't be stopped while it's being fixed. "It's almost like working on a motorcar that's hurtling down the freeway at 120km/h," says Mehl.

The IDT relies heavily on communities and existing informal education networks to determine where and how to spend its money.

It is a firm principle to consult people on the ground about priorities. The IDT also channels its funds through organisations which sprang up to resist apartheid education and are now devoting their skills and energies to rebuilding education.

Says Mehl: "Education can't be transformed without the government, but we can't do it with the government alone. The IDT can bring things to this process that the government can't."

The programme to build 50 000 classrooms will be a nation-wide effort to wipe out this backlog. Linked to this will be community learning centres providing primary school, cultural and adult literacy facilities.

In pre-school education, the IDT will fund a programme run by trained people with help from parents, as well as a project to train mothers to help their own children learn. The IDT hopes to reach 250 000 poor children, many of them in rural areas.

Programmes to upgrade primary school education focus on the cross-over from mother-tongue to English instruction.

Teacher retraining is an important part of the IDT approach. The decline in black education is due partly to the poor skills of teachers who themselves went through the system.

In adult education the emphasis is on a general middle-level education, through community colleges, for most of the population rather than on specialised university training.

To deal with university education, the IDT proposes an Education Bank to provide loans to disadvantaged students. It suggests repayments be made through through a type of tax on graduates.

(58) ARG 3/9/91

Savers poorer by the day

MAGNUS HEYSTEK

JOHANNESBURG. — Save and get poor.

That has been the case for the last two decades for those foolish enough to put hard-earned money into traditional savings instruments, like bank and building society deposits.

This shocking revelation comes from no less an authority than the Governor of the South African Reserve Bank, Dr Chris Stals.

Statistics contained in his annual address in Pretoria last week highlight the erosion in the nation's savings effort, particularly for individuals.

For in only two years in the almost two decades from 1971 have people who saved money in banks and building societies earned a real after-tax return on their investments.

And in the two years that they did, 1971 and 1984, these real rates amounted to less than 0,5 percent and 1,5 percent respectively.

In every other year savers saw their money lose its purchasing power, in some cases up to 8 percent.

At an average inflation rate of 15 percent, as has been the case for more than 10 years now, the "real" value of money decreases by half in only five years and is down to 25 percent of its original value in 10 years and 6 percent in 20 years.

This is a legacy of many factors: high inflation, interest rates artificially kept down — often for the sake of political expediency — and limited tax relief.

The ratio of net personal savings to personal disposable income has dropped from an average of 10 percent during the 1960s to 8,5 percent during the Seventies to approximately two percent in the first half of 1991.

In some quarters this savings ratio was negative, the first time in post-war history that this has happened in South Africa.

The lowest real after-tax rates of return during the period was in 1986 and 1987, when they were negative to the extent of slightly more than 8 percent and 7,5 percent respectively.

Real after-tax rates of return have remained consistently negative in subsequent years, averaging minus 3 percent during the period 1988 to 1990.

Dr Stals' attack on banks and building societies for ostensibly "fuelling" credit demand by re-advancing home loans on appreciating properties, needs to be put into the correct context.

In some cases it could be said that this money is being used on consumer luxuries — but a great number of these increased loans are nothing less than "distress borrowing". In order to stay solvent people have no choice but to borrow against the bonds on their homes.

Two things are needed to correct this modern-day calamity: higher interest rates on savings (or alternatively lower inflation) and some tax incentives for people to save.

Last year's feeble effort to introduce a withholding tax — which would have meant a higher real rate of return — was stymied by the all-powerful insurance lobby. The proposal is now on the back-burner.

The tax-free threshold of R2 000 in the case of interest-income is pitifully low. This needs to be increased to entice people back to their trusty old savings books.

One consequence of this state of affairs has been the huge flow of money pouring into the coffers of the insurance companies who, despite their protestations, still have considerable tax advantages compared with banks and building societies.

Today the insurance industry is massive — some would say disproportionate in its influence and power — with assets of anything between R150 billion and R200 billion.

In an effort to stay ahead in the race against inflation, investors have rushed into equity-linked investments in the form of insurance products, unit trusts and retirement annuities.

Banks and building societies, on the other hand, have had to be satisfied with sucking the hind teat in terms of flow of funds.

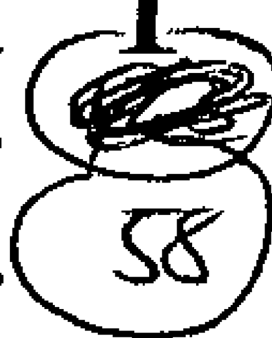
The growth in the flow of funds to the insurance industry has not necessarily been the result of any increased efficiencies or superior investment performance, but the result of an "uneven playing field", as Piet Badenhorst, chief executive of Absa, has so steadfastly maintained for so long.

Shock for home-owners

Bond rates to rise on October 1

Star 21/9/91

SVEN LUNSCHE



LEADING commercial banks and building societies yesterday announced shock increases in bond and prime rates of 0,25 percentage points to coincide with the introduction of VAT on October 1.

And in a double blow to consumers, the institutions indicated that that they were considering lower interest rates on savings.

The increases in lending rates come at a time when embattled consumers and businesses were hoping for a cut of about 1 percent in interest rates by the year-end.

However, a cut in rates has become more unlikely, as VAT is set to lift consumer prices and higher interest rates are essential in controlling inflation.

The increase has met with anger by business and community organisations.

The latest rate increases will push up the bond rate from 19,75 to 20 percent and lift the monthly repayments by R20 a month for home-owners with outstanding mortgages of R100 000.

Monthly payments

For mortgages valued at R50 000, the monthly payments will rise by roughly R10, and for bonds of R150 000 by about R40.

The prime rate — the overdraft rate charged to bank's biggest and best customers — rises from 20 to 20,25 percent, but most businesses and consumers will pay far higher rates.

Bankers earlier this month persuaded the Government to drop plans to impose a turnover tax on banks and instead to introduce a tax on their capital bases as a substitute for VAT.

Industry sources estimate that the tax will cost the country's institutions roughly R220 million in additional charges, and the latest adjustment to rates will enable the financial institutions to recover the costs.

Announcing the increases, First National Bank senior general manager Viv Bartlett said: "As a result of the new tax to be levied on banks and other financial institutions in lieu of VAT, and the resultant squeeze on margins, the bank will have to take appropriate steps to recover these costs.

"In doing so, we are mindful of the further pressures on business and household incomes in the current economic circumstances."

Other institutions to follow FNB's lead yesterday included Nedcor, which includes the Perm and Nedbank, and Amalgamated Banks of SA (Absa), the holding company for the UBS, Allied and Volkskas.

Standard Bank and Natal Building Society spokesmen said it was likely their organisations would follow suit after meetings on Monday.

● TO PAGE 2

Bond rise

● FROM PAGE 1.

A spokesman for a real estate group, Scott McRae, slammed the hike as "appalling, dismaying, but not surprising". Star 21/9/91

"Many home-owners who have been hanging on in the hope of some slight relief from one of the highest bond rates in the world may well now just give up," he said.

The tax could "easily" have been absorbed rather than being passed on to "the hard-pressed home-owner, who is already carrying the burden of one of the highest direct and indirect tax rates in the world and rampant inflation. 58

"The economic benefits of greater consumer confidence would have far outweighed any greater costs to the banks. Housing is South Africans' one certain way of acquiring wealth."

Sally Motlana, president of the Black Housewives League, said the hike would affect black people worst.

Lyn Morris, chairman of the South African Housewives' League, said the new hike was "very worrying".

"I hope it does not mean more repossessions, because lots of people have houses but no work," she said.

Home bond boycott threat

Star 26/9/91

By Abel Mushi

Members of the black community might resort to bond repayment boycotts if financial institutions failed to address land and housing problems, the Civic Association of the Southern Transvaal hinted yesterday.

General-secretary Sam Ntuli said institutions needed to consider the needs and nature of their consumers' communities.

The present lowest cost for a formal housing unit was between R30 000 and R35 000 and the bond repayment rate was about R341 a month for Government-subsidised houses and R503 for unsubsidised ones.

Members of the black community could not afford these rates, CAST said. It called on financial institutions to educate consumers on housing bonds.

Though it had not yet called a bond boycott, CAST said that if the problems were not addressed, it would "have no option but to go back to our structures with proposals which may not be acceptable to financial institutions".

The unavailability of land and the housing problem were being exacerbated by high unemployment, loss of jobs, low wages and high inflation.

CAST said it was arranging a conference to discuss the issues.

Savers face cutback in interest rates

Star 23/9/91.

By Sven Lünsche

Interest rates on savings deposits could fall by as much as 0,5 percentage points as financial institutions attempt to recover the costs of a tax on their capital base, which will be introduced as a substitute for VAT on October 1.

Lower savings rates will be introduced despite the 0,25 percentage point rise in the bond and the prime rate announced by First National Bank (FNB), Absa and Nedcor on Friday.

Standard Bank and the Natal Building Society are also set to raise their rates after meetings today.

FNB senior general manager Viv Barlett said yesterday the 0,25 percentage point hike was not enough to offset the cost to the bank of the new tax, which he estimated to be about R50 million per annum.

"We have already absorbed a significant proportion of the cost, but need additional measures in the form of lower rates on deposits," he said.

The extent and the timing of the drop in savings rates will depend on the Reserve Bank, which is trying to maintain a constant shortage on the money market.

"However, as the market has been showing increasing signs of liquidity recently, we are hoping to introduce savings rates cuts of up to 0,5 percentage points almost immediately," Mr Bartlett said.

an in the street

The curious case of claiming on insurance

ACG 20/9/91

INSURANCE premiums for short-term insurance — fire, theft, and accident insurance — will be subject to VAT.

From the insurer's point of view, this is no problem provided he is registered for VAT as the VAT element will qualify for credit (even if it is motor car insurance).

But it becomes an extra cost for private individuals and unregistered entities.

All that is fairly straightforward, but what is curious is the treatment of the insurance claim, says tax consultant David Clegg.

Imagine the situation of the white-coated individual who walks into your office and walks out with a word processor — but doesn't take it to the repair shop.

If one sees this as an "involuntary supply" of your equipment to a thief, then there is a sort of perverse logic to the thought that the insurance proceeds are the payment for that supply and should be subject to VAT! And indeed, that is what happens.

The actual receipt of insurance proceeds is deemed to be inclusive of VAT and the recipient must therefore include that amount in his VAT return and pay over VAT.

The vital point in this is that provided you have insured your stock, plant, buildings and other insurables for replacement cost — including VAT — it produces a neutral result.

For example, if the word processor costs R2 200 to replace and that was the insured value, then assuming there is no excess the insurance proceeds will be R2 200.

From this, one must deduct the VAT element — R200 — and pay it to the Reciever, leaving a net amount of R2 000 with which to buy a replacement machine.

The cost of the replacement from the computer shop is again R2 200 which, after VAT credit, gives a net cost of the same R2 000 that you have available.

The simple rule to come out of all of this is that you must be properly insured at replacement cost incluing VAT as of September 30.

AIDS poses threat to pension benefits

Star 14/9/91.

DEREK TOMMEY

AIDS is threatening the contractual savings of every one in this country, warns a group of experts from Southern Life.

They said that if the incidence of AIDS was not checked, payouts by pension fund will be reduced and life insurance will become far more costly — not just for new policy holders but for existing policy holders as well.

They also said that few policy holders were aware that for the past six years insurance companies had the right to increase life insurance premiums should circumstances warrant this.

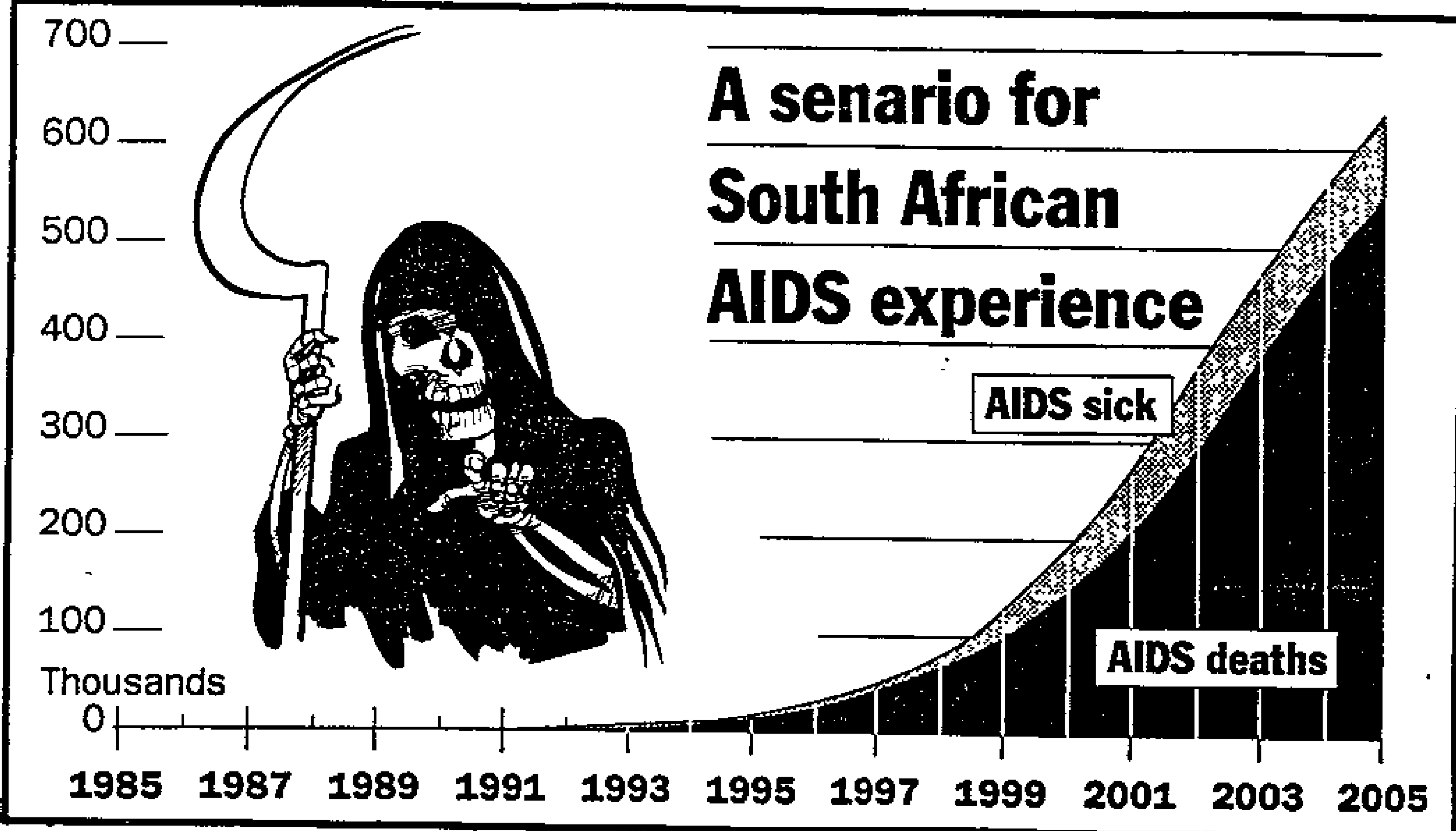
As more people die from AIDS and change mortality estimates, it is certain that policy holders will be asked to pay higher premiums.

Limited time

The experts made clear that the spread of AIDS could still be stopped if people changed their sexual habits. But as AIDS was spreading rapidly the amount of time left was limited.

So far only 818 AIDS cases have been reported in the country. But for a variety of reasons research experts believe the actual figure is five to 10 times this number, said Adrian Pinington senior manager (corporate acturial) Southern Life.

But AIDS sick cases were only the tip of the iceberg. Projections based on an anonymous testing survey of antenatal clinic patients in October and November last year indicated that the actual prevalence of AIDS carriers — that is people who are HIV positive — may be about 1,5 percent of the total population or about 200 000.



Under current conditions the number of AIDS carriers in the country is expected to reach one million by 1995. However, total deaths from AIDS are expected to be relatively insignificant for the next few years, amounting to around 20 000 a year by 1995 of which only about 4 000 are likely to be reported if current trends continue.

Mr Pinington said that current models indicate that eventually one out of every four adults will be an AIDS carrier which, when compared with what is happening in central African countries, is not seen as unrealistic.

AIDS carriers do not die immediately and experience to date suggests that death can take as long as 12 years, according to the amount of support available.

Therefore to make things equitable a 35-year-old person infected with HIV three years ago should be charged 35 times the risk premium for an uninfected person. For someone infected 10 years ago the relative charge should be about 60 times that of an uninfected person.

Mr Pinington said the mortality rate for people infected with the HIV virus was similar to that of an average 72 year old.

But progression to death in Africa was expected to be much quicker owing to the endemic levels of other diseases such as TB and malaria.

Don Brown (senior manager, employee benefits) said that on current projections for AIDS sickness and deaths, the average costs of death benefits to a company providing these will have risen four-fold by the year 2000. The cost of disability claims is also expected to quadruple by them.

This increased cost of death benefits will mean that companies will have to reallocate funds from retirement benefits resulting in smaller pensions — unless employers paid more money into the pension funds.

But apart from having to pay out more in death benefits, AIDS will also affect companies' expenses and markets. This will lead to reduced profits and presumably declines in share prices which will affect the value of a fund's assets.

Although the impact of AIDS is still speculative at this stage, it is estimated that it will reduce the GNP by about five percent over the next 10 to 15 years.

And while employers might try to screen out HIV positive applicants for jobs and exclude people ill or dying from AIDS from benefits, Mr Brown said he doubted whether such schemes would work in practice.

Pariah attitude

He said this treatment propagated the "pariah" attitude to AIDS as something morally repugnant that justifies punishment. It also raised the question why people with AIDS should be treated differently from those with other self-inflicted diseases such as lung cancer through smoking.

The employer may also find that his moral responsibility is not lessened because the sick employee has AIDS. And this attitude may encourage employees to commit suicide or engineer an accident to try to avoid the AIDS exclusion and provide for their dependants.

Mr Brown said that the increasing incidence of AIDS-related claims in the future will require careful determination of premiums. "The Southern's approach will be to apply the minimum conditions but charge the correct premiums for the risk.

"Our greatest challenge will be to increase premiums quickly enough to meet the worsening experience on a highly competitive market".

Extended bonds a 'long-term danger'

Star 6/9/91

By Jovial Rantao and Shirley Woodgate

Homemowners attempting to beat the deepening recession by using extended bonds to finance cars or holidays have been warned they are playing with fire in the long term.

It was revealed last week by Reserve Bank governor Dr Chris Stals that banks were frustrating attempts to limit credit creation by allowing house owners to borrow against their mortgage loans for luxuries.

Coinciding with Central Statistical Service reports that more than 40 000 workers lost their jobs in four main employment sectors earlier this year, he claimed banks were pushing mortgage loans instead of hire purchase facilities for luxuries because this was more profitable for institutions.

Consumer Council assistant director Daan Kruger cautioned consumers to think hard before entering into any form of debt.

Since continued consumer spending was contributing to escalating inflation, he said it was worrying that people were spending what they did not have.

Tony Leng, managing director of Information Trust Corporation, urged consumers to look at their needs and not their wants, adding: "The attitude that they were middle-class and privileged should not reinforce the desire to eat in five-star hotels and live in upmarket suburbs."

He said it was extremely unwise to use long-term finance to purchase short-term luxury items which represented a depreciating asset.

Perm Building Society public affairs manager Theo Coggin said: "We would not encourage clients to use valuable mortgage loans investments on non-essential luxuries they could not afford."

He stressed that people who decided to voluntarily increase home loan instalments should be allowed the choice of increased flexibility as they had shown a capability to handle their finances responsibly.

Salie Marais, chairman of the Consumer Credit Association, said it was difficult to see what was wrong with drawing on paid-off bond amounts as, unlike with HP, the bank held the house as security.

Stressing that HP interest charges ranged up to 32 percent, he said this was considerably less than the 19,75 percent on home loans.

Professor Tobie van Rhyn, a member of the executive committee of the SA National Consumer Union, said consumers reserved the right, within the constraints of being responsible consumers, to choose to do whatever they wanted with their money.

He said consumers used mortgage loans for other purposes because they were overburdened with taxation, and the cost of living was soaring.

FNB takes over BCCI in Botswana

Star 4/9/91.

Star Africa Service

GABORONE — First National Bank will take over the former BCCI affiliate in Botswana, the Bank of Credit and Commerce, on Saturday. (58)

Assistant Minister of Finance David Magang said in parliament yesterday that an agreement had been negotiated between BCCI Luxembourg, First National and the Bank of Botswana, which has been running the Bank of Credit and Commerce after taking over its operations two months ago.

All five BCC branches would be staffed by First National, operating in Botswana as First National Bank of Botswana.

First National already has a licence to operate in Botswana and had planned to start doing so early next year.

Standard Bank of South Africa and ANZ Grindleys Bank have also been granted licences and will begin operating in Botswana next year.

Top UK names for OM's fund

Foreign Staff

LONDON — South Africa's biggest company, Old Mutual Life Assurance, has launched the first investment fund of its kind in London in a bid to get £30 million (R150 million) of new capital from European investors.

The launch is expected to be the first of many as investors take a fresh look at South Africa in the light of the demise of apartheid.

Old Mutual chairman Michael Levett is listing the new trust on the London Stock Exchange and has gathered an impressive board of directors for OMSAF which includes Rolls-Royce chairman Lord Tombs

Just last week the South African Government announced its intention to re-enter European bond markets with a launch later this year of a £70 million (R350 million) Eurobond.

Star 4/9/91

New bank aimed at black sector

Star 5/9/91

By Jabulani Sikhakhane

The Registrar of Deposit-Taking Institutions has authorised the formation of Future Bank, a joint venture between Fabcos (Foundation for African Business and Consumer Services) and First National Bank subsidiary Wesbank.

The Registrar said an application had been granted in terms of section 12 of the Deposit-Taking Institutions Act 1990.

But the Registrar added that the bank had not yet been provisionally registered.

Fabcos officials are keeping mum on the details until the launch in November. Spokesman Fanyana Shiburi would only say this week that Neville Watchurst, Wesbank's senior general manager, has been appointed the bank's managing director.

According to sources Wesbank will have 49 percent of the equity, Fabcos 44 percent, SA Taxi Marketing 5 percent and the Pretoria-based Get Ahead Foundation two percent.

Get Ahead was brought in because of a prohibition on non-financial institutions and their associates holding more than 49 percent in a deposit-taking institution. Fabcos and its associate, SA Taxi Marketing, together hold 49 percent.

It is understood that Fabcos initially approached the Zion Christian Church (ZCC) to take up the stake.

Future Bank will be capitalised at R18 million — R2 million ordinary shares of 100c each and R16 million redeemable preference shares of 100c each.

Wesbank will subscribe for all the redeemable preference shares and the other shareholders will proportionally take up the ordinaries.

Fabcos and Wesbank have signed a 10-year management agreement, during which period black staff will trained, sources said.

Over the 10-year period, Fabcos, SA Taxi Marketing and Get Ahead will use dividends and commissions earned to buy the preference shares from Wesbank. The preference shares will then be converted into ordinary shares.

It is understood that part of the agreement is for Wesbank to transfer its minibus taxi book, estimated at over R50 million, to Future Bank. Also the R84 million Sabta Foundation funds held in trust by Wesbank will be transferred to Future Bank.

The bank will initially open in the PWV region, then gradually expand to the rest of the country. Its head office will be in Braamfontein.

Future Bank is the continuation of the joint venture between Fabcos and Wesbank formed last year to cater primarily for the financial needs of the informal black business sector and private consumers.

In 1987 Wesbank together with the SA Black Taxi Association (Sabta) launched an innovative scheme using the peer pressure system of stokvels to finance the purchase of minibus taxis.

Fabcos claims over one million members from its affiliated business organisations and the National Black Consumer Union (NBCU).

New plan to pay off bond in quick time

Star 7/9/91 FINANCE STAFF (58)

TIMELIFE Insurance, whose interest-saving bond redemption plan has scored among home-owners, has now tailored a new scheme enabling members of pension or provident funds to pay off their bonds in double-quick time.

The plan involves investment in what Timelife's Bill Els believes to be a much-under-used available facility provided for under the Income Tax Act.

This permits fund members to invest up to R1 800 a year in additional voluntary subsriptions to enhance the value of their pensions.

Under Timelife's new Retirement Enhancement Fund, pension or provident fund members can take out annual loans against this investment to finance additional capital redemption payments on their bonds in addition to regular bond repayments.

Using as an example a man of 45 years with a R100 000 bond, Mr Els says that by making maximum use of the Retirement Enhancement Fund facility, he could wipe out the bond in 14 years, instead of 20 years.

Timelife expects its Retirement Enhancement Fund, marking the company's debut in the employee benefits market, to have particular appeal to pension or provident fund members in the older age groups.

"A great number of people have large bonds which they will probably not have fully paid off by the time they retire.

"This scheme will be of particular appeal to them. For a very small annual investment they can have the satisfaction of knowing that their bonds will be paid off by retirement."

Timelife has discussed the scheme with a number of employers — "and we have had a very good reaction, since it provides a valuable additional employee benefit."

Threat to low-cost housing

Financial institutions may reduce the bond finance they make available for the housing market.

At the same time, the financial performance of most private operators is no longer satisfactory and more industry players will be forced to withdraw from the area of greatest need — the low-cost housing market.

This is the message from Gavin Hardy, incoming chairman of the National Association of Homebuilders.

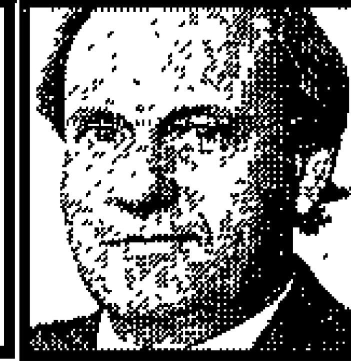
In his first newsletter to members Mr Hardy says: "If the private sector is to be an effective player in the housing arena, then the entire NAHB membership core will have to become more proactive.

"It is encouraging that many private and Government (or quasi-Government organisations) have re-examined their priorities in the past months and recognised that the housing problem requires co-operation at all levels, as well as urgent attention.

"It is essential that communities be thoroughly canvassed and involved at each stage of the development process," he says.

Where have all the savers gone?

Star 14/9/9?



Money Matters

MAGNUS HEYSTEK

MY article "Save and get poor" two weeks ago continues to draw widespread reaction.

Many people have expressed shocked, to say the least, at what taxes and inflation have done to their nest-eggs.

Personal savings, which are loosely defined as "savings by households" have been declining for years. In the sixties personal savings contributed an average of 32 percent to what is known as gross domestic savings, that is, the total savings effort in the country.

In the seventies the percentage was still high at an average 25,2 percent but in the next decade it slipped to 8,9 percent. By 1989 the decline was even more marked — just 2,9 percent.

But these statistics don't reflect the true picture. Personal savings can be split into two categories, namely contractual and discretionary.

Contractual savings involve individuals committing themselves to a series of payments such as premiums on insurance policies, unit trusts, retirement annuities and pension funds.

Discretionary savings, by contrast, refer to deposits made with banks and building societies where individuals are not bound by any fixed commitment.

Contractual savings, mainly directed to equity and property-related investments, have soared. In 1975 contractual savings totalled R1,08 billion but by the end of 1989 they had increased to a staggering R21,7 billion.

The figures for 1990 are not yet available — they're most probably still counting.

By contrast and taking into account the sum total of new credit taken up by individuals (which is a discretionary decision), discretionary savings have declined alarmingly. In 1988 they were negative to the tune of R20,219 billion.

The increased willingness to take on extra debt is the result of many factors. Rising house prices and stock markets tends to strengthen the balance sheet of individuals who are fortunate to own property or shares. Those who don't, the poor and non-whites who have legally been excluded from owning property, have in fact, suffered the most.

But what should be done to address this situation?

Even economists seem to be divided on the issue. One camp argues that savers should be given better incentives to save which would in turn lead to higher investment and higher growth.

The other position, as espoused by Professor Philip Mohr of the University of South Africa, is that more incentives to save will not lead to higher growth and employment creation as is generally contended.

Low personal savings, it is said, is the result of low economic growth and not the cause of it.

But I don't think ordinary savers, who happen to be mostly pensioners and people close to retirement, are concerned with this academic debate.

They are, in my opinion, concerned with the rate of return they receive on their hard-earned money. Money that was saved out of taxed income.

In essence, people who are paying income tax on their savings are the victims of double taxation. They have paid tax on salaries and are then taxed again on their investments.

If the government can abolish income tax on company dividends — using the argument of double taxation — then surely the same should apply to traditional investments.

Mabuza to head up new bank

58

MR JABO MABUZA has been appointed chairman of the new bank, Futurebank, due to be formally launched in November. Star 14/9/91

The official signing cermony for the bank is due to take place on Monday.

The bank is a joint venture between the Foundation for African Business and Cunsumer Services and First National subsidiary Wesbank.— Sapa.

Liblife deal in offing

Star 20/9/91

By Sven Lünsche

An announcement by Liberty Life is expected today after the shares in Liberty Investors, Liberty Holdings, Liberty Life and First International Trust (FIT) were suspended on the JSE yesterday.

Liberty Life chairman Donald Gordon, speaking from London, would not add to the group's statement that negotiations were in progress which could have a material impact on the share prices.

He said, however, that an announcement could be made as early as this afternoon.

The shares will be relisted on Monday.

Market speculation is that the suspension of the shares relates to an overseas deal which is being done through Liberty's offshore arm, First International Trust (FIT). FIT is raising R375 million through a rights offer of 30 shares for every 100 held.

Other analysts speculated that a share swop between Liberty and the large French state owned insurer, Centrale Union es Assurance de Paris (UAP), was in the offing.

Liberty subsidiary, TransAtlantic, and UAP are joint controlling shareholders in UK insurance company Sun Life.

Shares in TransAtlantic were not suspended in Luxembourg.

Tough fines for agents

Star 6/9/91 (58)

By John Miller

The Estate Agent's Board intends getting tough on unscrupulous members by increasing fines 10-fold after numerous complaints from dissatisfied clients.

The chairman of the board, Eskel Jawitz, believes it should seriously re-examine its public protection role.

Mr Jawitz was addressing the annual convention of the Institute of Estate Agents, held recently at the Wild Coast.

He said disciplinary committees of the board should also be granted additional powers to impose compensatory fines or order forfeiture of agent's commissions when the public has suffered losses through unfair practices.

He was not surprised some people regarded current disciplinary procedures as essentially image-building for the industry with little or no regard for the interests of complainants. Losses incurred had to be pursued through the courts.

A spokesman for the board said maximum fines for malpractice would be increased from R1 000 to R10 000.

Gordon cracks it

(58)

Star 21/9/91

JABULANI SIKHAKHANE

LIBERTY LIFE's Donald Gordon yesterday won a hard-fought battle for control of leading UK life assurer Sun Life.

By linking up with leading French assurer Union des Assurances de Paris, he has steamrollered over all the obstacles set up by one-time merchant banker and now Sun Life chairman Peter Grant who has stubbornly-denied Mr Gordon any say in the running of the company.

Mr Gordon has been stalking Sun Life for the past decade ever since Liberty's offshore arm TransAtlantic first acquired a 10 percent stake from the Kuwait Investment Office.

At the time Sun Life was being targeted as a possible takeover and Mr Grant was taken on board in 1983 to devise anti-takeover strategies. He subsequently successfully blocked several attempts by Liberty to get board representation.

Ey 1988, after a series of market purchases, TransAtlantic increased its stake in Sun Life to 29,8 percent.

This caused Mr Grant to try and form an alliance with the other major shareholder, UAP in a bid to water down Liberty's influence. He proposed a merger between Sun Life and UAP, a move which was blocked by TransAtlantic.

TransAtlantic then set out to court UAP and in 1989 they signed an accord which stipulated that each group would not bid for Sun Life without the prior agreement of the other.

Last year TransAtlantic sold UAP sufficient rights to equalise their shareholdings in Sun Life at 27,7 percent.

Following yesterday's announcement UAP, the largest insurance group in Europe after Allianz, will now acquire 40 million shares in TransAtlantic for £40 million (R685 million).

Mr Gordon, who is also chairman of TransAtlantic, said from London last night: "I am very pleased. The deal is a major coup and represents an important forward move for us, especially the partnership with such a very powerful and large group as UAP."

"The whole world is now open to us. UAP and Liberty are in very similar businesses; banking, real estate etc," he said.

According to yesterday's joint announcement, TransAtlantic and UAP will each inject their 18,835 million shareholdings in Sun Life into a new company Rockleigh Corporation. Rockleigh, controlled equally by TransAtlantic and UAP, will control Sun Life.

Further, UAP and TransAtlantic have acquired 3,02 million shares in Sun Life from Sun Alliance for £35 million (R171,2 million) cash.

Adding this to the 55,4 percent stake (being the combined holdings of TransAtlantic and UAP), it means Rockleigh will control 59,9 percent or 40,69 million of Sun Life's shares.

The deal is subject to the necessary regulatory approvals.

Rockleigh — although the announcement says there is no obligation to do so — intends extending an offer of £11,60 a share to the minorities who hold 27,33 million shareholders in Sun Life.

UAP will buy 35 million new ordinary shares in TransAtlatic at 350p a share — giving a total of £122,5 million. UAP will acquire a further 5 million TransAtlantic shares from Conduit Insurance Holdings, a wholly-owned subsidiary of First International Trust (FIT) at the same price.

The deal injects some £122,5 million cash into TransAtlantic, further strengthening the group's liquidity position.

Mr Gordon says the cash will be used to either expand existing businesses or pay-off some debt.

DONALD GORDON: The whole world is now open to us.

Liberty Life expands its European interests

Star 23/9/91.

By Neil Behrmann and the Financial Times (58)

LONDON — The weekend deal in which Liberty Life and France's Union des Assurance de Paris (UAP) combined their holdings in UK insurance group Sun Life provides Liberty Life with its first foothold in continental Europe.

The move should also end speculation that Liberty and UAP are not acting as friendly partners in the management of the UK insurer, which has assets in excess of £7,4 billion.

By restructuring control of Sun Life, Liberty Life chairman Donald Gordon has fulfilled one of his long-term ambitions, namely to expand his insurance interests into continental Europe.

In February Sun Life and UAP, in conjunction with Royale Belgique and Banque Internationale of Luxembourg, formed the Luxembourg-based PanEurolife alliance to bolster the partners' trans-European activity in life insurance.

The slow-starting alliance will certainly be boosted by the joint venture's majority stake in Sun Life and places Liberty Life amomg European leaders.

Liberty Life's European ambitions have been further cemented through the deal, which sees UAP taking a 16,8 percent stake in TransAtlantic, Liberty's European investment vehicle, which is listed in Luxembourg.

Peter Grant . . . great benefit in years to come

This injects £140 million into TransAtlantic and has led to Mr Gordon being offered a seat on the board of UAP.

UAP already dominates the French insurance scene and has large operations in Belgium and Italy and is the second-largest insurer in Europe after Germany's Allianz.

The close relationship is surprising, given that Liberty and UAP fought a bitter battle for control of Sun Life three years ago.

"Three years ago there was war between us and Liberty," said Jean Peyrelevade, chairman of UAP, at the weekend.

"Two years ago we signed an armed peace. Now there is friendship."

Mr Peyrelevade said the investment in TransAtlantic would give his company expertise in the UK property market, as TransAtlantic controls Capital & Counties, the property developer.

He said the investments in TransAtlantic and Sun Life should be seen in the context of its strategy of establishing business relationships with partners all over Europe.

Mr Peyrelevade added: "I do not believe that there will be a single market for insurance in Europe for maybe 10 or 15 or 20 years."

Till then, UAP saw no reason to acquire full control of companies operating outside France.

UAP said that no management changes were planned at Sun Life, with Peter Grant, Mr Gordon's old adversary, remaining as chief executive.

Mr Grant welcomed the capital reorganisation.

Sun Life had received solid support from UAP and TransAtlantic's minority shareholders over the past three years, he said.

"I believe the long-term business partnership offers a prospect of great benefit in years to come."

Sun Life's share price on Friday soared 60p in London to a close of £12,20.

In terms of the deal, Liberty's and UAP's respective 27,7 percent holdings are being injected into Rockleigh Corporation, a shell company in which they will each have a 50 percent stakes.

A further 4,5 percent of Sun Life shares, acquired for £35 million by both groups, is being put into Rockleigh, giving it a total holding of 59,9 percent.

Neither company can withdraw from Rockleigh for at least four years.

UAP and Liberty will each appoint one new member to the Sun Life board, lifting the number of their representatives to three each.

They are committed to keeping the combined number of their representatives to less than half the board's full strength.

Rockleigh will make an offer for the outstanding Sun Life shares, once the merger of the two insurers' interests is approved by the UK Department of Trade and Industry and the European Community competition directorate in Brussels.

It will offer £11,60 for each Sun Life share, which values the company at £778 million.

Making up . . . face painting at the Out of the Box Children's Festival which is on until October 5 at Windybrow Theatre. Booking is at Computicket for the three educational plays. Picture: Karen Fletcher.

Good news for policyholders

Star 27/9/91.

Consumer Reporter

The introduction of VAT on virtually all short-term insurance policies did not mean all premiums would rise by a full 10 percent, SA Insurance Association chief executive Rodney Schneeberger said yesterday.

Insurers would generally be able to absorb "at least half the potential increase", he said.

"SAIA wishes to reassure consumers that insurers will not take advantage of VAT to obtain additional premium increases," he said, cautioning this did not mean premiums would not rise in the coming months.

"Adverse claims experience arising from the unsettled state of the country and worsening crime makes a general increase in rates unavoidable," he said.

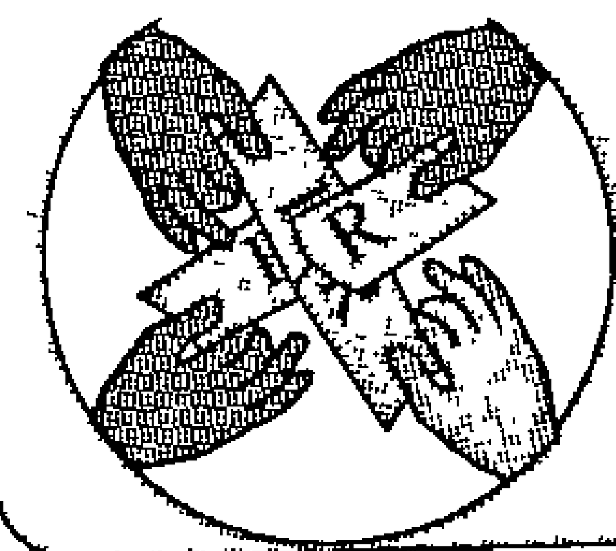
According to the SAIA, claims would be settled inclusive of VAT, and policyholders would have to set sums insured at levels that include VAT.

As the insured value of household contents and vehicles already includes GST, little change in sums insured may be necessary for the public.

However, replacement costs of buildings — now subject to VAT whereas GST previously did not apply — could mean higher sums insured in homeowners' policies.

The SAIA has recommended that its member companies do not require an interim adjustment to sums insured in respect of policies current at September 30.

Insurers have been requested to "indemnify" policyholders against any impact of VAT in such "transitional" claims. However, all sums insured should obviously be reassessed at the next renewal date after VAT was introduced, the SAIA said.



Stokvels money power to the people

Standard Bank gets 'the people's money' on to its books

Star 11/9/91. (58)

The Standard Bank has launched a new product, the Standard Bank Society Scheme, in order to serve the stokvel market, which is estimated to be worth R624 million a year in the major metropolitan areas. "Stokvel" has recently become a generic name describing rotating credit associations, savings and investment clubs and burial societies.

Standard Bank has been involved with stokvels for some time, and sponsors the National Stokvel Association of SA's (Nasasa) "Stokvel Corner" published in the Sowetan every two weeks, and participates in Nasasa's quarterly stokvel fair held at Nu World (formerly Shareworld).

John Holloway of the Standard Bank's personal banking and marketing services division says: "We believed that by entering this largely unexplored market we could narrow the existing gap between financial institutions and stokvels. We see the Society Scheme as the stepping stone to help us make inroads into the stokvel market and at the same time serve the needs of stokvel members."

An element of the Society Scheme is a unique book-based savings account. "Research showed us that stokvel members identify more with the savings book," he says.

Stokvel members have an option to invest their surplus or lump sum funds in a fixed deposit account, where the minimum opening deposit is R100 and the investment period ranges from six months to five years.

In the Society Scheme, savings account interest is paid monthly and the minimum opening deposit is R50. There are no banking charges. Research showed that stokvel members prefer free banking as they perceive themselves to be putting a lot of money into the bank.

There is no minimum balance requirement. Mr Holloway explains that most stokvel groupings save their pooled contributions throughout the year and withdraw the funds in December to split proportionally among members. Then the savings cycle starts again in January. However, burial societies have a stable pool of funds to cater for their specific needs.

To prevent fraudulent withdrawal of funds from the account, there is a minimum requirement of two signatures.

Other additional features are a membership certificate which is presented to the stokvel group. Standard Bank, through periodical booklets, will educate stokvel members about financial matters.

Members can also call Standard Bank's toll-free hotline during the business hours.

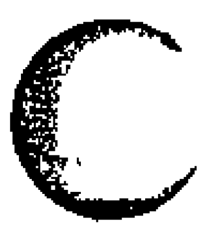
Existing stokvel groups who hold ordinary savings accounts with the Standard Bank can easily convert to the Society Scheme with all its attendant benefits.

Mr Holloway says the Society Scheme took Standard Bank one year to develop from its conceptual stage.

"We have refined the product as we went along. We had a lot of input from people working for Standard Bank who are also members of stokvel groupings in their communities. We had discussion groups with stokvel members and we visited a number of stokvels during the course of developing this product."

He adds that new features will also be added to the Society Scheme, depending on the needs emanating from the market. Standard Bank will encourage Society account holders to submit suggestions about improvements to the product relative to their needs.

Interestingly, Standard Bank has for the first time incorporated ethnic words like "sizanani" or "thusano" (helping each other) and "ukubambana" (togetherness) in its adverstising of the Society Scheme. The meaning of these words underlines the foundation of a stokvel.



are ... bracket — earning above R1 000 a month.

long In burial societies the aver-

... while an estimated R17,5 million is contributed by savings clubs. Other stokvel types collect R12 million.

National club accounts

Star 11/9/91

The Perm Building Society pioneered the thrust into the stokvel market with its Club Acccount in 1988.

The idea of a Club Account began in 1984 when the Perm's Eastern Cape region did a study on savings habits of its customers. The study revealed that there were 2 500 stokvel groups with a combined balance of R5 million.

This led to the Perm commissioning a study into the stokvel market in 1986 and as a controlled test, Club Account made its debut in Natal in 1988. (58)

The account went national four month later. By year end 13 000 accounts had opened with a balance of R19 million, growing to 36 000 accounts with R96 million by the end of 1989.

By mid-1990 the Perm had R100 million in its Club Accounts nationally. Recently the Natal Building Society (NBS) launched into this market, while Standard Bank followed with its Society Scheme launched this week.

njoy a little romantic
re: Stephen Davimes

Black bank of future is launched

(58)

Staff Reporter Star 2/9/91

The formation of a new bank in which the majority of shares are to be held by black people will be announced today.

Future Bank is a joint venture by the Foundation for African Business and Consumer Services (Fabcos) and Wesbank, one of the major subsidiaries of First National Bank.

Fabcos public relations manager Fanyana Shiburi said the new bank would be headed by Gaby Magomola, chairman of Fabcos marketing.

The managing director-designate is Neville Watchurst, a senior manager at Wesbank.

The bank will operate independently and have its own board of directors from both Fabcos and Wesbank.

Mr Shiburi said blacks were mainly in the informal business sector. As a result, it had always been difficult for them to raise capital. "This has obviously left a huge opening in the banking sector for a bank of this nature."

Fabcos has a membership of 1,3 million and consists of 14 informal sector associations.

These include the SA Black Taxi Association, the National Association of Stokvels, SA Taverners Association, African Builders Association and the National Federation of the Informal Business Sector.

Foreign bank to set up in SA

CT 5/9/91

From BRENT VON MELVILLE and SHARON WOOD

JOHANNESBURG. — A major new bank with foreign links is poised to enter the SA banking sector and has announced plans to open 12 branches over the next year.

First City Savings has already applied for a deposit-taking licence to operate as a fully fledged investment bank, says MD Ishwar Beeharie.

Beeharie, who has been living abroad for 14 years, said negotiations were also under way with a European bank that wanted greater exposure to SA, and it was likely that First City would become a division of that bank.

He said the first cashier and sales office was set to open in Durban in November, and would cater mainly to lower and middle income earners.

About 30% of the company's equity would be sold locally and the eventual aim was to seek a JSE listing in three years, Beeharie said.

Beeharie has acted as a consultant to the Council of Europe, the financial arm of the European Parliament, and was responsible for the syndication of large sums from the private sector for resettlement of refugees and for alleviating natural disasters in member countries.

In a separate development yesterday, First National Bank announced it would open operations at five branches in Botswana on Monday.

The bank paid a Luxembourg company R13m to take over Bank of Credit & Commerce in Botswana (BCCB), a subsidiary of the defunct BCCI, FNB senior GM Viv Bartlett said yesterday.

A Botswana banking licence had been acquired by FNB several months ago.

FNB would take over the existing banking facilities and infrastructure of the BCCB, and the staff of about 90 people. The five branches were situated in Gabarone, Francistown, Labotsu and Kahline.

The bank intended to add two customer services in Gaborone to the banking network in time and after that would "go where customer dictates require".

SA bond issues for European market

(58) CT 13/9/91

From ANDREW GILL

JOHANNESBURG. — Two SA borrowers will follow the government's imminent public bond issue on European capital markets with their own issues before March next year.

The Development Bank of SA would go to the market before the end of March to raise in the region of R150m to R200m and the Independent Development Trust (IDT) was expected to have an issue before the end of this year, spokesmen said yesterday.

Development Bank group finance manager Richard Kirkland said the bank expected to have a public issue before the end of its financial year in March, with a view to raising half of the annual R300m to R400m funding requirement overseas.

Government is set to go to the market next week with its DM50m to DM100m public issue. After the Development Bank and IDT issues, the way will be clear for parastatals to go to the market next year.

Development-related bond issues would be the first to test the water, expecting a warmer reception than loans for purely commercial ends.

IDT spokesman Jolyon Nuttall said trustees had sanctioned an approach to international markets and donor agencies with a view to financing development activities, probably before the end of the year. No figures were available yet.

Eskom and Transnet are expected to follow the three development-linked bond issues at some stage next year, but are cautious about flooding the European market with SA issues at a time when former Eastern bloc countries are taking a large chunk of the finance.

Also, Eskom has had to allow government, the Development Bank and IDT issues to precede its own for fear of taking away potential finance from the three because of its good reputation in the market.

Kirkland said the timing of the issues was appropriate and there was a "reasonable appetite" for SA paper. This had been borne out by the relatively limited adverse reaction to government's issue.

SA Housing Trust GM Willie Conradie said the trust was not looking for financing at commercial rates from the capital market but rather from donor agencies in the form of highly subsidised loans.

Senbank sheds fixed-interest unit trusts

ST Times (Bus) (58) 15/9/91

SENBANK is to change its pair of fixed-interest unit trusts into equity funds.

One will be a general fund investing in all shares and the other will focus on financial and industrial counters.

The two fixed-interest funds had barely 50 unit holders.

"Equity is the place to be for growth," says assistant general manager of investments Stephen Meintjes.

"The two fixed-income funds never really took off because of negative real interest rates."

The marketing drive will be directed at TrustBank customers and by direct mail.

Mr Meintjes says the move is not treading on the toes of Sanlam in creaming off the TrustBank customer base into its own funds because TrustBank is an agent for all unit trusts.

In any event, Senbank is wholly owned by Bankorp, in which Sanlam has a holding of more than 90%.

The trusts will be shop windows for the performance of Senbank's rejuvenated investment division. The closest previous glimpse of the division's talents was Natrust, the investment portfolio floated on the JSE last month.

Natrust's net asset value grew at a compound annual rate of 28% in the past five years compared with the JSE overall index's 16%.

Mr Meintjes says Senbank has a sound administration which will be used for the two new funds. Research will be screened from other sources. Bankorp's economic research is available.

TrustBank customers will get a 20% discount on initial costs if they buy units before November. At any time they will be able to switch from one fund to the other without cost. The minimum monthly investment is R25 and the lump sum R200.

Mr Meintjes says there is still plenty of room for additions to SA's list of 38 unit trust funds. The value of SA's funds is about R9,6-billion, whereas the United Kingdom's exceeds £56-billion, or almost R277-billion.

- **The comparison is not altogether valid. SA's fund managers are obliged to invest only in domestic enterprises whereas countries without exchange control can invest around the globe.**

The gross national product a head in the UK is 4,3 times that of SA. South Africans have invested an average of R275 a head in unit trusts compared with R4 860 in the UK.

To account for the higher gross national product figure in the UK, the SA unit trust investment a head is adjusted to R1 180 — still well below the UK's, according to Mr Meintjes' information.

Banking charges may rise further

S Times 22/9/91

Sunday Times Reporters

BANKS may have to increase charges to help pay for the tax on financial institutions in lieu of VAT.

The tax has already prompted a rise in bond and overdraft rates on October 7 and HP rates may follow.

A senior bank official warned yesterday that the 0,25 percent rise was not enough to cover the new tax, and bank charges might have to go up to make up the difference.

"I don't think the 0,25 percent rise goes near enough to cover our extra costs," said Mr Viv Barlett, First National Bank senior general manager.

Senior Anglo American economist Jim Buys said 0,25 percent increase, though marginal, was "unwelcome.

Enhance

"But it must be remembered that it is associated with VAT implementation, which in the end is designed to enhance the economy and improve conditions for the homeowner."

However, these improvements could take time to show, according to supermarket chiefs. They say consumers are not likely to see a drop in prices on items which previously attracted GST until the New Year.

"We could start seeing a small reduction by the New Year when credits on capital expenditure start filtering through," said Pick 'n Pay chairman Raymond Ackerman.

Checkers chief Sergio Martinengo agreed, saying the rise in the prime lending rate would not affect food prices.

(58)

"Consumers should start seeing decreases when input and capital credits start having their effect."

Consumers can expect some short-term respite as most supermarket groups have pledged to keep the prices of many GST-free foodstuffs at the same level for two weeks after VAT's debut on September 30.

Violence deters housing lenders

S1 Times (Bus) 15/9/91.

By IAN SMITH

BOB ALDWORTH: White areas also suffer in the economic crunch

THE private sector has the resources to finance a building drive which would make huge inroads in the low-cost housing backlog.

But building will continue at a rate well below the natural increase in demand until financial institutions have the confidence to invest in black housing.

It is a huge potential market which remains a minefield for the unwary.

Housing Advisory Council chairman Joop de Loor says: "The problem cannot be solved by throwing money at it. It must be attacked head-on. A solution will need the co-operation of every role player."

Dr De Loor, former Finance Director-General and Auditor-General, heads a team investigating a new housing policy. The first draft of its report will be ready for Planning, Provincial Affairs and Housing Minister Leon Wessels in two months.

Boycotts

Contractors and housing developers accuse banks and building societies of cutting off finance for black housing because of the risk of rent and bond boycotts.

Institutions say they are still lending, but many have been forced to take a more cautious line.

Company-backed mortgage schemes, which promised to speed up black housing, are being increasingly threatened by heavy retrenchments and company closures.

Among the problems they face are:

- Political violence in residential areas.
- Bond boycotts for political aims.
- Payment stoppages because of faulty construction.
- Rapidly increasing non-payment because of retrenchment.
- Non-payment in protest against high interest rates.

When borrowers are evicted for non-payment, the house is sometimes destroyed. More often, it cannot be resold because the new owner fears violence.

White

Allied group managing director Bob Aldworth says: "The situation is extremely difficult. Not only black areas are affected.

"We are doing a reassessment of the market, but bond applications that stand up to the normal commercial tests are granted. Until the problems are resolved we are forced to follow a more cautious policy."

Mr Aldworth says Allied, which has an exposure to the black market of more than R1-billion, advanced R16-million to the sector last month.

He says the white housing market has been hit in areas like Welkom, affected by mine closures.

"When a house is repossessed we have to employ a security guard to ensure it is not vandalised. I am asked why we don't allow the family, to remain without bond repayments. But that encourages neighbours not to pay."

Some companies which have retrenched staff have written off the 20% of the mortgages they put up.

"But this does not help the house buyer if he cannot find another job."

Mr Aldworth says low-cost housing still provides good business in some regions.

"We have no trouble, for instance, in the Eastern Cape and our experience in Natal is good.

"But the market on the East Rand and West Rand has been badly hit.

"In every area we have to weigh up the risks carefully. We cannot put the company in jeopardy whatever the demand."

Standard Bank, with an exposure of about R500-million to the black market, is preparing to increase its educational role among first-time buyers.

Senior general manager Dennis Matfield says this could help to avoid some problems.

"Buyers need to know that bad workmanship is not the lender's fault. They should understand why interest has to be paid, and that banks are not responsible for high interest rates."

Affairs

Dr De Loor says financial institutions will be able to play their full role when they have the normal protection of the law.

"There must be co-operation from everyone — first and second tier government, own affairs departments, local authorities, extra-parliamentary groups, financial institutions, developers and buyers.

"Once the position is normal, there is no question that there will be sufficient funds."

Fabcos moves to banking, catering

By IAN SMITH

FABCOS, a non-profit organisation which has matured quickly into an umbrella body for 15 black business groups, has entered two more fast-growing sectors.

It has done a deal with Fedics, South Africa's largest catering services group, to develop food outlets in black areas and it has gone into a venture with Wesbank to launch Future Bank in November.

Fabcos, which claims to have 1,3-million members, will hold 60% of Fabfoods and Fedics the rest.

Fabfoods will develop the catering business by identifying entrepreneurs and informal operations which could benefit from training and support.

Reserve Bank registration for Future Bank was granted this week. It will be a deposit-taking and lending institution, says Fabcos public affairs director Mike Ntlatleng. Details of Future Bank's funding and its operations will be released in November, he says.

Fabcos has a 10% stake in Unibank, established last year from the restructuring of the Eastern Cape's BK Savings Bank. Major Fabcos affiliate Sabta has an R84-million trust fund held by Wesbank.

Hawkers

Fabfoods will capitalise on the heavy patronage of fast-food outlets by blacks and the trend for them to eat out.

Initially, the company will open fast-food outlets at service stations managed by Fabcos members.

The first will open in October in Daveyton Extension 6, near Johannesburg. The owner will be trained and guided by Fabcos and Fedics regional staff.

The project will be supervised by Fabfoods chairman Mandla Msomi and Fedics business development manager Helmut Schneider.

The company will extend its operations to other sectors, which could include taverns, stokvels and hawkers' sites.

"There is big demand for better catering services among black communities," says Mr Schneider.

"Fabfoods will help meet the demand by giving training in food handling and presentation and by supplying semi-prepared meals which need only the finishing touches before being served."

Inflation threat as State borrows

(58) S Times 1/9/91 (Business)

By DIRK TIEMANN

THE GOVERNMENT is financing its deficit by short- as opposed to long-term borrowing through the banks and this could put upward pressure on inflation, say economists.

Reserve Bank Governor Chris Stals says he is worried because "the deficit during the first four months of the current fiscal year, when revenue was at a seasonally low level, was financed to a large extent by an increase in net claims of the banking sector on the Government".

Borrowing from the banks increases the money supply because they can immediately rediscount any paper they buy from the Government at the Reserve Bank.

This allows them to increase their lending.

Short-term stock is attractive to banks because it is more tradeable and contributes to maintaining liquid asset requirements.

Lot

From 1987 until recently the Government financed its deficit by issuing long-term stock to the non-banking private sector.

This is non-inflationary because it does not immediately increase the money supply — the stockholder cannot discount his paper for cash with the Reserve Bank.

But the Government is not having much success in selling its long-term RSA stock because inflation makes the yields look unattractive.

Discount House capital market manager Chris Greyling says: "A lot has to happen before the risk-return ratio in the long end of the market becomes attractive. Fund managers are staying in the money market and earning higher returns without the capital risk.

"The Government will have to keep pumping short-term stock into the market at more attractive yields."

The Government is under increased pressure to borrow because tax receipts are down due to the recession and expenditure is slightly up.

Some economists expect this to lift the deficit before borrowing to between 3,9% and 5% of gross domestic product for the year as opposed to the Budget estimate of 3,4%.

Cash

The Government has raised R5,6-billion and it will need another R2-billion before its funding requirements from the capital market for the fiscal year are satisfied.

If necessary it could draw down the R5-billion balance it has with the Reserve Bank, another inflationary method of finance.

It raised R1-billion through new issues of short-term stock and R2,4-billion through long-term RSA 150.

The RSA stock yields about 16,92, which is only 1,02% above the inflation rate. The poor outlook for inflation means yields are under upward pressure and the price of the stock is falling.

This is shown by the fact that when bank rate was cut, long-term yields actually rose by 1,7% — an abnormal occurrence.

The first quarter fiscal 1991-92 deficit before borrowing is R6,3-billion — 43% higher than last year.

The Reserve Bank Economic Report says the Public Investment Commissioners funded R3,3-billion, the non-bank private sector R169-million and the banking sector R4-billion, mainly through short-term paper.

Money raised from Treasury bills amounted to about R1,2-billion in the first quarter of the fiscal year compared with R400-million last year. At the same time cash balances at the Reserve Bank rose by R500-million.

Banks to run furniture debts

S Times (Bus) 15/9/91

By JULIE WALKER

JD GROUP, the furniture retailer comprising Joshua Doore, Price 'n Pride, Bradlows and Score Furnishers, is to sell its debtors' book to a consortium.

The buyers — Nedbank, Standard Bank, Senbank, Finansbank, Volkskas and Volkskas Merchant Bank — will own 100% of JD Sales, the book bought at net asset value without recourse to the seller.

JD Group will receive a management fee for administering the book, as well as a preference dividend through its subscription for a share entitled to the distributable profit of JD Sales.

The consortium will fund R1 000 and JD Group R750 of every R1 750 sales.

JD Group chief executive David Sussman says: "The quality of our debtors' book is extremely high. The consortium appointed an independent auditor to verify the quality of our book. Its findings bore out everything we claimed about it."

The deal removes the banking element from JD Group balance sheet. At December 1990, long-term borrowings were R115-million. Now they are virtually zero. Loans and investments have risen from R11-million to R188-million, reflecting the investment in the preference shares of JD Sales.

JD Group becomes a cash operation with capacity to expand. It has R58-million cash compared with R80 000. The consortium gains access to 400 000 account holders plus the paid-up ones, to which its members can market other services.

SUNDAY

Banks and Treasury at odds

S Times (Buss) 15/9/91

By DIRK TIEMANN

WITH only two weeks before Vat-Day banks and the Treasury have yet to find a way of raising the R200-million wanted from institutions as a substitute for the tax on financial services.

Originally, the Treasury decided that a 0,75% turnover tax on gross interest of all deposit-taking institutions (DTI) was the way to do it. Legislation was rushed through Parliament before the end of the last session.

But because of difficulties in defining interest, banks say the concept cannot be applied equitably.

The banks proposed that the turnover tax be replaced by one on their capital reserves, amounting to about R10-billion as required by law — 4,5% of assets. This would work for banks, but not for assurers and pension funds because these capital reserve requirements do not apply to them.

If the banks' proposal is accepted another sort of tax would have to be levied on assurers and pension funds. There is no clarity on whether this will happen.

The banks are partly to blame for the bungle because they knew of the intention to tax financial institutions in February, but could not agree on how it should be done.

Standard Bank chief accountant Henry Shaw, who was on the committee involved with the matter, says: "It has been difficult to reach consensus. The committee was formed when the legislation was passed. But there was a problem with the definition, application and recovery of the tax.

Favour

"We agreed that financial institutions be taxed, but not on whom it would apply and how."

Mr Shaw thinks consultation among banks and with the Treasury has gone well compared with the peremptory manner legislation has been applied in the past.

Inland Revenue director of legal drafting Ian Meiklejohn says he hopes a solution will be found soon, but he will not divulge what he has in mind.

If the capital tax was approved, it would favour banks with large home-loan books and other low-risk assets such as government stock and cash on deposit. These assets have low capital reserve requirements.

Whatever happens, the cost of the tax will be passed to the customer through higher interest rates and bank charges.

New tax blow for all bank clients

By CURT VON KEYSERLINGK and DIRK TIEMANN

THE new tax on banks' capital reserves will hit all their customers — borrowers will have to pay more interest and depositors will receive less.

This is the view of bankers approached by Business Times after Nedbank, First National and Absa lifted prime overdraft rates by 0,25%.

First National also increased its home loan rate by 0,25%.

NBS and Standard are likely to follow.

Nedbank deputy managing director Johan Westraat says: "We have changed lending rates, but we must also look at the other side of our balance sheet. There is no doubt that we will drop deposit rates."

He says an early announcement is likely.

Banks say the 0,25% lending rate increase will not yield sufficient additional revenue to cover the new tax to be levied on financial institutions instead of Vat.

Absa executive director Mike de Blanche says: "The 0,25% interest-rate increase will not cover the new tax. To do so we would need a 0,35% increase.

S Times (Bus)

Suffer

"The market is liquid, so we could see a downward adjustment in deposit rates."

Sanlam economist Johan Louw also predicts a drop in deposit rates.

Mr De Blanche says the tax is a tax on a tax. To raise money to pay the tax, banks must increase their margins. This improves their bottom line, which attracts more company tax.

22/9/91

It is only after company tax has been calculated that the new tax is levied on banks' capital reserves.

Mr De Blanche says banks, such as United, which have large long-term deposits will suffer more than others because they are locked into fixed-interest rates.

"The tax will be a shock to the ordinary man who has, if anything, been expecting interest rates to fall," says Mr Louw.

"It is a bad time to introduce such a measure. It could delay the next economic upswing."

R23m flat sales

Business Times Reporter (58)

INVESTEC Property Group, which led a syndicate in the R90-million purchase of 11 blocks of flats in Bedfordview early this year, has sold apartments worth R23-million.

Tenants were given first option to buy their flats.

IPG managing director Marc Wainer says: "The demand was phenomenal." S/Times (Bus) 15/9/91.

Another 94 flats in two blocks come on the sectional title market today at prices ranging from R80 000 to R275 000.

The blocks have been incorporated in a landscaped 10-hectare estate with its own security and sport and leisure facilities. IPG has spent R5-million on developing the estate.

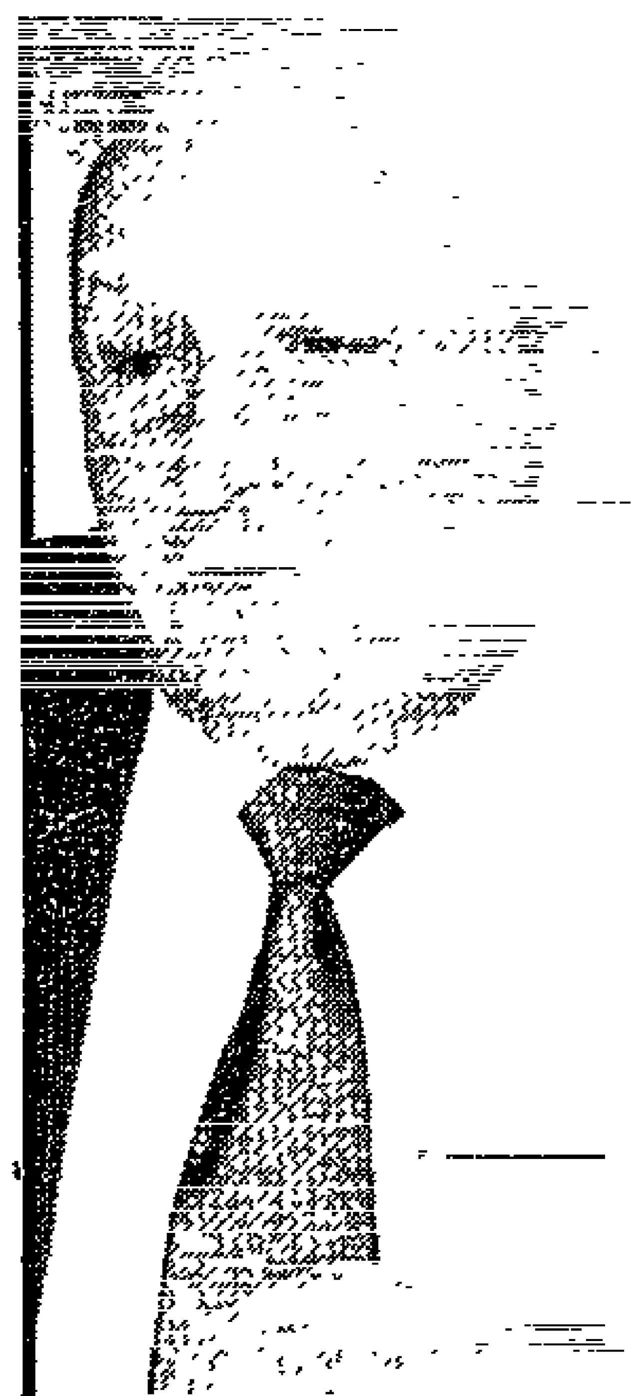
Mr Wainer says there has also been strong demand for flats from investors.

"A big draw is the high replacement cost. A one-bedroom unit selling for R80 000 would cost R140 000 at today's prices."

rty links up former foe

S Times (Bus) 22/9/91.

(S8)



DONNY GORDON: Victory

LIBERTY LIFE received a £140-million vote of confidence from the second-largest insurance company in Europe this week.

Liberty's former French foe — Societe Centrale Union Des Assurances de Paris (UAP) — became a close partner.

By DAVID CARTE

UAP agreed to share control of Sun Life of the UK with TransAtlantic Holdings, Liberty's UK arm. It will also invest £140-million in TransAtlantic.

Sources close to the deal say the partnership opens the doors to Europe for TransAtlantic.

For UAP, it opens up the English-speaking world.

Liberty chairman Donald Gordon said in London that UAP chairman Jean Peyrelevade and chief executive Jacques Gougenheim had dealt closely with Liberty and TransAtlantic for three years. They took a close look at Liberty and liked its style.

Equal

Mr Gordon says: "We get on extremely well and have a similar business philosophy. This deal removes uncertainty and brings two negative holders into one positive one. We could not have acquired a more desirable international partner.

"UAP provides a wonderful opening to Europe on the eve of economic unification in 1992. It would have been foolish for us to venture there with our eyes shut. UAP will give excellent guidance in property and other areas.

"It has invited me to join its board, which boasts some of the biggest names in European business. It has the same entrepreneurial instincts as we do even though it is State controlled."

Mr Gordon says the relationship could become closer. He does not exclude the possibility of UAP's acquiring a holding in Liberty.

In acrimonious manoeuvring in 1988, TransAtlantic blocked an attempt by UAP and Sun Life management to move control to UAP by means of a rights issue.

The two parties later agreed warily to hold equal stakes and signed a Texas auction agreement. This gave TransAtlantic the right to put its shares to UAP at what it considered an appropriate price. UAP would have to accept its shares or sell its own.

Richard Stuart, research director of stockbroker Martin & Co says: "When the shares were suspended on Thursday, I thought the Texas auction was coming into effect and that there would be a shootout at the OK corral. Instead, the contenders emerge as partners."

UAP and TransAtlantic have together bought 3-million shares in Sun Life from Sun Alliance for £35-million. In addition, they have put their equal stakes of 18,8-million Sun Life shares into a new company named Rockleigh Corp.

They will have 50% each of Rockleigh, which will have 59,9% of Sun Life. Once the transaction is cleared by the regulators, Rockleigh will offer £11,60 a share to minority holders in Sun Life.

Depending on acceptances, Rockleigh's stake in Sun Life will exceed 60%. Sun Life's shares were valued at market price, so few acceptances are expected.

Welcome

In addition to its 50% stake in Rockleigh, UAP will have 16,8% of TransAtlantic. First International Trust (FIT) will have 42,9% of TransAtlantic and Liberty another 12,1% direct.

UAP will subscribe for 35-million new TransAtlantic shares at 350p each, a total of £122,5-million. In addition, it will acquire 5-million shares, also at 350p each.

Sun Life chairman Peter Grant, who prevented Liberty from playing a role in the company from 1980 to 1988, will stay on board with existing management.

Mr Grant says: "I very much welcome the commitment to the future of Sun Life which UAP and TransAtlantic, as principal shareholders, have announced."

In the past three years "we have received excellent support from them and I believe that the long-term business partnership with us which they intend offers a prospect of great benefit".

Sun Life has assets of £7,4-billion against Liberty's R30,4-billion last balance sheet. Premium income of Sun Life was £1-billion and investment income £500-million.

Its market capitalisation is £789-million (R3,86-billion) compared with Liberty's R8,5-billion.

TransAtlantic's other big interest in the UK, 75%-held property group Capital & Counties concluded a £102-million rights issue this week.

FIT is engaged in a rights issue underwritten by Liberty to raise R375-million, largely to pay for TransAtlantic shares sold by Rembrandt.

Stockbrokers say the new cash from UAP will more than compensate for the outlay to Rembrandt and help the FIT share price.

September 2 1991

Another black bank formed

Sowetan 2/9/91

(58)

By NKOPANE MAKOBANE

AN announcement is to be made today about the launch of a new black-controlled bank in which the majority of shares are to be held by blacks.

The bank, to be called Future Bank, is a joint venture by the Foundation for African Business and Consumer Services and Wesbank, one of the major subsidiaries of First National Bank.

Fabcos public relations manager Mr Fanyana Shiburi said the new bank would be headed by Mr Gaby Magomola, chairman of Fabcos marketing.

The managing director designate is Mr Neville Watchurst, a senior manager at Wesbank.

GABY MAGOMOLA

It will operate independently and have its own board of directors from both Fabcos and Wesbank. The Fabcos team will comprise Magomola, Mr James Chapman, Mr James Ngcoya, Mr Joas Mogale, Mr Jabu Mabuza and Mr Andrew Lukhele.

"The name 'Future' was chosen because we believe the future of the South African economy lies with blacks. We see the bank rising to become not only the most powerful bank in South Africa but in Africa.

"We are indeed greatly excited because we want to believe this a contribution towards real economic empowerment of our people."

Shiburi said blacks were mainly in the informal business sector. As a result, it had always been difficult for them to raise capital.

"This has obviously left a huge opening in the banking sector for a bank of this nature. We all know the informal sector contributes almost R7 billion annually towards the economy and this will be our major area of operation," he said.

The signing ceremony will take place in Johannesburg on September 16. The bank will be formally launched some time in November.

Fabcos has a membership of 1,3 million and it consists of 14 major informal sector associations. These include the the Southern Africa Black Taxi Association, the National Association of Stokvels, South African Taverners Association, African Builders Association and the National Federation of Informal Business Sector.

FRANK TARRY: Complained

FPS in R10m fraud probe

By DIRK TIEMANN

THE COMMERCIAL Unit of the SA Police is investigating suspected fraud by someone involving R10-million at Sage Holdings subsidiary Financial Planning Services (FPS).

Police liason officer Captain Eugene Opperman says "millions" are involved, but that no formal charges have been laid and no arrests made.

Sage director and FPS spokesman Bernard Nackan says: "We do not know whether a crime has been committed. An investigation has been launched by ourselves and our legal advisers and I understand the police are investigating."

Threats

The name of a senior FPS executive, who is now abroad, has been linked with the affair.

Mr Nackan confirms that the executive is abroad, but says he is on a legitimate business trip.

A participation mortgage company, Randbond Investments, complained to FPS this month that R2,1-million invested by FPS on Randbond's behalf was not repaid on due date.

Randbond managing director Frank Tarry says his company must now refund the money to his customers and that some are threatening him with legal action.

Mr Tarry is considering legal action against FPS.

He says he placed the money in June with a senior FPS executive, who undertook to deposit it on 60-day notice deposit with NBS.

The money is no longer in the account.

Mr Tarry says he warned FPS management about the matter on September 12, but the police were told only on September 21.

NBS general manager operations Rob Walkerley says: "The money was legitimately withdrawn either by Randbond or someone with a mandate from Randbond.

"No client has lost any money as yet and nobody is looking to us for funds."

Deneys Reitz attorney Rupert Smith, for FPS, says the problem may boil down to a misunderstanding between Randbond and the FPS executive.

Mr Rupert says: "The executive may have been acting contrary to instructions, but this does not necessarily amount to fraud.

"It is conceivable that the money was reinvested in other accounts as part of his function as investment adviser."

Mr Smith says it is premature to talk of fraud because access to the necesssary NBS documents has not been possible and the FPS executive is not in the country.

He says the executive has been asked to return to Johannesburg to explain.

Mr Tarry believes that another R8-million belonging to other investors is also involved. But Mr Smith says the total in question is about R5-million.

In the black

SOUTH AFRICA's newest short-term insurer, Business & Personal Insurance Company (BPI), was one of two short-term companies to show an underwriting profit last year. (58)

Figures for its first year — to February 28 — show an underwriting profit of R245 624.

BPI opened in 1989 when it was granted one of the first two insurance licences to be issued in 10 years.

It concentrated on underwriting electronic and office automation equipment, but an application for a general insurance licence was granted last year. S|Times(Bus) 8|9|91

The only other short-term company to produce an underwriting profit last year was Mutual & Federal, the biggest in the field.

Bankorp joins banks in property venture

(58)

SHARON WOOD

BANKORP joined other major banking groups in the multimillion-rand venture, Comprehensive Property Services (CPS), on Friday.

CPS was formed to supply a comprehensive computerised service to the real estate industry and estate agents.

CPS MD Stefan Swanepoel said six of the top eight banking groups were now shareholders of CPS.

ABSA was supporting a similar, but smaller venture, and Saambou was still undecided. B/Day 23/9/91.

"Each of the banking groups now holds a 16,6% share in CPS and is equally represented on the board," he said.

The only outside directors on the board were two representatives of the Institute of Estate Agents of SA.

CPS opens its doors officially in January.

Bday 24/9/91

Insurance rate war 'is over'

SEAN VAN ZYL

58

THE five-year rate war which has dogged the short-term insurance industry and resulted in massive underwriting losses is over, Hosken Insurance Brokers director Doug Terrill said.

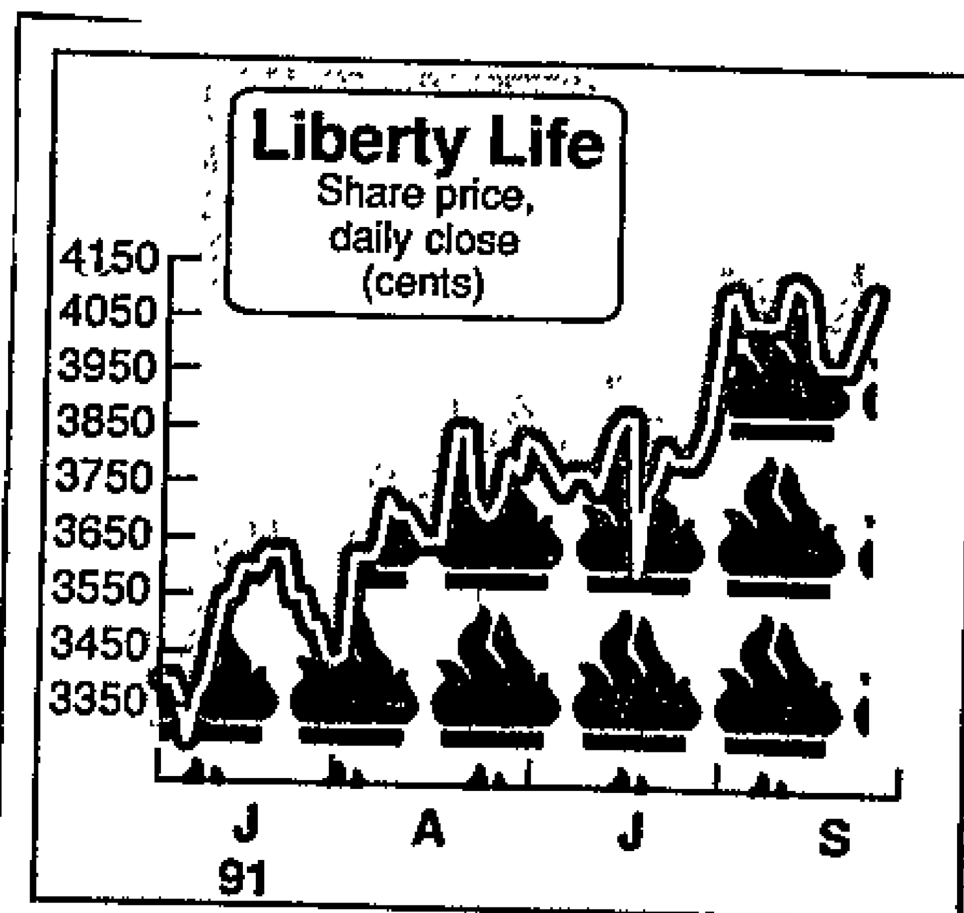
Terrill said the strengthening of local premium rates was much in line with international developments following the shock losses reported by Lloyd's for the current trading year.

"Markets are reported to have turned around and things definitely look better."

He added that the rate increases were resulting in a more stabilised market which was to the benefit of both insurance companies and their policy holders.

Most insurance companies' underwriting accounts for the six months ended June showed significant improvement on the underwriting losses disclosed for the 1990 trading year.

Although the market was still fairly weak, insurers said rates had definitely bottomed and the cycle indicated a stabilising of the short-term industry. In addition, a number of them expected to disclose modest underwriting profits for the 1991 trading year.



Graphic: LEE EMERTON Source: I-NET

Healthy response to Liberty shares

MERVYN HARRIS

SHARES in the Liberty stable came back to the board with a flourish yesterday after being suspended on Thursday.

Investment trust FIT set the tenor for the day by jumping to a high of R11 in early trade. By the close it had slipped back to R10, up 6,3% or 60c higher on the day.

The market responded well to Friday's deal which saw Liberty and French insurer UAP tying up their interests in Sun Life through the Rockleigh Corporation.

Liberty shares traded in the latter part of the day. The stock fell back from an initial high of R42 to close 3,1% or 125c up at a fresh peak of R41.

Lib Hold held on to its rise to end 3,7% or 400c firmer at a new high of R110, while Libvest made the best rise of 8% or 60c to 810c.

The group's banking interest in Stanbic pushed up last week's gains in the share to see it rise 100c to close at a new high of R52.

Gold shares were largely ignored as a firmer finrand investment unit offset a slightly firmer gold price which made repeated assaults on the $350 level.

Investor interest was dampened by the closure of the Hong Kong and Tokyo markets due to public holidays.

The JSE all gold index eased six points to 1 129 and the overall index ended the day five points lower at 3 402.

Major revamp on the cards for Absa

ANDREW GILL

(58)

A MAJOR revamp is on the cards for Absa at the end of the month with subsidiaries becoming operating divisions of United Holdings, which is likely to be renamed Absa Bank. B|Day 26/9/91

Sources outside Absa said yesterday the separate balance sheets of subsidiaries Volkskas, United, Allied and Absa Motorbank would be incorporated by United Holdings but all divisions would retain their corporate identities.

The move is apparently being taken to comply more easily with the capital adequacy requirements of the Deposit-Taking Institutions Act, government's impending tax on banks' capital bases and the implementation of VAT.

The group said at the original merging of Volkskas, UBS and Allied that rationalisation measures would be taken and efforts would be made to divisionalise operations.

Subsidiary companies would now become operating divisions of Absa Bank.

Absa has assets of almost R52bn and is the largest banking group in the country. The operating divisions will retain autonomy, entrenched, apparently, by the new agreement.

Other groups have already brought subsidiaries on to the balance sheet, with Stanbic incorporating Stannic and First National taking in Wesbank.

Banks increase rates to offset tax levy

ANDREW GILL (58)

BANKS acted this weekend to limit the effects of an impending R200m tax levy by announcing a 0,25 percentage point hike in lending rates.

The move, which has drawn criticism from cash-strapped businesses and consumers, is the result of a tax levy to be introduced on banks which the industry says it cannot afford to absorb.

The hike, however, will not recover all of the levy and could see deposit rates moving down by a similar amount.

Banks say they will attempt to take advantage of the current liquidity in the system and a large investment pool to push deposit rates down.

Four of the big five banking groups have already announced the 0,25 percentage point hike and Standard Bank is expected to follow suit today.

The increase has resulted in a 3,25 percentage point spread between prime and Bank rates, a move away from the conventional three-point spread.

It was a convention adhered to for years, despite the De Kok Commission's recommendation that it be scrapped.

Fears that the rate increase may have

☐ To Page 2

BDay 23/9/91

Bank rates

(58) ☐ From Page 1

provoked the Bank into squeezing banks harder were allayed by Reserve Bank deputy governor Jaap Meijer.

It had been expected, he said, and wasn't likely to be countered by Bank moves. In fact, it could influence any Reserve Bank decision to lower rates if VAT had less-inflationary effects than expected and gold and foreign reserves continued rising.

Nedcor CE Chris Liebenberg said banks had been forced to hike rates because of the new tax. He added they would not be profiting from the move.

While the increases, mostly effective from October 1, had been expected by mnay, the timing of First National's announced rise on Friday morning took some other banks by surprise.

The tax is to be levied on banks in lieu of VAT as financial services are zero-rated. However, not being part of the VAT net means that banks can't claim imputed input credits, a "double whammy" for banks.

While the banking industry is aware of government's intention to implement the tax levy, no final decision has been taken on what form it will take.

Late on Friday, bankers expected the tax to be placed on their capital bases according to the capital adequacy requirements of the Deposit-Taking Institutions Act.

Previously, a turnover tax on banks' gross interest earnings of 0,75% would have been implemented, but this was opposed by banks becuase of the difficulties in administering the tax and its lopsided nature.

FutureBank launched

THEO RAWANA

FUTUREBANK, a joint venture between black business group Fabcos and FNB, would try to fill the void in banking structures that had prevented blacks from participating in the mainstream economy, MD-designate Neville Watchurst said yesterday. B|Day 17|9|91

Addressing the signing ceremony of the bank in Johannesburg, Watchurst said FutureBank would focus primarily on the investment and instalment credit needs of individuals as well as the developing informal and formal sectors.

"This will be achieved by offering not only the normal instalment credit facilities, but also services which are focused and unique and which will create new opportunities for South Africans," he said.

Watchurst said capitalisation figures would be released at a later stage, nearer to the official launch date of November 27.

Fabcos Marketing CEO Jabu Mabuza is the bank's chairman and Watchurst is MD.

The other directors are: Fabcos president James Ngcoya, Fabcos secretary-general Joas Mogale, National Stokvels' Association of SA president Andrew Lukhele, Fabcos Marketing joint MD James Chapman, Wesbank MD Peter Thompson, Wesbank senior GM L Nightingale, Wesbank GM R A Shales, Wesbank GM R W watson and FNB GM J J F Meiring.

Fabcos public affairs manager Fanyana Shiburi said the bank would have a majority black shareholding, and initially key personnel would be seconded from Wesbank to assist with its running.

"It will, howver, be a prime objective of FutureBank to ensure that suitable blacks are recruited and trained so as to fill senior management positions," Shiburi said.

He added: "Insofar as banking arrangements are concerned, they will be tailored to the needs of its customers and will of necessity be innovative and appropriate to the target market."

With the first branch located in Johannesburg, others would later be opened in strategic locations nationally.

Where the bank was not represented, Wesbank would provide the necessary service, he said.

Fabcos Marketing CEO and chairman-designate of FutureBank, Jabu Mabuza, and Wesbank MD Peter Thompson at the FutureBank signing ceremony yesterday. The bank is a joint venture between Fabcos and FNB. Picture: ROBERT BOTHA

THE MONEY MARKETS by Andrew Gill

Surprise collapse in shortage gives banks month-end leeway

(58)

B Day 30/9/91

AN unexpected R960m crumbling in the shortage to R843m on Friday is expected to allow banks leeway over what used to be a tight month-end.

Continued and escalating demand for liquids saw the banks scrambling back to the window to repurchase what was left of their paper at the Reserve Bank.

This apparently accounted for R300m of the drop in the shortage. Other factors included continued forex inflows, a drop in note liability, maturing T-bills and dollar swaps.

Despite the fall, the Bank did not roll a maturing R200m in T-bills on Friday and is not expected to roll or issue over the month end. Also, a R300m maturity is due today which could see further dips.

The move to repurchase surprised some of the players because of the impending month end. So did the note liability because of the weekend and school holidays, which usually see cash drawn with a vengeance.

A possibility is that the recession has taken such a toll that consumers are spending less on holidays — if they are going away at all.

The only concerted action expected to be taken by the Bank to maintain a "respectable" shortage is dollar swaps.

Demand for liquids has been reflected in the continued dip in the weekly T-bills rate, which hit 16,50% on Friday on a subscription of over four times the R150m on tender.

The shortage, however, is not expected to remain at current levels and this week should see it climbing back up through tax payments and some form of Reserve Bank action.

The ease of recent month ends is commented on in the latest quarterly bulletin, which shows the move in interbank call over the month end in June 1990 and June 1991.

In 1990 it fluctuated between 18,75% and 21% and this year moved in an extremely thin and easy band of 16,75% and 17,25%.

Banks' good fortune over the month end may continue into October. This will depend on the form the forthcoming levy takes.

Legislation needs to be changed to tax capital bases, and a spokesman said it would not be finalised for last Friday's gazette.

With lending rates climbing 0,25% on the first of the month, better margins may appear until finalisation — something that may make up a little for the lost revenue once the tax is implemented.

Market talk of Sun Life takeover

Exchanges freeze trade in Liberty stock

B/Day 20/9/91

(58)

BRENT VON MELVILLE

TRADING in Liberty Life shares was suspended on the Johannesburg and London stock exchanges yesterday, and will not resume until Monday, according to the group.

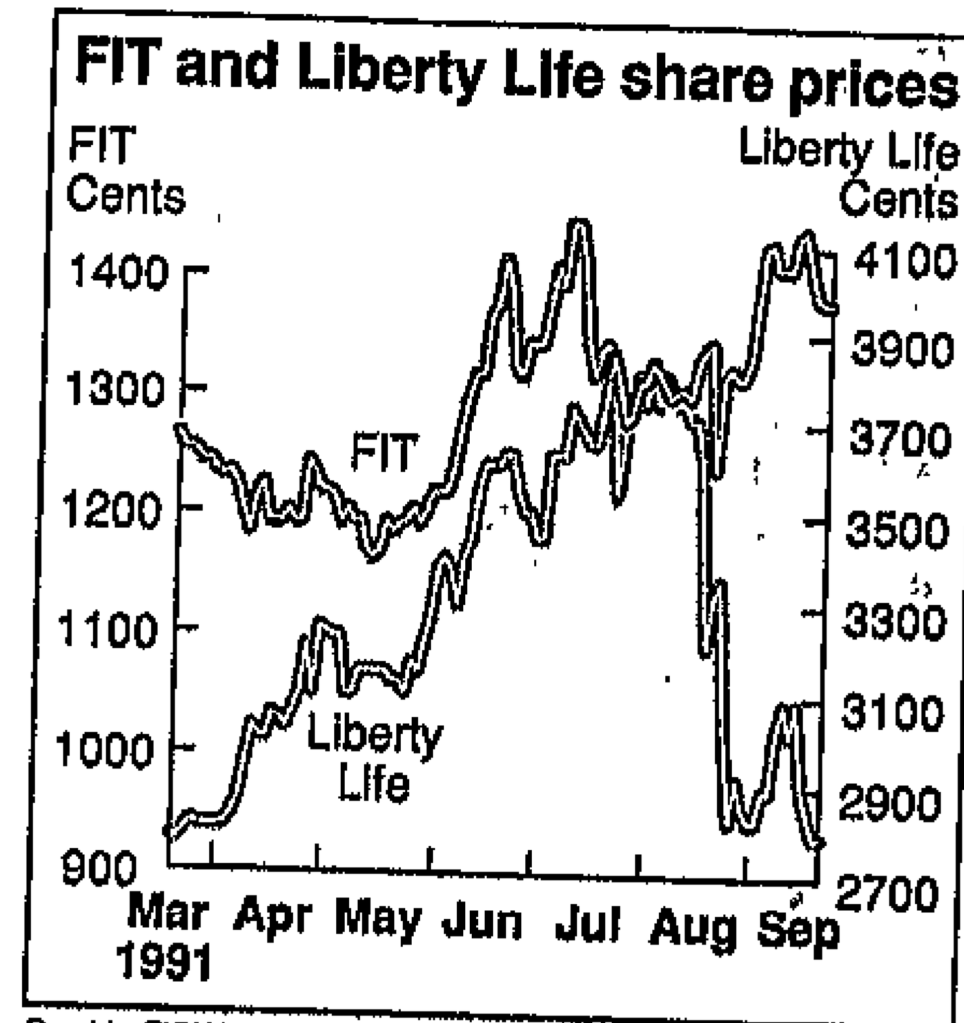
The suspension of Liberty Holdings, Liberty Life, First International Trust (FIT) and Liberty Investors was requested by the companies and triggered speculation of a major offshore restructuring involving Liberty's TransAtlantic and Sun Life.

Market speculation was that Liberty Life chairman Donald Gordon was close to achieving his long-standing ambition of gaining undisputed control of UK assurer Sun Life Corporation through Liberty's Luxembourg-quoted insurance and property investment holding company TransAtlantic.

Sources close to TransAtlantic said the group was negotiating with l'Union des Assurances de Paris (UAP) to acquire the French assurer's 27,9% stake in Sun Life for about £180m.

Last night, Gordon would neither confirm nor deny that Liberty was planning to acquire additional shares in Sun Life.

Liberty and UAP have held equal 27,9% shareholdings in Sun Life for some years. Analysts here and in London believe UAP's shareholding was acquired simply to warehouse the shares until Liberty was ready to bid for the entire equity of Sun Life. Gordon had openly expressed interest over the years in gaining a controlling interest in Sun Life. His attempts had, however, been repeatedly blocked by Sun Life's shareholders and, informally, by London's old-boy network.



Graphic: FIONA KRISCH Source: I-NET

The deal would probably involve a combined equity swap and cash payment for the French interest, stockbrokers believe. London's takeover regulations would mandate a comparable bid for minority shareholdings.

The brokers added that Liberty was expected to take a direct interest in TransAtlantic in addition to its indirect holding through FIT.

Furthermore, Gordon was rumoured to be keen on a UK listing of TransAtlantic which has so far been blocked by the London exchange's listing regulations governing pyramid investment companies. However, sources said the Sun Life acquisition could make such a listing possible. At pre-

☐ To Page 2

Liberty

B/Day 20/9/91 (58)

☐ From Page 1

sent TransAtlantic is listed only on the Luxembourg Stock Exchange.

Richard Connellan of the JSE's listings department yesterday confirmed the exchange had recently passed a special resolution which authorised listed companies to enlarge their equity bases by up to 10% in a private placement to raise quick cash. No public offer would have to be made in this instance, unlike in a conventional rights issue.

Sources said Liberty had applied in terms of the special resolution to raise additional capital for the Sun Life deal.

Connellan confirmed the Liberty application, but added the arrangement was far from concluded and had not been the sole reason for the suspension of the shares.

He added the JSE's decision to suspend the shares was taken early yesterday morning due to the importance of the deals in progress. "The exchange regards a suspension as extremely grave and would not grant an application for just any reason."

Liberty Holdings executive director Farrell Sher was tight-lipped on the suspensions, and would say only that negotiations were taking place that could have an effect on the share prices.

The expected Sun Life deal follows speculation earlier this year that Gordon was considering merging Transatlantic with UK property developer Capital and Counties (Capco) to create a single £1bn property and insurance vehicle listed in the UK.

London-based Warburg Securities analyst Mike Heskeith said it was no secret that Gordon had taken the stake in Sun Life with a view to ultimate control, but said that it was in neither company's interest to trigger a full-scale takeover.

Worst over at Bankorp

(58)

S Times (Bus) 1/9/91.

PIET LIEBENBERG: Better days

By JULIE WALKER

HAPPILY for shareholders and employees of Bankorp, chief executive Piet Liebenberg says the worst is past.

At the interim to December 1990 Bankorp had made 21,6c a share, so the 15,9c for the year indicates a setback in the second half.

On Friday morning the stock market marked Bankorp shares down 30c to 280c on the results, and there was an immediate bear sale at Thursday's closing price of 310c.

The Sanlam-controlled trio of banks has had another difficult year. Mr Liebenberg took the tiller in June 1990 and wasted no time in the last month of the 1990 year in writing off nearly R300-million in bad debt.

The R64,5-million net income in 1991 looks good against 1990's loss of R368,4-million.

Income before abnormal items was R185-million compared with last year's R25-million, but R100-million has been transferred above the line for internal provisions.

Successor

Mr Liebenberg says uncertainty prevailed about the group after the death of group chairman Fred du Plessis in March 1989 and his own arrival in June 1990. Many faces have changed in that time, and the group has seen the departure of Senbank chief and long-standing Liebenberg colleague Hennie van der Merwe.

But, says Mr Liebenberg, he is now in a position to recruit top people, particularly for Senbank, and has in mind a successor for the corporate bank's top slot.

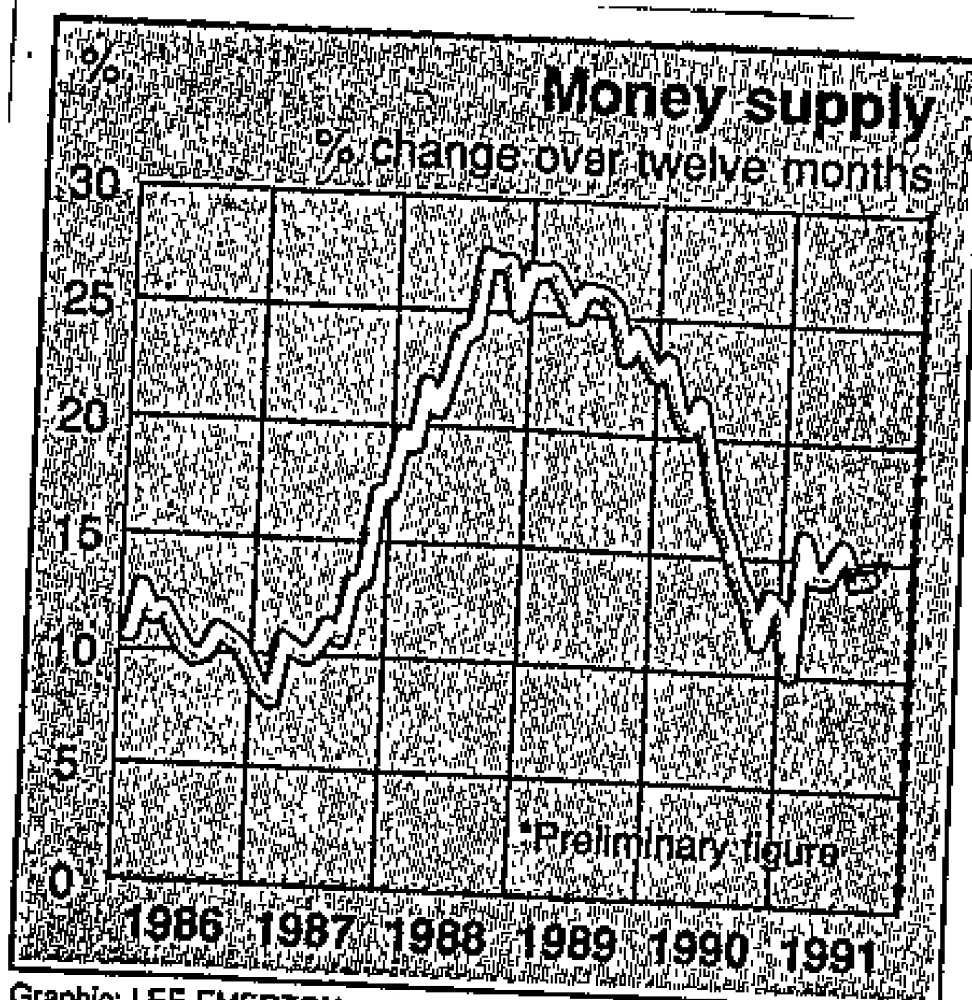
Most of the hospital cases Senbank now holds were inherited from the corporate division of TrustBank, which was put into Senbank in the Bankorp restructure.

Mr Liebenberg refers to two courses of action. The old bad debts are being amortised over five years on a fixed basis involving Bankorp's internal reserves.

In the second case, involving normal business, the book is assumed to be relatively clean and provisions and write-offs in this category are made against current earnings.

Instalment credit bank Bankfin is on target to make a real return of at least 5% this year, but Senbank and TrustBank will reach that target only in two to three years.

The cash dividend was held at 25c and major shareholders Sanlam and Sankorp are again accepting bonus shares instead of cash, an option all shareholders will have.



Graphic: LEE EMERTON Source SA RESERVE BANK

Static growth in money supply

SHARON WOOD

HIGH interest rates and a flat economy saw money supply growth remain virtually static in August — with M3 growing by 14,51% year on year.

The M3, the broadest money aggregate, reflects changes in bank deposits and notes and coins in circulation.

Reserve Bank figures yesterday showed that M3 growth in July was revised downwards to 14,37% from a preliminary 15,94%.

The figure used by the Reserve Bank to determine the success of monetary policy fell to 15,85% (seasonally adjusted and annualised from the fourth quarter last year) from 17,12% in July. This remains well outside the 8%-11% Reserve Bank guidelines because of distortions caused by previously excluded bank lending.

Nedbank chief economist Edward Osborn said the year-on-year figures were meaningless and growth from February, the month the Deposit-Taking Institutions Act was implemented, gave a better indication of money supply trends. Money supply growth from February was 7,7% seasonally adjusted and annualised.

"This slow growth indicates the economy is very flat and banks are desperate to increase business," he said.

Total credit extended to the private sector and government rose slightly by 0,5% to R178bn from R177bn in July. In contrast, total claims on the private sector plunged by 14,8% month on month but were up 15,95% year on year. Hire purchase credit rose by 0,6% month on month.

Metropolitan rights issue oversubscribed

B/Day 6/9/91

SEAN VAN ZYL

METROPOLITAN Life announced yesterday that its R187m rights issue of 22,4-million shares at 850c a share had been oversubscribed by 7,7%.

Applications for 24,1-million shares were received. The additional shares applied for have raised the value of the rights offer by R17m.

MD Marius Smith stated previously the new capital raised would be placed in Metropolitan's investment fund. He said the issue was aimed at broadening the company's shareholder base and increasing the share's marketability. (58)

The offer followed the successful private placing by controlling shareholder Sankorp of 10-million Metropolitan shares at 950c a share with institutional investors.

Hollard weathers stormy underwriting conditions

Business Day Reporter

UNLISTED short-term insurer Hollard Insurance Company managed to weather the stormy underwriting conditions of 1990 by cancelling its poorly rated and administered business, MD Miles Japhet said.

Controlled by the Enthoven family, Hollard is one of the few remaining independent insurance companies not held by the big corporates.

Chairman Patrick Enthoven said in his annual review for the year ended March 1991 he regarded the company's ultra-conservative investment and underwriting policies as the key to Hollard's long-term growth potential.

Japhet said despite the poor underwriting conditions, Hollard had maintained its unbroken record of 11 years of producing an underwriting profit. He ascribed the positive underwriting performance to the company's strict criteria on accepting new risk.

Hollard produced an underwriting profit of R760 000 for the year compared with a profit of R2,4m achieved in the 1989/90 financial period. The disposal of interests in various operations resulted in Hollard's bottom-line profit picking up to R15,1m against R9,4m for the previous year.

However, Enthoven said, the company's policy of only accepting profitable risk could impact negatively on the insurer's premium growth in the current trading year.

EXECUTIVE SUITE

By William Wells and Jack Lindstrom

Seeff considers international link

LINDA ENSOR

CAPE TOWN — Estate agent the Seeff Organisation is considering a tie-up with one of the largest international property companies in Britain, which has offices in several countries, says Seeff Residential Properties MD Samuel Seeff.

There would not be a sale of shares but the deal would involve the appointment of Seeff as the company's SA representative. Income earned would be in the form of a commission from referrals.

Seeff said at the weekend the advantage would be access to a wide client base and marketing opportunities overseas such as advertisements, window displays and home exhibitions.

All offices in the UK would have information on properties available from Seeff.

"As the relationship between SA and the UK strengthens so there will be a lot more interest in SA property," Seeff said.

Seeff sold four properties to UK buyers referred from its London office for a total of more than R1,2m in July. A property in Hout Bay was sold recently to a German for R1,5m, a sectional title unit in Bantry Bay to a Hong Kong buyer for R1,2m and negotiations were being finalised for the sale of another unit in the same complex.

Seeff director Carmella Seeff, who recently returned from a property tour overseas, said the firm's London office was being deluged with requests for information on the housing position in SA from would-be investors and immigrants.

Call to use life funds for development

Business Day 16/9/91

LINDA ENSOR

CAPE TOWN — Suitable outlets had to be found for the investments of contractual savings institutions, Finance Minister Barend du Plessis said on Friday.

Addressing the conference of the Cape Assurance Industry Liaison Committee, Du Plessis pleaded for proactive and innovative thinking in this regard.

He said the future of the country had to be secured by the proper use of life funds which had traditionally been invested in inflation-hedging assets such as equity and fixed property. There was a need for the institutions to provide risk capital for growth to the private sector.

"There are various ways in which contractual savings institutions can channel funds to specialised development agencies such as the Small Business Development Corporation, the Development Bank of Southern Africa and the Independent Development Trust, which support socio-economic projects.

"Schemes have been devised to use pension fund contributions as a leverage to gain access to normal channels of funds for home financing, but the results so far are rather limited. More needs to be done to tap the resources available to finance socio-economic projects."

Du Plessis said the contractual savings institutions would be well-advised to pay attention to the infrastructural needs of black urban areas which had a great need for office blocks and shop facilities.

Turning to the question of foreign investment, he said the political clout of unions, which had resulted in high wage and salary increases, was one of the reasons why SA was no longer attractive to foreign investment.

He said the increases obtained in a situation of widespread unemployment were unrealistic.

"No successful economic country has that relationship between unemployment and rising wages."

He said foreign investment was attracted to countries where profits could be made and this required productivity and a stable labour force.

The fact that SA's foreign debt — which stood at 180% of annual export earnings in 1985 — was now at 70% made the prospects of raising capital on foreign markets very promising.

Liberty 'joins bid for Standard Charter'

B/Day 25/9/91 (58)

SEAN VAN ZYL

RUMOURS resurfaced this week of a takeover bid for UK banking group Standard Charter, Stanbic's former parent, by a European consortium including the Liberty and Union des Assurances de Paris (UAP) alliance.

Standard Charter faced a hostile takeover attempt a number of years ago when Liberty's chairman Donald Gordon entered the fray as a white knight.

Sources said Standard Charter, recovering from a poor trading period with its share price at a five-year low, could now fall prey to a banking consortuim led by UAP, Liberty and German-based Westdeutsche Landesbank.

The consortium would probably break up the bank's extensive Africa and Asian networks, with the Liberty/UAP alliance pitching for the Africa and UK operations and the German bank the Pacific Rim network.

Sources said Standard Charter was in a weak position due to bad debt and difficult operating conditions experienced mainly by its UK, US and Australian networks — opening the bank to a hostile bid.

Standard Charter's pretax profit in 1989 fell to £67m from 1988's £313m. The 1990 trading year showed significant improvement in pretax profit to £150m, although substantially less than that achieved in 1988.

Licence

Standard Charter's Africa network, rumoured to be up for sale, has an estimated value of about £150m. Standard Charter's market capitalisation at the 1990 year-end was £605m.

Sources suggested that Liberty would involve Stanbic in the deal, with the African network falling within the bank's existing Africa division. The Liberty/UAP alliance would probably retain the much-prized UK banking licence.

However, Liberty Holdings executive director Farrell Sher, speaking from London, denied the group was involved in a takeover bid for Standard Charter.

Stanbic MD Conrad Strauss said it would be "inappropiate to comment" on whether the bank was planning to acquire Standard Charter's Africa operations.

However, he noted that Stanbic had already indicated its interest in expanding into Africa and would take a look at the Standard Charter operations, "as would any number of banks", should they come up for offer.

After disposing of its interest in Stanbic in 1986, Standard Charter re-entered the SA market earlier this year. Although the UK bank does not as yet have a local banking licence, it caused a stir in banking circles by opening up a SA representative office in May.

Chairman Rodney Galpin indicated that Standard Charter would be keen on re-establishing ties with Stanbic, but did not expect the feeling to be mutual.

UK rubber stamp for Sun Life deal

BDay 23/9/91 (58)

SEAN VAN ZYL

LIBERTY Life clinched control of UK assurer Sun Life on Friday, after a bitter fight which has lasted more than four years. London's takeover regulators have dropped their opposition and approved the move which has simply regularised an already existing control situation.

Liberty Life and its French partner, Union des Assurances de Paris (UAP), are not obliged to make an offer to Sun Life's minorities, but are doing so as "a courtesy".

A new, jointly controlled holding company — Rockleigh Corporation — has been created by Liberty and UAP to house their newly increased 59,9% controlling stake in Sun Life valued at £472m (R2,3bn). Previously, Liberty and UAP each held 27,7% of Sun Life's equity, but as part of the present arrangements, they have bought an additional 4,5% or 3,02-million shares for £35m (R172m) from Sun Alliance.

Liberty chairman Donald Gordon said in a statement he was "extremely happy" with the outcome of the joint deal, which would provide new expansion opportunities for the group in Europe.

The statement said an offer of £11,60 a share, based on the deal price, would be extended by Rockleigh to Sun Life's minority shareholders. He added it would be premature to comment on whether Rockleigh would make an all-out bid for Sun Life.

In a related deal, UAP would buy 35-million new ordinary shares in Trans-Atlantic for a cash consideration of £122,5m (R586m) at 350p a share.

In addition, First International Trust (FIT) would also sell a further 5-million shares at the same price to UAP, boosting the French assurer's holding in Trans-Atlantic to 40-million shares at a purchase price of £140m (R685m). Following the dilution, UAP would hold a 16,8% stake in TransAtlantic. Liberty's offshore arms have no immediate plans for the £140m, though some will be used to cut gearing and part is earmarked for new UK property developments or acquisitions.

FIT's interest in TransAtlantic would drop to 42,9%, resulting from the dilution of the 240-million new TransAtlantic shares in issue, while Liberty's direct stake would fall to 12,1%. Overall Liberty would maintain a controlling stake of 55% in TransAtlantic.

● See Page 10

FNB gets tough over Buthelezi leak

THEO RAWANA

FIRST National Bank is to act against a number of employees after investigating leaks about the withdrawal of funds from a personal account of Inkatha president Mangosuthu Buthelezi.

The bank yesterday placed an advertisement saying investigations into the leak of information about R250 000 being paid from Buthelezi's account to the Foreign Affairs Department had been completed.

Disciplinary steps would be taken against "individuals" in Johannesburg, it said.

The money had been refunded to the department after government admitted paying Inkatha R250 000 for two political rallies in 1989 and last year.

FNB MD Barry Swart said yesterday the investigations were not conclusive and the employees found to have used the access codes to obtain the information were not necessarily the guilty parties.

However, "while investigating the 'Inkathagate fiasco', the bank came across

To Page 2

FNB

From Page 1

some transgressions", Swart said.

He refused to say how many employees were involved, nor would he say what action would be taken.

In the advertisement FNB assured account-holders that it took extreme care to ensure their privacy.

"All its staff members are required to sign a declaration of secrecy and additionally, a strict system of control over the accessibility to information is maintained through computer systems," it added.

The investigation followed allegations by Inkatha central committee member Musa Myeni that the bank had not exercised control over information relating to its account-holders. Myeni had threatened that R3bn in KwaZulu government business could be removed from FNB.

It was reported earlier that the R250 000 Inkatha had refunded to the Foreign Affairs Department had been drawn from a personal account of Buthelezi.

The account — which earned nearly R182 000 a year in interest — had been set up on September 11 last year with an initial deposit of R1,3m, reports said.

The account had been set up by British millionaire John Aspinall and Australian millionaire Kerry Parker for Buthelezi's sole discretionary use.

COMPANIES

Unrest forces Rabie out of black housing market

B/Day 23/9/91

(68)

LINDA ENSOR

CAPE TOWN — The "disaster" in the formal black housing market has led to the withdrawal from this sector of property developer Rabie Investment Holdings, which plunged into the red in the year to end-June.

The violence which wracked Natal and the bond boycott in the western Cape finally made it untenable to continue developing houses in black areas which in the past generated 70% of group turnover, chairman John Rabie said on the weekend.

The costs of the withdrawal resulted in an extraordinary write-off of R7m in the year to end-June, which came on top of a R406 000 attributable loss. In 1990 the Cape-based developer made an attributable profit of R4m, 35% down on the 1989 performance.

Earnings a share fell to a loss of 2,1c from the previous profit of 20,8c and due to the need to conserve working capital, no dividend has been declared.

"Feuding between local authorities and rival political affiliations, together with political violence and intimidation, have made development impossible.

"Bond boycotts have caused the financial institutions to severely curtail lending to the townships. Development in the R30 000 to R70 000 bracket has virtually come to a standstill nationwide," Rabie said.

"Until there is a national housing strategy and building societies start approving loans, there is no reason to return to the black market."

The group says it will concentrate on exclusive projects in prime areas, only retaining an indirect interest in the black market through its stake in Kwikspace Holdings, the pre-built accommodation business in which Rabie holds 40% and Murray & Roberts 60%.

Contribution

Rabie said the R7m write-off arose from the sale of interests in township developments and the write-off of unsaleable land.

Difficult trading conditions resulted in a reduced contribution from Kwikspace Holdings. Utilisation of rental fleets was down to about 60% from 75%.

Rabie's turnover index dropped 18% while operating income plummetted 92% to R535 000 (R7m). This was totally wiped out by an interest bill of R1,2m.

There was a sharp escalation in long-term debt to R3,8m (R303 000) because of the need to finance the withdrawal from geared up projects. Off balance sheet financing through a joint finance company had to be bought on to the balance sheet.

Rabie said gearing should improve by the end of the year.

He said there was no doubt that Rabie would return to the black by year-end as it was involved in a number of exciting developments such as the R100m Dolphin Beach sectional title complex on the shores of Table Bay, which is 80% sold and others such as the R50 to R60m Seaglades in Hout Bay, two R10 to R15m projects in Constantia and others in Bellville, Newlands and Clifton.

He said that while the property market was not booming, these projects were all well located and largely pre-sold.

Kwikspace, which owns Zozo, should benefit from IDT and government programmes to build classrooms, schools, houses and police stations. Kwikspace also exports portable accomodation to neighbouring countries such as Kenya, Malawi and Zaire, with new opportunities opening up in Angola.

PUBLIC SECTOR

Afsure takes a giant step forward with new launch

AFSURE (Pty) Ltd, the major black-controlled insurance broking company, is to take a giant step towards black economic advancement when it launches a new company, the Unity-Afsure, writes **JOSHUA RABOROKO.**

To be inaugurated in Johannesburg on September 25, the company is expected to attract thousands of clients, generating hundreds of thousands of rands through its schemes.

Afsure's managing director, Mr Kehla Mthembu, said the company would assist in financial planning, education and training, and building confidence with clients.

Sowetan 12/9/91

Schemes

The new company will be managed by Mr Gaby Majuba, who is an experienced insurance personality and formerly employed by Metropolitan Insurance company.

"This is major breakthrough for the company and it is hoped black business will benefit in schemes that will be explained on the day of the launch," Mthembu said.

Afsure has grown tremendously since it established an insurance scheme.

It has opened offices in Benoni, Johannesburg, Venda, Klerksdorp and plans to open branches throughout the country to advance blacks.

"We intend to move forward in our pledge towards black economic advancement."

Syfrets to launch Trustee Fund with R300m assets

(58)

BDay 30/9/91

LINDA ENSOR

CAPE TOWN — Syfrets launches a new unit trust, Syfrets Trustee Fund with a R300m asset base, tomorrow.

The fund is specifically geared to meet the needs of all trustees of estates, such as attorneys, accountants or personnel managers, and aims to free them of the burden of administering the investment of trust assets. A minimum lump sum investment of R1 000 is required.

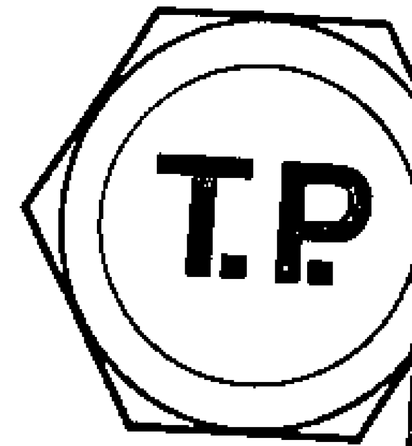
The Trustee Fund, together with Syfrets other unit trust funds, the Growth Fund and the Income Fund, have assets under administration of R1,054bn.

The new unit trust emerges out of internal funds established exclusively for Syfrets clients who were beneficiaries of trusts managed by Syfrets. Numerous trust funds were consolidated into the Equity Fund and the Varying Capital Fund to achieve economies of scale and they operated in the same way as unit trusts.

The Equity Fund has become the Trustee Fund and the Varying Capital Fund has been transferred to the Syfrets Income Fund.

"It became increasingly clear to us that what we had developed internally could in fact be of great advantage to all trustees and beneficiaries as well as of benefit to all members of the general public," said fund portfolio manager Matt Brenzel.

The fund will invest only in minimum-risk, blue-chip shares and interest-bearing deposits.



Preliminary R

The audited results for t

Income Statement

Net operating income
Interest paid

Net income before taxat
Taxation

Net income after taxatio
Preference dividends

Earnings attributable to ordinary shareholders

Bond bombsh[ell] for homeown[ers]

c(Pe22/9/91. (58)

By DERRICK LUTHAYI and Sapa

AT a time when homeowners were expecting a drop in bond interest rates, South Africa's major financial houses have increased them – and, they say, VAT is to blame.

Shell-shocked consumers, already reeling from escalating living costs, and unscrupulous traders and professionals who have started exploiting VAT, now face higher bond repayments.

Vatwatch chairman Prof Louise Tager said consumers' inadequate knowledge of VAT and attempts to use it as a reason to increase prices were causes for concern. Vatwatch was following up all suspected cases of unjustifiable VAT-related price increases.

In one case, a butcher had begun charging VAT claiming he was letting people get used to the idea and was therefore alleviating the shock of its introduction on September 30.

Many other financial institutions are sitting on the sidelines before taking their decisions on what they will do with their prime and bond rates.

First National Bank said on Friday its rates would be increased by 0,25 percent as a result of the introduction of VAT-induced taxes and the newly formed Aamlagamated Banks of South Africa (Absa) also said it would be pushing its rates up by a similar percentage.

'Shrapnel' from VAT already taking its toll

FNB said the increase was as a result of the new tax to be levied on banks and other financial institutions in lieu of VAT.

FNB's senior general manager and chief financial officer, Viv Bartlett, said on Friday the move was a result of a squeeze on margins and the bank was forced to take steps to recover costs.

He said the prime lending rate would also be increased by 0,25 percent from October 1.

"In doing so we are mindful of further pressure on business and household incomes in the current economic circumstances. We stress, however, that this increase is well below the necessary level to ensure full recovery of this new tax.

"We regret that these steps have become necessary and trust they will be seen in the context of the direct impact of the introduction of VAT.

Absa said it had been decided to increase the prime lending rate of banks within the group by 0,25 percent across the board from the beginning of October.

In addition, interest rates on mortgage bonds would go up by 0,25 percent for Allied and United bonds at the beginning of November, and for Volkskas at the beginning of October.

Absa said: "These increases will only provide for a partial recovery and it will be necessary to recoup some of the cost through a reduction in the cost of funds and other measures."

Other major institutions did not react on Friday, but it was said most would probably follow the same path.

The bond market is intensively competitive and this could play a major role in the setting of rates in coming months.

Terrible

Meanwhile, the Consumer Council has reacted strongly to the upward rise in rates. Spokeswoman Ina Wilken said the consumer would be hard hit by the increase in both the prime lending rate and interest on home loans.

"I think it's a terrible decision. The Consumer Council requests all financial institutions to carefully take into consideration the plight of the consumer before following the example of First National Bank."

Meanwhile, Rand Merchant Bank economist Rudoplh Gouws says a widespread tax revolt will have serious consequences for the South African economy.

Gouws was reacting to the statement by the Coordinating Committee on VAT (Cocom) that the implementation of VAT could lead to mass civil disobedience which could include resistance to all taxes.

"Of course one would need more details before a proper comment could be made, but depending on the percentage of taxpayers involved, such an exercise would have a severe impact on State finances if a large number participated."

Cocom had also warned that a number of medical practioners – members of the National Medical and Dental Association (Namda) – would also refuse to pay VAT to the government.

Commenting on this, the director of Health Policy of the Medical Association of South Africa, Reg Magennis, said Masa did not encourage its members to defy the Income Tax Act.

"However, we do have great sympathy with Namda's viewpoint on VAT charged on medical services."

Old Mutual launches bid to raise R150m in Europe

BDay 4/9/91 (58)

KIN BENTLEY

LONDON — Old Mutual is listing a new closed-end trust fund on the London Stock Exchange to raise upwards of R150m in new capital from European investors.

In London yesterday to present details of the the Old Mutual South Africa Fund Ltd to potential investors were Old Mutual chairman Mike Levett and GM, investments, Johannes van der Horst.

Interviewed after the hour-long presentation to about 80 institutional fund managers, a cautious Van der Horst said it was difficult to quantify the fund's reception, but said that the meeting "felt psychologically very encouraging".

Potential

The investment objective of the fund is to seek long-term capital appreciation and dividend growth through investment in equity securities listed on the JSE.

It will concentrate mainly on blue chip stocks, although investments will also be made in other well managed companies identified as offering good growth potential in the changing SA.

The placing will consist of the issue of units, each comprising five participating shares and one detachable warrant to subscribe for one additional participating share. Application has been made for the participating shares and warrants to be admitted to the London exchange's full list.

The fund's attraction as an investment is enhanced by the dual exchange rate system. It will invest at the financial rand rate, while income will be translated at the commercial rand rate, currently at a premium of 11,6%.

Yesterday's launch is likely to be followed by others in coming months as investors take a fresh look at SA and the country itself takes the opportunity to replenish its coffers.

The new fund has appointed Old Mutual Investment Managers Ltd as manager. Brokers Smith New Court are sponsoring the fund and underwriting the placing. They have more than 60 years of continuous involvement in SA and are the leading market maker of SA securities in London and New York.

Dealings are expected to begin on September 25. Directors of the fund, which is to be domiciled in Guernsey, will include Levett, Van der Horst, Sir Alistair Frame, chairman of Wellcome plc and formerly chairman of RTZ, and Lord Tombs, chairman of Rolls-Royce.

Today the team, which also includes Denis Worrall in his capacity as a political consultant, and David Moore, the group's chief economist, will give a presentation in Edinburgh, before heading on to Paris, Frankfurt, Zurich, Geneva and Vienna.

Mabuza tipped to head new bank

THEO RAWANA

IN A surprise turn, Fabcos CE Jabu Mabuza is the choice as chairman of the new FutureBank instead of former African Bank CE Gaby Magomola, who had been widely favoured.

An informed source disclosed yesterday that Mabuza would head the bank with Wesbank senior GM Neville Watchurst as MD. Mabuza's appointment is due to be announced later this month.

The bank, for which Reserve Bank registration was granted last week, is a joint venture between the Federation for African Business and Consumer Services (Fabcos) and FNB subsidiary Wesbank.

Magomola, who joined Fabcos after being dismissed from African Bank — a Nafcoc creation — in March 1989, was widely regarded as the brains behind the bank's establishment.

The source refused to give reasons for the decision, but confirmed that Magomola, with extensive banking experience, had been widely seen as a natural choice to head the new bank.

Another source said the decision not to appoint Magomola might have been influenced by the presence of Nafcoc president Sam Motsuenyane on the FNB board.

Magomola and Motsuenyane clashed at the time of Magomola's removal as African Bank CE. Motsuenyane was chairman of the bank at the time.

Fabcos officials yesterday refused to throw any light on developments. FNB spokesmen were unavailable for comment.

First indications that Magomola would not be heading FutureBank came in an article in this week's Finance Week, which said "disclaimers" were being made about initial reports on appointments, "among them that of controversial former African Bank CE Gaby Magomola". It quoted the Reserve Bank as saying there could be changes to proposed officials.

Boycott could thwart housing plans, banks warn

THEO RAWANA

A BOYCOTT of bond payments could thwart building societies' plans to introduce innovative housing schemes in townships, Nedperm Bank director Hugh MacLachlan said on Friday.

MacLachlan was reacting to Civics Association of Southern Transvaal (Cast) president Moses Mayekiso's threat of a national bond boycott if community organisations did not get co-operation from financial institutions.

Mayekiso said in a recent TV debate that the boycott was being considered because township residents were having difficulty repaying loans and were unhappy about the attitude of banks and building societies.

MacLachlan said Nedperm had noted with regret that Cast had suggested a boycott in the face of the massive housing crisis.

"What is now required is not talk of bond boycotts but a discussion, between all parties concerned, of ways in which additional adequate housing can be made available ... in the shortest possible time," he said.

"There can be no doubt that there is an urgent need for a massive programme to be launched by the private and public sectors to provide housing for the hundreds of thousands of people who have poured into our metropolitan areas in the past months.

"Such a programme needs to involve not just one banking unit such as Nedperm, but other banking institutions as well as government and major industrial and commercial firms.

FNB assistant GM on banking, Pat Lamont, said a bond payment boycott would have a negative effect on the bank's risk assessment.

Every application is assessed by the bank and the threat of a boycott would have a negative effect on the granting of loans, he said.

FHA Homes CE John Weaver said a bond payment boycott would bring about a conflict situation in which building societies would refuse to give bonds.

'Urgent need to boost savings'

58 (…) Today 9/9/91

SHARON WOOD

BOOSTING low personal savings has become a national priority, as they are the sole source of funds for domestic fixed investment, says the Bank of Lisbon in its latest Economic Focus.

The lack of foreign capital has only emphasised the importance of domestic savings, it says.

"Thrift went out of fashion in SA in the '80s, reflected in a sharp decline in the propensity to save on the part of individuals.

"SA's personal savings ratio declined steadily during this time and was low compared with overseas industrial countries," the report says.

SA saved only 2% of personal disposable income in the first half of 1991 compared with 5% in Britain, which in itself is considered poor.

The structure of savings had undergone marked changes during the '80s with personal savings declining in relative importance and government savings becoming negative. Corporate savings assumed a far more important role.

The report says the bank rejects the argument that the low level of personal savings is not of concern because of the strength of company savings.

Company savings are in part boosted by the lack of investment and provisions made for inflation, it says.

The composition of gross personal savings has also changed. Contractual savings rose substantially during the last decade but discretionary savings turned negative.

"Discretionary savings turned negative because despite increased savings opportunities in the form of innovative accounts available, consumer credit exceeded gross discretionary savings during the last decade."

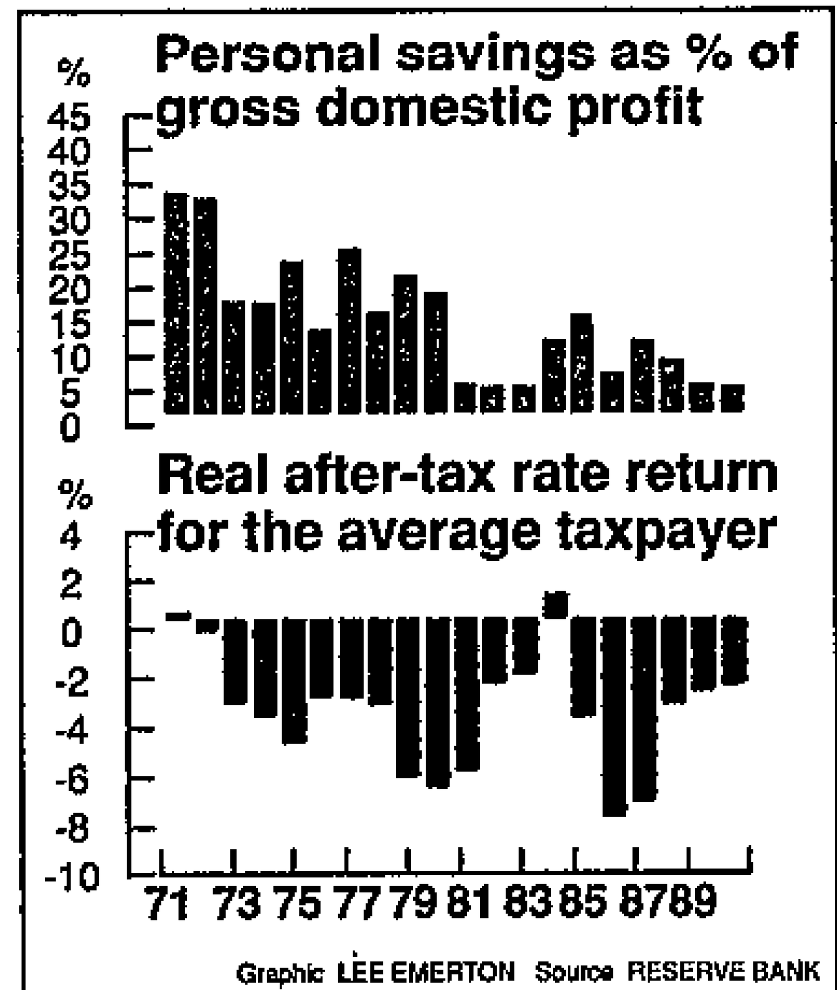
In its annual economic report the Reserve Bank says one of the most important barriers in the way of improving a household's savings performance has been the negative real after-tax returns on bank and building society savings.

A high inflation rate and tax at the marginal rate left the saver with a real after tax return of -2,5% during 1990, the Bank says.

Real after tax returns on savings were negative from 1971 through to 1990, except in 1971 and 1984 when returns were less than 1%.

But the Bank of Lisbon report says a flat 10% withholding tax on all interest income would improve the tax dispensation on savings. At present interest rates, earnings in excess of R2 000 are subject to marginal tax rates which discourages saving.

The implementation of a withholding tax would boost personal savings, simplify the administration of the tax system and eradicate tax evasion.



Graphic LEE EMERTON Source RESERVE BANK

First National wins the race to open in Botswana

3/9/91 MELANIE SERGEANT (58)

FIRST National Bank has won in the race of SA banks to establish operations in Botswana.

The bank will take over the operations of the Bank of Credit & Commerce Botswana (BCCB) from next Monday, having pipped Standard Bank and a group of citizens to the post.

It is understood that the citizen group's technical partner — believed to be Volkskas — became nervous about the possibility of BCCB's undisclosed liabilities, and pulled out of negotiations.

First National Bank of Botswana (FNBB), which will be a wholly owned subsidiary of FNB Holdings, plans to expand FNB's representation in Botswana. BCCB has five branches which FNB will continue to run, but new MD Derek Price says more branches are on the cards.

Details of the deal were not made public. It was believed BCCB had a net worth of about 14-million pula, but that it would fetch a far higher price.

Botswana's assistant Minister of Finance and Development Planning, David Magang, said without the Bank of Botswana running BCCB, the bank would have had to be closed or placed under liquidation, as had happened with other subsidiaries and branches of the discredited Bank of Credit and Commerce International (BCCI) worlwide.

THE MONEY MARKETS by Andrew Gill

Banks are likely to increase charges

THE consumer still has not heard the end of the increased charges relating to the new tax on banks despite their respective quarter point increases in lending rates on Friday. B Day 23/9/91

There is a gap to be filled in one form or another and banks are not going to take on the burden themselves.

Dropping investor rates uniformly and making margins more bearable appears to be the most obvious way of filling that gap but market forces may make it difficult.

Shock and horror met inquiries about whether banks would stand together in dropping rates, with bank officials saying individual banks did not collude.

However, a uniform increase in prime is tantamount to collective action and makes it more than possible that they will all take a little bit out of interest payments to depositors.

If this happens, and the shortage remains at its current comfortable levels, money market rates could well be in for extensive downward pressure especially with liquidity looking to continued support from government spending and forex inflows, including the DM200m in new money from the capital market issue last week.

Cash flush investors in a money market offering limited paper but relatively attractive yields may be tempted to take up that paper at even lower rates. With rediscount rates largely being ignored, especially in BAs, banks are not finding themselves being heavily penalised for the lower rates.

(58)

The liquidity in the market suggests there is room for further drops in rates, making the Reserve Bank's job in maintaining monetary policy in an inflationary environment unenviable.

Lower rates also make banks' funding activities cheaper and may go some way to recover what has not been recovered on the prime hike.

It would, however, have to be a slow process.

The Reserve Bank is said to be happy with the situation and is not going to act against the banks, despite their breach of the convention that never really was.

After the De Kok Commission's recommendation that the conventional three percentage point spread between prime and Bank rates be scrapped, banks are no longer honour-bound to respect it.

This, however, appears to be the first time that banks have agreed to act in unison and thus avoid market forces in upping the spread to 3,25%.

Libvest reports 23% rise in earnings

SEAN VAN ZYL

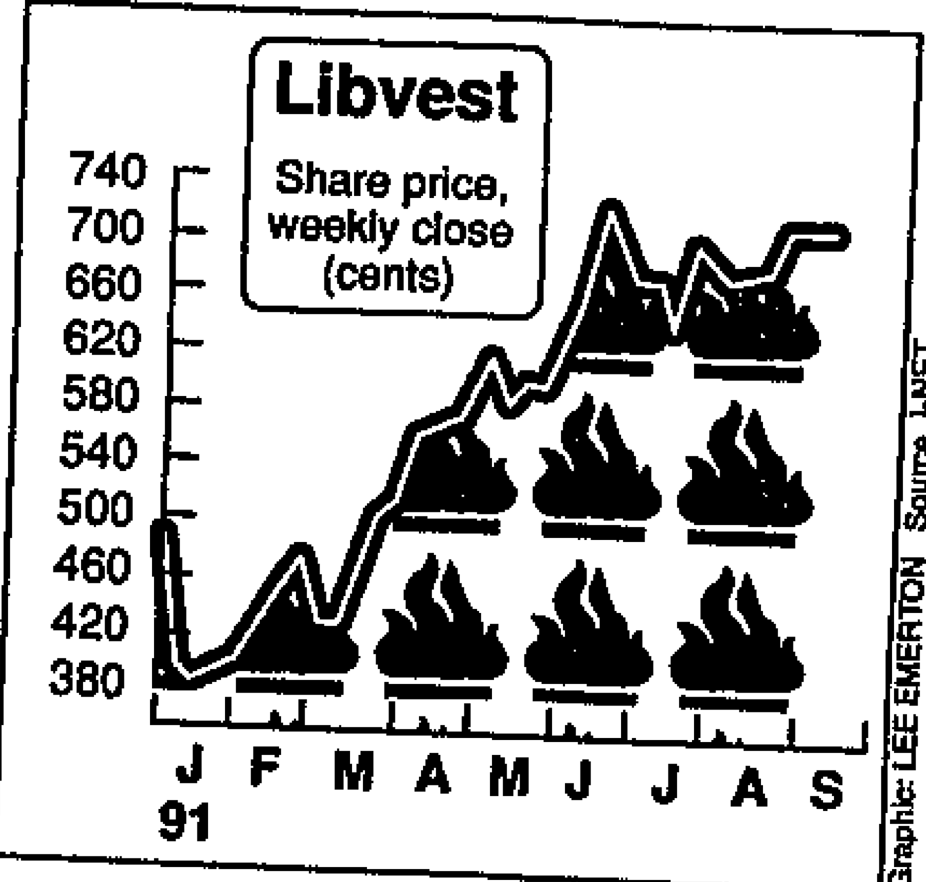
INVESTMENT holding company Liberty Investors (Libvest) has disclosed a 23% increase in attributable earnings to over R20m for the six months ended August.

Earnings came in at 9,8c (August 1990: 8c) a share, of which an interim dividend of 6,2c (5,2c) a share has been declared.

Libvest's main investments include part of the Liberty Life Group's holding in Standard Bank Investment Corporation and a 50% controlling stake in LibLife Controlling Corporation, the ultimate holding company of the Liberty Life Group.

Libvest's share price rose by more than 7% to 715c following the release of the Liberty Life group's half-year results earlier this month. The share is currently trading at a high for the year.

Libvest increased its stake in LibLife Controlling Corporation late last year to 50% from 33,3%.



Prima sells a majority stake in Corvest to RMB

BDay 19/9/91 (58)

SEAN VAN ZYL

RAND Merchant Bank (RMB) has acquired a majority 49% stake in specialist investment bank Corporate Leveraged Investments (Corvest) from Prima Bank for an undisclosed sum.

The deal, effective from August, followed the collapse of the Cape Investment Bank last year, resulting in Prima acquiring a controlling interest in Corvest.

A statement released by the banks yesterday said the joint venture would enable them to expand into the development capital and management buyout fields which they expected to prosper in coming years.

Established in 1989, Corvest specialises in investment banking, and houses a diversified banking investment portfolio. The bank's activities include leveraged and management buyouts, leveraged equity transactions and development capital funding.

Prima retains a 30% stake in the operation, with the remaining equity held by management.

RMB deputy MD Paul Harris said the deal would strengthen Corvest's financial muscle, "enabling Corvest to fund transactions through a funding line provided by Rand Merchant and Prima".

The investment bank would also be assured of business inquiries through its corporate parents.

Both RMB and Prima have the right to appoint two non-executive directors each to the Corvest board. Paul Harris of Rand Merchant Bank takes over as chairman with Sean Jagoe (RMB), Clive Ferreira (Prima) and Johan Bellingan (Prima) taking up non-executive positions.

Corvest MD Neil Page said his bank would continue to specialise in management and leverage buyouts and taking equity positions in deals.

He said a typical management buyout deal usually required additional financing which sometimes could not be raised fully through traditional commercial banking channels. "In these circumstances, Covest will provide the risk loans normally referred to as junior debt."

The statement said Corvest's management had been responsible for over 40 leveraged and management buyout deals, ranging in value from R1m to R65m, over the past six years. More than 10 deals were completed over the past 18 months.

Prima CE Johan Bellingan said the joint venture with RMB would enable Prima to become involved in projects earmarked as a future profit growth area.

Risk management opens new doors for brokers

BDay 5/9/91.

RISK management — a buzz word often associated with self-insurance — has opened new doors for insurance brokers, says SA Insurance Brokers Association's (SAIBA) vice-president Paul Heinamann.

With the emerging insurance market, Heinamann says self-insurance is not a threat to the broking industry

SAIBA has, in fact, been one of the "major protagonists" promoting risk management.

The recent Delphi study of SA insurance in the '90s shows the growing trend of self-insurance is one of the major threats facing insurers in coming years.

The Delphi study also says banks are becoming prominent in the short-term market and a substantial number of insurance products will be made available from this source.

Industry analysts say banks are also active in the personal insurance market — once the backbone of business for most insurance companies and brokers.

They say insurers and brokers are concentrating on tailored corporate business, which provides a higher margin on premiums to personal lines business.

Some brokers are reluctant to handle certain classes of personal business because of the high administrative cost to marginal earnings.

PFV Insurance Brokers MD Mike Hofmeyr says most of the large corporate brokerage firms have been gearing their operations to meet the needs of the changing SA insurance market.

With the advancement and growing sophistication of industrial risk management, brokers are having to develop additional financial service skills to just selling insurance products.

"As risk management becomes more sophisticated, the level of customer expectations rises proportionately. It is no longer sufficient for brokers to offer knowledge of insurance principles."

A number of brokerage firms are training and recruiting staff from across the financial services, industrial and business fields to meet the demands of clients.

"We need engineers, lawyers and other professionals to take up careers in the field of risk."

The major brokerages say they are becoming more reliant on service fees charged to their clients than commission earnings on insurance.

PAUL HEINAMANN

Rationalisation

Analysts say the changing role of the insurance broker reflects the rationalisation in the financial services industry.

A consolidation of activities is becoming evident, with insurance brokerage firms, tax consultants, investment and management advisers tending to overlap each other's markets.

Eventually, this trend will result in fewer players in the financial services market, with a broad range of specialist services provided through bigger operators.

Heinamann says increased competition and sophistication of needs and products in the financial services market will result in rationalisation, although "one-stop" or financial supermarket systems will not necessarily evolve.

MIKE HOFMEYR

THE MONEY MARKETS by Sharon Wood

Market quietly absorbs entrenched high rates

THE money market quietly absorbed the fact that Bank rate was unlikely to come down this year and rates remained unchanged.

Reserve Bank Governor Chris Stals made it clear at Tuesday's AGM that although financial conditions were gradually improving they still did not justify an interest rate cut.

He pointed specifically to money supply still growing at the top of the Bank's guidelines of 8% to 12% and the high rate of growth in consumer credit.

Stals looked at the seasonally adjusted and annualised growth in M3 since February, which was 11,7%.

He also rejected recent statistics which showed a slowdown in bank credit extended to the private sector and pointed to the big increases in mortgage lending which counteracts the slowdown in the extension of hire purchase credit.

He criticised banks for allowing customers to "buy cars and pay for holidays" with home loan finance.

Money markets were untouched by the two Central Statistical Service mistakes which had capital market dealers running around in circles.

A startling inflation figure also failed to move rates, probably because it merely accentuated the fact that high interest rates were here to stay.

The most significant event in the money market this week was the R1,5bn government tender in special four-day Treasury Bills on Thursday to tap liquidity from the market at month-end. The tender was unexpectedly divided into two, with R500m dated for Friday and R1bn for Saturday.

The split was an internal arrangement between the Bank's foreign exchange department and money market side aimed at co-ordinating operations between the departments.

Mining tax payments were not expected to exceed R600m.

The money market shortage at month-end was expected to be between R2bn and R2,5bn.

Solid performance turned in by Rand Merchant Bank

BIDay 4/9/91. (58)

ANDREW GILL

RAND Merchant Bank (RMB) Holdings maintained 1990's earnings growth for the year ended June 1991 in reporting a solid 20% increase in earnings a share to 54,9c yesterday.

The bank's six divisions all performed well to the extent that it no longer relied on its money-spinning capital market operations to produce consistent results, chairman G T Ferreira said.

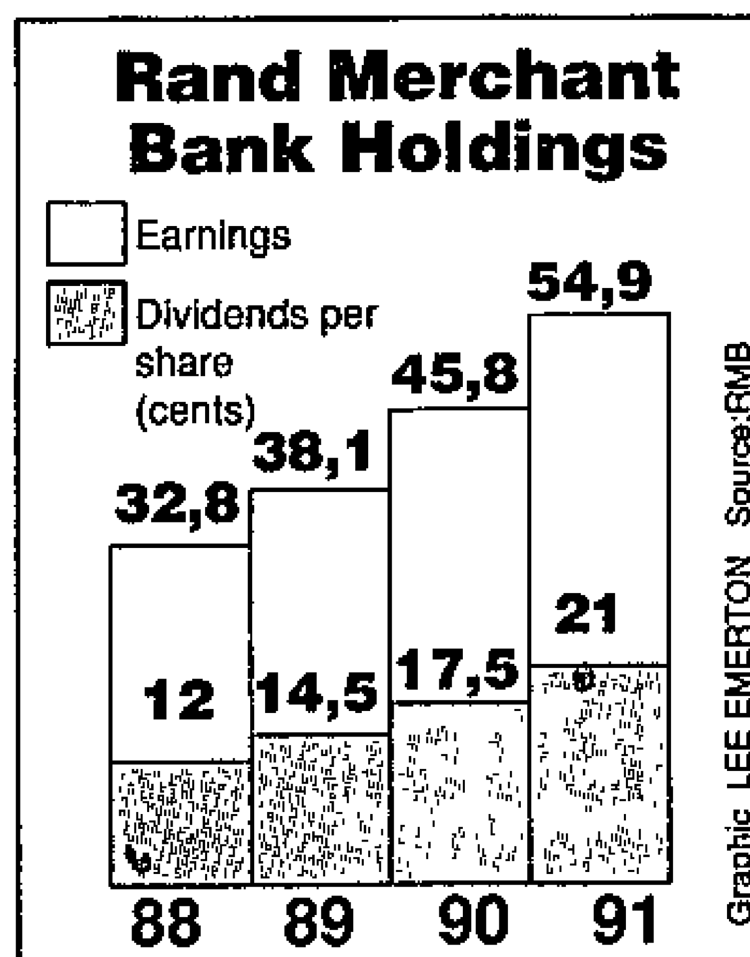
Tough

The six divisions, capital and futures market, treasury, forex, project finance, corporate finance and special projects, all made virtually equal contributions to profitability, he said.

Net income increased 20% to R30,3m and transfers to the general reserve increased 22% to R18,5m.

Dividends were up 20% to R11,6m (21c a share) resulting in an unchanged cover of 2,6 times.

Although RMB does not disclose bad debt provisions, it has been making it through the tough recessionary conditions relatively unscathed.



Ferreira said there had been some bad debt exposure this year, but it was miniscule at under 0,2% of the book.

He was satisfied with the "reasonable showing" at a time when the banking industry as a whole was going through difficult times.

Non-distributable reserves were boosted by a R1,88m inflow resulting from the Sechold restructuring.

RMB was asked to transfer its respective 10% holdings in National Discount House and Interbank into holding company Sechold.

Capital adequacy at the bank is way ahead of schedule in terms of the Deposit-Taking Institutions Act. In terms of the act capital must account for 8% of assets by 1995, a figure which RMB already exceeds.

Revised

Ferreira points out this does not necessarily mean capital adequacy will be maintained by 1995. It is dependent on the respective growth of assets and capital.

Assets increased a relatively small 11% to R2,8bn when compared to an asset figure of R2,5bn for 1990, revised in terms of the Act for comparative reasons.

The group expects to maintain its current performance in 1992 with "ample opportunities for innovation" auguring well for the future.

White knight helps Donny checkmate old-boy network

JIM JONES

IN LONDON they are saying half seriously that Peter Grant's biggest mistake was never to have applied for a job with Britain's diplomatic service.

If he had, Sun Life's chairman might not have wasted years of fighting Donald Gordon and Liberty Life — years which could have been used to develop Sun Life's insurance business in co-operation with Gordon rather than frittered away in a futile attempt to keep at bay the man some quality British dailies once viewed as a South African upstart.

The diplomatic story, told only half in jest, is that after some stiff aptitude tests, short-listed diplomatic service candidates are invited to the famous country house weekend for final vetting.

Everyone by that stage knows which knife or wine glass to use. But the clinching probe is the question: "What do you think of the French?" Britain's diplomatic service is hooked on chauvinists, even though the French themselves invented and gave new meaning to the word. The correct answer is reputedly: "They let us down in 1940. And they dumped the Germans in 1944."

Which neatly sums up the French pragmatism which Peter Grant overlooked in 1988 when he enlisted Union des Assurances de Paris (UAP) as the white knight to defeat the Gordon dragon. UAP might have been the ideal partner if Grant had not underestimated Gordon's doggedness or the French company's own ambitions. UAP's size was no deterrent to Gordon. Rather, he saw it as an opportunity in the vast corporate chess game in which he revels. Grant's strategy was played out reactively; every move of Gordon's seems to have been made with the next three in mind.

Though UAP is quoted on the Paris Bourse, it is controlled by the French government. It is France's largest insurance group, straddling the French economy much as Old Mutual does here. One measure of its size is its French property portfolio, worth about £8bn at the last count, about the same as the £7,4bn total assets Sun Life had at the end of 1990.

Grant hoped to cut a deal with UAP which would have diluted Liberty's 29,8% stake in Sun Life (held through TransAtlantic) to a level of little influence. Gordon and Liberty blocked the deal. They had had enough of Grant's bleats to London's old-school-tie brigade which for years excluded non-U interlopers. Gordon was confident he and Liberty could make a valuable skills contribution to a Sun Life floundering under Grant's narrowly focused management. And he certainly did not intend his ambitions to be thwarted by Grant's transparent efforts to protect his own position.

This was when pragmatic French self-interest manifested itself. The French had no hang ups about Gordon's provenance — and they saw an alliance with him as a way into Britain. For his part, Gordon saw in UAP a prospective partner with the skills and understanding needed if he was going to move beyond the confines of Sun Life and Britain into the vastly different environment of European insurance.

It took less than a year for UAP and Liberty to realise they were better off collaborating than fighting. They decided that TransAtlantic and UAP should each initially have 27,7% shareholdings in Sun Life with first options to acquire each other's shares through a Texas auction mechanism. The holdings of 27,7% were individually less than the 30% which would have triggered a full scale bid for all of Sun Life's shares, but together more than enough to fend off any other bids for the British assurer.

□ GORDON

London's attitudes, too, were changing towards Gordon. They shifted as political changes here meant South Africa and South African businessmen ceased to be international pariahs. It was also clear that Grant's management was sterile and that Sun Life was slipping behind some of its more aggressive competitors.

Nor, with 1992 looming, could Britain's takeover regulators have conceivably cooked up an excuse to prevent UAP from taking over Sun Life. Gordon and his French allies cleared that matter up, found that London's Takeover Panel had taken a sensible view of the realities of the Sun Life control situation and would not insist that the combination of the UAP and TransAtlantic shareholdings would necessarily trigger an offer to the assurer's 44% minorities.

Liberty and UAP tied up Sun Alliance's 3,2-million shareholding in Sun Life which, together with their existing interests, gave them the combined 59,9% of Sun Life which was being placed inside the jointly controlled Rockleigh Corporation. A £11,60-a-share offer is being extended to Sun Life's minorities, more as a courtesy than in expectation of attracting many more shares.

Gordon is cagey about his next moves — at present his mind is on tidying up in London and coming home to prepare for the summer holidays. It has been an exacting year.

But there are some clues in the official announcement of the Sun Life deal: "These proposals reflect the desire of both UAP and TransAtlantic to develop further their respective investments in Sun Life while creating a long-term relationship in the financial services and property fields in the United Kingdom, in other areas of the English-speaking world and in Continental Europe where the combined expertise of Sun Life, UAP, TransAtlantic and the Liberty Life group is expected to provide significant benefits for all the parties involved."

The start is likely to be with TransAtlantic and Capital & Counties. TransAtlantic's war chest has been boosted by UAP's £122,5m purchase of 35-million new ordinary shares as well as 5-million TransAtlantic ords from Liberty's holding company Conduit. That provides the seedcorn for a further foray into a currently depressed or underpriced UK property market.

But the real challenge will be to make up for Sun Life's years of enforced stagnation and to develop the life assurer's UK and international businesses. Peter Grant has "agreed to continue as chairman of Sun Life" the offical announcement says. Face has been saved, and Sun Life's chairman is, in any event, near retirement age. He is unlikely to be an influential player, rather a grace-and-favour figurehead to underscore the sensitivity of "interlopers" Gordon and Liberty to the niceties of doing business in London.

There have been some long wasted years since Liberty first established its stake in Sun Life. Gordon is in no mood to retire yet. He can now confidently leave Liberty in the hands of the management and systems he has installed in Braamfontein over the years and concentrate on the international stage.

Govt set to scrap bank turnover tax and focus on capital requirements

ANDREW GILL

GOVERNMENT is set to scrap plans for a turnover tax on banks' gross interest earnings and will replace it with a tax on their capital bases, banking sources said at the weekend.

The plan is said to have the support of the banking industry which has been lobbying for a modification of the turnover tax, which was expected to contribute R220m to government revenue.

In terms of the new plan, thrashed out at a meeting between banks and special advisor to the Department of Finance Japie Jacobs last week, a tax would now be levied on banks' capital in terms of the capital adequacy requirements of the Deposit-Taking Institutions Act.

The bottom line, commented one banker, was that government wanted R220m a year from the financial sector and did not care how it got it. If banks preferred the new plan then he was happy to go along with it.

The plan would see banks taxed in terms of their statutory capital-to-asset requirements. They currently have to keep 4,5% of liquid assets against total assets. However, this is set for progressive increases up to 8% by January 1995.

The logistics of the plan still have to be finalised but bankers expect the tax to assume an 8% ratio immediately, a portion of which will go to the Receiver to make up the R220m.

This would ensure that banks with surplus capital are not penalised as only the statutory requirements would be taxed.

While the new plan looks set to go ahead bankers say there are still technicalities to be ironed out. These would have to be negotiated before the end of the month when the levy will be implemented along with VAT.

The bankers went to Pretoria with three proposals which were all rejected. The first was that Reserve Bank governor Chris Stals drop the Bank rate by 1% and that prime remain at 20%.

The second was that the Bank rate be cut by 0,5% and prime be floated so as to allow banks a half point increase in prime.

The third was that prime be floated allowing banks a 1% rise in prime with no change in the Bank rate.

However, Stals indicated he would not tamper with monetary policy to solve a fiscal issue. With the realisation that government and the Bank were not going to help maintain banks' margins, the compromise on the turnover tax was suggested.

Banks would find it easier to administer the extra cost of the new plan which would make outflows easily identifiable and less erratic than the turnover tax.

Also, turnover tax revenue would be largely dependent on prevailing interest rate levels. The 0,75% levy would yield more revenue than expected with high interest rates and less in a low interest rate environment.

Bankers warned, however, that the plan did little to resolve the dilemma of how they would recover the tax.

Banks were not prepared to bear the brunt of the R220m drain on their bottom line and would pass it on to the consumer in one form or another.

58

B/Day 9/9/91.

RX 6

Mortgage bonds may be harder to come by

BDay 9/9/91

MARC HASENFUSS

SA's housing industry will continue to be battered by political and economic forces, and a reduction of available bond finance from financial institutions is possible, says incoming National Association of Homebuilders (NAHB) chairman Gavin Hardy.

"Tragically, the financial performance of most private operators is no longer satisfactory, and more industry players will be forced to withdraw from the area of greatest need — the low-cost market."

He said in a statement it was pleasing that many private and government organisations had recognised that the housing problem warranted urgent attention.

However, it was disheartening that few organisations were taking advantage of the Industrial Development Council's capital subsidy scheme and that only 9% of private company applications had been successful.

"The rationale and strategy of these allocations still has to be made public, but at this stage, they appear to illustrate the demise of the (home building) industry on the private front," he said.

Hardy said the building industry would have to steer carefully through its current problems in order to meet the challenge of building one million homes and providing two million serviced sites.

A major problem is that building costs have continued to outstrip the inflation rate. Estimates put the rate at 25% despite a significant drop in building activity.

Camdon's marketing director Bryan Hossack said the recesion should have encouraged a drop in costs to stimulate demand. "But instead costs are increasing . . . it simply means increases are being used to compensate for a shrinking market."

Hossack said VAT concessions would cushion a decline in building activity, but stressed that this would be short lived and activity could peter out again after March.

Ilco Homes financial director Warwick Lombard said future building prospects were difficult to assess accurately.

Black housing development has been hindered by political unrest and adverse economic conditions, which has seen developers re-consider their plans to expand into this market.

However, institutions and independent development organisations have designed schemes to open the R12 5000-R35 000 sector of the mortage bond market, according to a Murray & Roberts Construction spokesman.

The spokesman said new schemes would expand the potential market from 10% of the black population to 33%.

Law could stymie banks' tax plans

TECHNICAL problems could stymie the banking sector's proposals for tax to be levied on capital requirements rather than on gross interest turnover, Inland Revenue director of legal drafting Ian Meiklejohn said yesterday.

"The empowering legislation says there should be a tax on interest, and I am therefore not sure it is technically possible to tax capital requirements," he said.

Government has not yet decided whether to adopt the banking sector's proposal and Meiklejohn said he was not sure when a decision would be taken.

SHARON WOOD

He said a tax rate on capital requirements would be pitched to raise the same R200m as was expected from the proposed 0,75% turnover tax. BDay 11/9/91

Meiklejohn said as far as he was aware the capital tax proposal had come from the banks themselves, after three proposals had been turned down by government.

A banking source said yesterday that taxing capital requirements was the most equitable system suggested up to now and would not disrupt the banking system.

There was no certainty that the proposal would be implemented as discussed at this stage. (58)

Analysts believe the proposal could favour some players, especially those with large mortgage loan books. Mortgage lending is based on lower capital requirements than most other forms of lending.

They also believe taxing capital requirements would lead the banks to favour mortgage lending over other new loans. Under the proposed system mortgage financing would raise less tax because of lower capital requirements.

Debt standstill slows SA's return from the financial cold

BDay 2/9/91. (58)

GRETA STEYN

SA IS COMING back in from the financial cold. Finance officials were welcomed in Frankfurt last week for the first public issue of government stock in six years. But SA's international financial relations will not be normal until it gets rid of the foreign debt standstill.

SA bankers have had informal discussions with the Reserve Bank about the possibility of an early deal to end the debt moratorium. They are anxious to see the standstill go.

The moratorium was the reason the Reserve Bank stopped them from holding overseas foreign currency deposits. The measure forces SA banks to access international markets through foreign banks — at a premium.

With foreign banks set to compete with SA banks on their home ground, our bankers are champing at the bit for full international participation. It cannot happen with a debt standstill in place.

The capital account of the balance of payments (BoP) would benefit if the moratorium ended. If net capital outflows could stop, or even be reversed, there would be more savings available to finance growth. But even assuming political stability, foreign bankers and investors would remain reluctant to commit large sums of long-term funds to a country with a standstill. European and English banking authorities require extra bad debt provisions against debt defaulters, and bankers are generally wary of running up too great an exposure to a country with a bunch of unhappy creditors.

The foreign debt crisis has provided SA with some expensive lessons. Excessive reliance on short-term finance saw an impossibly large amount of debt fall due in 1985 — a situation which will not be allowed to develop again. The Bank is monitoring maturity structures, and reports a "substantial improvement".

SA's debt problem, albeit smaller than that of many other countries, makes it part of the Third World debt crisis. The '70s credit spree in Third World countries led to the crises of the '80s. The traditional net capital flow from developed to developing nations has reversed as the latter struggle to service debt and repay loans. In the '80s, there was a 75% fall in living standards in Africa. SA also saw per capita wealth contract. Foreign debt is the biggest hurdle developing countries face, and one SA still has to clear.

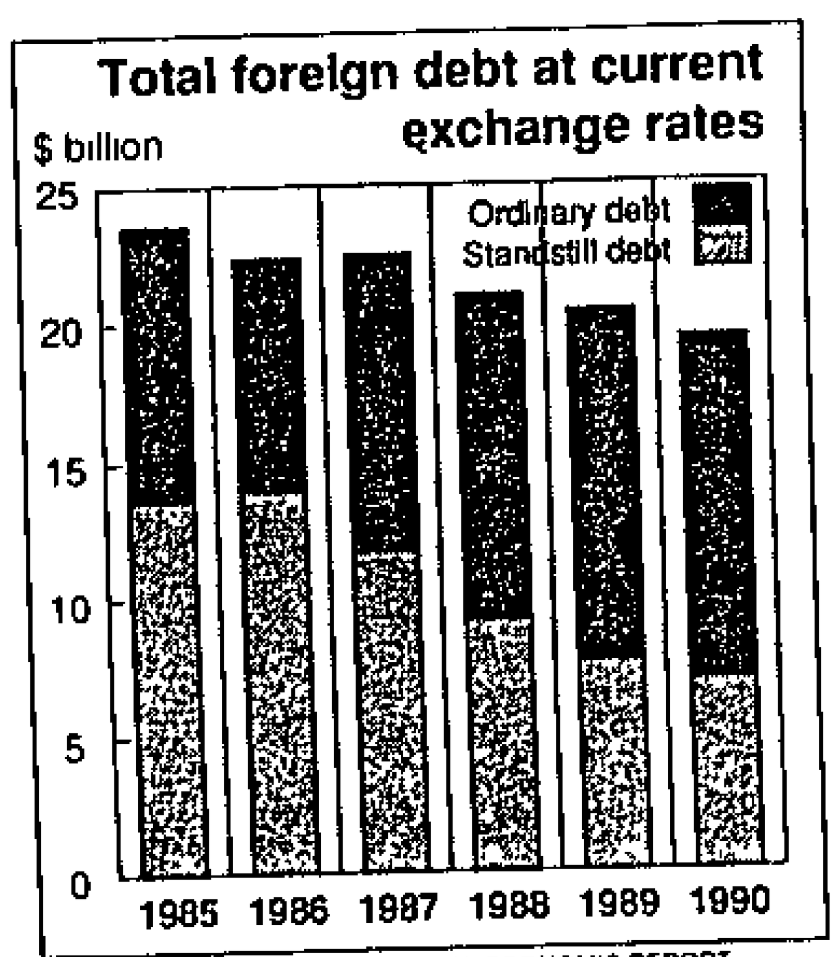
About $6,6bn debt remains caught in the standstill net, from $14bn when the moratorium on payments was announced in September 1985. The biggest portion of the reduction is due to conversions into longer term loans. The Bank notes that "no less" than $4,7bn had been converted into long-term loans at the end of last year. This compares with repayments of $2,9bn and debt-equity swaps of $700m

Will the move to turn affected debt into normal loans bring an early end to the standstill?

Major banks, including Standard Chartered (Stancha) and Barclays, have left huge sums in the net. But is Stancha's move to set up a representative office in SA a precursor to full normalisation of relations with SA, including conversion of standstill debt?

Some local bankers believe not. They expect Stancha's outlook to be strictly short-term. Under the Third Interim Arrangements, creditors have to wait seven-and-a-half years from the date of conversion for the first capital redemption. In the meantime, up to December 1993, they will continue to receive interest as well as the small amounts payable on debt inside the net. The message from some foreign creditors is that it is too long to wait.

SA probably lengthened the wait for repayment under the third conversion option to achieve an even spread of foreign debt maturities. Conversions in terms of the first two arrangements had shorter maturities.



Source SA RESERVE BANK ANNUAL ECONOMIC REPORT
Graphic FIONA KRISCH

One explanation why there is no major rush to convert standstill debt is that foreign bankers still view SA as too risky. Some local bankers say foreign creditors are reluctant to take a long-term view, even though they could lock into above-market interest rates. In some overseas banking circles, there is also a view that a country that defaults once could do it again, and that the converted debt could end up back at square one.

Has SA approached the creditors to encourage them to convert? Reserve Bank Governor Chris Stals, asked about the standstill now that SA's international financial relations are improving, said: "Negotiations regarding the debt standstill are scheduled to take place towards the middle of 1993 and we shall only then be in a position to decide on its future."

This is not what the bankers want to hear. The response raises the distinct possibility of a fourth rescheduling agreement.

At the present rate of payments and conversions into long-term loans, SA could still have about $4bn-$5bn in affected debt when the agreement expires at the end of December 1993. With foreign exchange reserves standing at less than $3bn at present,

P.T.O.

LETTERS

'No quick fix for economic crisis'

LINDA ENSOR

CAPE TOWN — The Nedcor-Old Mutual scenario's proposal for a massive investment in housing for the poor as a way of kickstarting the economy has been called into question by Stellenbosch economics professor Colin McCarthy.

Speaking at the western Cape Sacob regional congress McCarthy said economic quick fixes did not exist.

"To turn the SA economy around will take time," he said.

"Apocalyptic doomsday talk will definitely not benefit the economy, but neither will the creation of false expectations through the advocacy of quick fixes be helpful."

He questioned whether the economy could supply the building materials necessary for a massive house building programme at unchanged prices or whether this would merely result in bottleneck inflation.

"Does supply really create its own demand in a money economy? Will the effects on the balance of payments be negligible? I have my doubts about these issues."

Economic growth required an inflow of foreign capital. McCarthy said he did not have much faith in the idea that the economy could grow faster on domestic savings through a drastic lowering of the capital requirements of economic growth.

To attract foreign investment, the economy would have to be competitive internationally and therefore have an export orientated development strategy.

HP-type scheme mooted for affordable housing

MURRAY and Roberts (M & R) Construction hopes to make thousands of low-cost houses available to disadvantaged South Africans, and has approached the major financial institutions to develop HP-type financing schemes.

These would be underwritten by the state or Independent Development Trust (IDT) if necessary.

"This will bring dignity and hope to the urban poor, more than 60% of whom cannot afford a home costing more than R12 500," says M & R's executive director Gavin Hardy.

At present, financial assistance to prospective home-owners can be offered only via corporations that provide collateral security for employees.

This means many people who may be informally employed but otherwise could afford to buy a home, cannot be financed.

"We've proposed that the major banks and building societies offer hire purchase terms over about four years. The home owner would pay about R175 a month, after a 15% deposit, and own the property outright at the end of the term for a R5 300 home," Hardy says.

M & R's Waltberg and Maxi homes were developed to offer a real and practical solution to the housing needs of this sector of society. Typically, they can provide 20m² of shelter for R5 300 excluding GST or VAT.

HP schemes offer large advantages as the house is paid off over a relatively short period, reducing the total cost.

"To reduce costs and red tape, and to maximise the chances of the application being accepted, we've suggested that financial institutions provide HP-type schemes via their infrastructure and that the loans be processed in the same way as any other HP-type application," he says.

However, the banks and building societies require an acceptable form of security before providing an HP-type service. A possible solution is to establish a Small Loans Guarantee Fund to cover defaults, he adds.

M & R Construction has approached the IDT to set up such a fund and are awaiting its response.

Hardy stresses that the proposed HP scheme will not replace existing loan programmes and subsidies.

COMPANIES

Masterbond grows ever bigger

B Day 4/9/91.

LIZ ROUSE

THE Cape-based financial services and property group Masterbond Trust continued its strong asset and profit growth in the past year.

Turnover climbed from R31,09m in the 12 months to February 1990 to R82,99m in the 13 months to March 1991, while pre-tax profit leapt from R2,3m to R9,39m. Taxed earnings of R5,88m or 609c a share represent a 53,1% return on shareholders' funds, compared with the previous year's return of 19,43% on earnings of 97,5c a share.

MD Johann Brits said the profit leap was mainly due to the performances of the financial services and property divisions. The group's policy of vertically integrating development, management and finance cushioned it against downturns.

The financial services arm was the main contributor to group profit in the 13 months.

Capital and Asset Management, an associate company specialising in the capital market, also showed healthy profits on an increased fund book, said Brits.

Masterbond increased its holding in Health and Racquet Club Holdings from 25% to 40%.

(58)

Earlier this year Masterbond reported a planned merger with Pretoria Bank which failed to materialise and affected the group's immediate growth plans, said Brits. New options were being examined.

Property was likely to become an even more important aspect of activities. Indicators still pointed strongly at the leisure sector.

Brits said the group was confident that, barring unforeseen circumstances, profit growth would be maintained.

Masterbond's assets under control increased from R532m to R994m, with funds under administration rising from R496m to R735m. Shareholders' funds rose from R4,84m to R11,48m, which translates into a 137% increase in net asset value from 502c a share to 1 189c a share.

COMPANIES

Sasfin is ready to roll with the good times

BDay 5/9/91.

SHARON WOOD

TRADE and equipment financing company Sasfin achieved a 20,1% rise in attributable profit for the year ended June despite high interest rates and recessionary conditions.

Earnings rose to 21,3c a share (1990: 17,7c) of which a full dividend of 8,5c a share (7c) was declared.

MD Roland Sassoon said Sasfin was well placed to take advantage of the growing trade opportunities in the southern African region, the expected marginal reduction in interest rates and the anticipated slow return to real world and SA economic growth next year.

Highlights of the year under review included the successful floating of SA's second securitisation issue in collaboration with the Discount House Group.

The issuing of the first tranche of R30m of asset-backed debenture stock of Sasfin Asset Securitisation (SAS) concluded a project started in 1988.

The aim of SAS was to move Sasfin away from being a broker in the office equipment business towards being an independent equipment financer, Sassoon said.

Tax payments had grown by 1,9% to R55 000, from R54 000.

The group had formed a new Malawian subsidiary, Sasfin (Central Africa) to take advantage of increased trade opportunities in the region, he said.

In addition, Sasfin acquired Durban and Maritzburg-based equipment finance broker Techrent Natal and opened a marketing office in Cape Town.

Sassoon said that although borrowings had increased, with the gearing ratio at 2,4:1 from 2,1:1, the group had ample financial capacity for further growth.

58

London listing delayed on Mutual's SA fund

B/Day 26/9/91 (58)

KIN BENTLEY and SEAN VAN ZYL

THE listing of Old Mutual's SA Fund (Omsaf) on the International Stock Exchange in London, originally due to take place yesterday, has been delayed, raising questions about its viability.

Old Mutual chairman Mike Levett had flown to London in an eleventh hour bid to rally investor support for the closed-end trust, sources said.

They added that an announcement regarding the final placing of the trust, of at least $25m, should have been made yesterday. The lack of pledged support could jepordise approval for the trust's London listing, they noted.

Old Mutual GM investments Johannes van der Horst, a member of the Omsaf board, confirmed that the launch had been delayed to October 2. He would not comment further "due to the sensitivity of negotiations".

Sources said Old Mutual would have to secure the minimum support for the fund by October 2 in order for the London listing to go through.

Senior executives of Smith New Court, the sponsoring broker and underwriter to the placing, held meetings with Old Mutual in SA this week.

A spokesman for College Hill Associates, the fund's London public relations company, confirmed yesterday that Smith New Court was expected to make an announcement early next week about launch dates.

When Old Mutual announced its intention to establish the fund it said it was aiming to raise upwards of $50m.

Asked whether the delay signalled the fund was failing, the spokesman said if the company had thought it would not reach the target it would have pulled out ages ago.

He said Smith New Court was continuing to speak to institutions about the kind of commitment it could expect, but this was taking longer than expected.

For many institutions, involvement in an SA fund was "a quantum leap".

Omsaf's aim was to seek long-term capital appreciation and dividend growth through investment in JSE-listed equity securities.

New management for riot risks insurer

B/Day 25/9/91 (58)

SEAN VAN ZYL

THE SA Special Risks Insurance Association (Sasria) — a registered insurance company established in 1979 to underwrite political riot risks — is soon to have a new management board.

The change of management, previously in the hands of the SA Insurance Association (SAIA), was decided upon because of the size of the operation and the "onerous responsibilities" of administering it, MD Rodney Schneeberger said yesterday.

Schneeberger said Sasria was registered in 1979 as a non-profit organisation following the massive unrest losses incurred during the Soweto riots in 1976. Although government does not have a direct interest in Sasria, he noted the state was responsible as "the reinsurer of last resort" in the event claims exceeded the company's underwriting resources.

Financial Services Board (FSB) spokesman Nico Fourie said Sasria was created as a "partnership" between government and insurance companies to provide cover for politically related losses which at the time were reaching abnormal proportions.

Cover for vehicles, buildings and equipment include losses in the TBVC states.

He said the decision to shift Sasria away from SAIA was not intended as a reflection on the abilities of the previous management.

Registrar of Insurance Piet Badenhorst and Schneeberger will remain on the new board.

Sasria cover is usually made available as an addition to normal insurance policies. Insurance companies act as intermediaries in providing Sasria cover for which they collect commission on the coupons sold.

Although unrest-related losses seemed to be levelling off, Schneeberger felt Sasria's total assets, relative to exposure, should be in excess of R10bn — far from the reality of the situation. However, Schneeberger said Sasria would have no problem in meeting existing claims.

Sasria's 1990 losses reached a record level of R300m largely through the Ciskei coup and eastern Cape riots. Paid and outstanding losses for the current year, at the half-year mark, stood at about R5m.

Sasria's 1989 claim account stood at R190m, sharply up on 1988's R16m and the R12m reported for the 1987 financial year.

THE MONEY MARKETS by Andrew Gill

Rates squeezed in a market struggling for liquid assets

RATES came under strong pressure in a money market struggling to create sufficient liquid assets for hungry investors last week.

The demand saw three-month BAs drop five points to 16,70% at some banks, and the weekly TB tender brought an already low rate down a further three points, possibly helped on by rate-insensitive foreigners joining the tender through local banks.

The tender's average rate was 16,58%, down from the previous week's 16,61% and well off an expected kick-up in the rate.

In the rush for liquids, heavy demand came in at the tender, which realised an effective and relatively attractive yield of 17,295% — a rate investors will be hard-pressed to find on a three-month fixed deposit.

At 16,70% the BA rate is well below the 17,50% rediscount rate, but it is not perceived as too expensive in the tremendously competitive liquids market.

However, rates at the six-month level kicked up by about 10 points, indicating a possible uptick in issues at that level as hopes of a Bank rate cut in that time span remain faint.

Bankers say margins are looking a little tight in trading operations as turnover falls further.

The dismal PPI figure could not have made Governor Chris Stals very happy. It reinforced the dull outlook for rates.

Stals's consistent hard line on monetary policy has been less public lately. However, with only the faintest flicker of hope that he will cut Bank rate this year, not too much is being read into it.

Liquidity pressures for the Bank took a well-earned nap last week as R1bn remained out of the market while maturing TBs were partly rolled, as were most dollar swaps.

This month is expected to be much easier to control after August's heavy interest payments and stock maturity, coupled with recession-battered tax payments.

The week passed without resolution of the turnover tax changes.

Bankers are wondering whether these will be made before the fast-approaching October 1 implementation date.

The Finance Minister's special adviser, Japie Jacobs is apparently not too perturbed about the fact that technical hitches threaten the new plan to tax capital bases.

PROPERTY

Old Mutual shifts strategy to focus on the townships

B Day 11/9/91 (58)

LINDA ENSOR

CAPE TOWN — Life assurer Old Mutual's property division is taking advantage of the abolition of the Group Areas Act to make investments in black townships.

It is being assisted in its office block development programme by the move of Old Mutual's operations countrywide into its own buildings.

Old Mutual property manager Martin Buss said white suburbs were oversaturated in terms of retail shopping centres. The society was wary of investing new money in the retail sector. "There are just too many shops available to make good enough money all of the time. There has been too much investment in shops over the past 10 years, and industry turnover has had to be spread too widely. Our returns are not growing."

However, an opening in the market existed in black townships, which lacked such centres.

Old Mutual is developing a R15m shopping centre complex in Kagiso, another R15m project in Vosloorus, and has acquired two buildings — one for retail use — in Mitchells Plain. Political violence had never been a threat to Old Mutual's buildings and was not factored in as a risk.

Some white areas did not have shopping centres. Old Mutual was building one in Rivonia at a cost of R50m. Retail properties represented 25% or R1,75bn of Old Mutual's total direct property portfolio of R7bn. Vacancies ran at 1%, but because tenant turnover was under strain, rentals were producing a lower income.

Major office block developments under way included the R110m Safmarine headquarter building in Cape Town, the R55m Surrey complex in central Johannesburg, and the R35m Arcadia development, which was 55% let to Old Mutual.

The company's need to consolidate its office space was driving the society's office block programme and allowing it to build, despite widespread internal cutbacks. A R23m building was going up in Belville, one third let to Old Mutual; a R16m office block was under construction in Maritzburg and was 50% let to the society; and a R14m building being built in Port Elizabeth was one-third let to Old Mutual.

"We can be confident about going ahead if the society takes one third to a half of the space," Buss said.

Office properties in the direct portfolio made up 56% or R3,9bn — by far the largest segment. While vacancies in the portfolio were small, rentals had stopped growing, said Buss, who believed they would start moving again in 1992/93.

The industrial portfolio represented 19% of the total and was a sector which was beginning to move, Buss said. Industry was beginning to replace inventories and required storage space, and Old Mutual was building new units throughout the country on its existing stock of industrial land. Rentals were rising.

Buss emphasised that new developments were not being undertaken speculatively. "We proceed with projects only if they are substantially pre-let. As a result of this policy the total occupancy of the portfolio has held at 95% while our rental collections have only 3% outstanding by the seventh of the month."

Buss said this cautious strategy was one of the main reasons Old Mutual's property portfolio had managed to generate a return of between 22% and 25% annually during the past five years.

insurance

Massive losses will result in fewer but stronger operators

THE severe underwriting pressure in the short-term insurance sector over the past five years — largely resulting from excessive price competition — has culminated in the massive underwriting losses disclosed by most insurers for the 1990 trading year.

Industry analysts say a number of players will fall by the wayside through mergers and takeovers, resulting in fewer but stronger operators emerging.

A recent study by the SA Insurance Institute and Andersen Consulting says the insurance industry is expected to continue competing on a price basis, which will result in a number of operators running into financial difficulties.

Hemmed in

"Short-term companies are hemmed in between a deteriorating claims situation, increasing crime rate, rising internal costs and poor investment performance compared to previous years," the study says.

The Delphi study of SA insurance in the 1990s shows the majority of industry members consulted predict the nine major insurers in the SA market — which receive about 80% of the premiums — could be reduced to five by the end of 1995.

The study says this concentration will result from increased pressure on the solvency margins of short-term insurance companies, with a number running into financial difficulties.

The short-term industry is facing "great pressures on profitability" which could only be overcome by increasing capital employed, sharing costs and developing niche markets.

The study also says the growth in self-insurance is seen as "the greatest single challenge" facing the industry.

Over 90% of industry members surveyed say 20% of SA's large companies will be mostly self-insured by 1995 and the business remaining will be "less attractive" to the insurance market.

In addition, the study says the impact of recent developments, such as the pending value added tax (VAT) system and changing legislation will still have to be determined.

Analysts and insurers say the Delphi study paints a bleak future for the industry, but various corrective measures have been implemented to strengthen underwriting accounts.

The short-term industry introduced premium rate increases of 40% to 50% last year, and similar hikes are expected for 1991.

Corrective

SA Insurance Association CE Rodney Schneeberger says the industry is aware of the corrective measures needed — through rate increases and more stringent underwriting controls — and these changes will correct the poor position of the short-term industry.

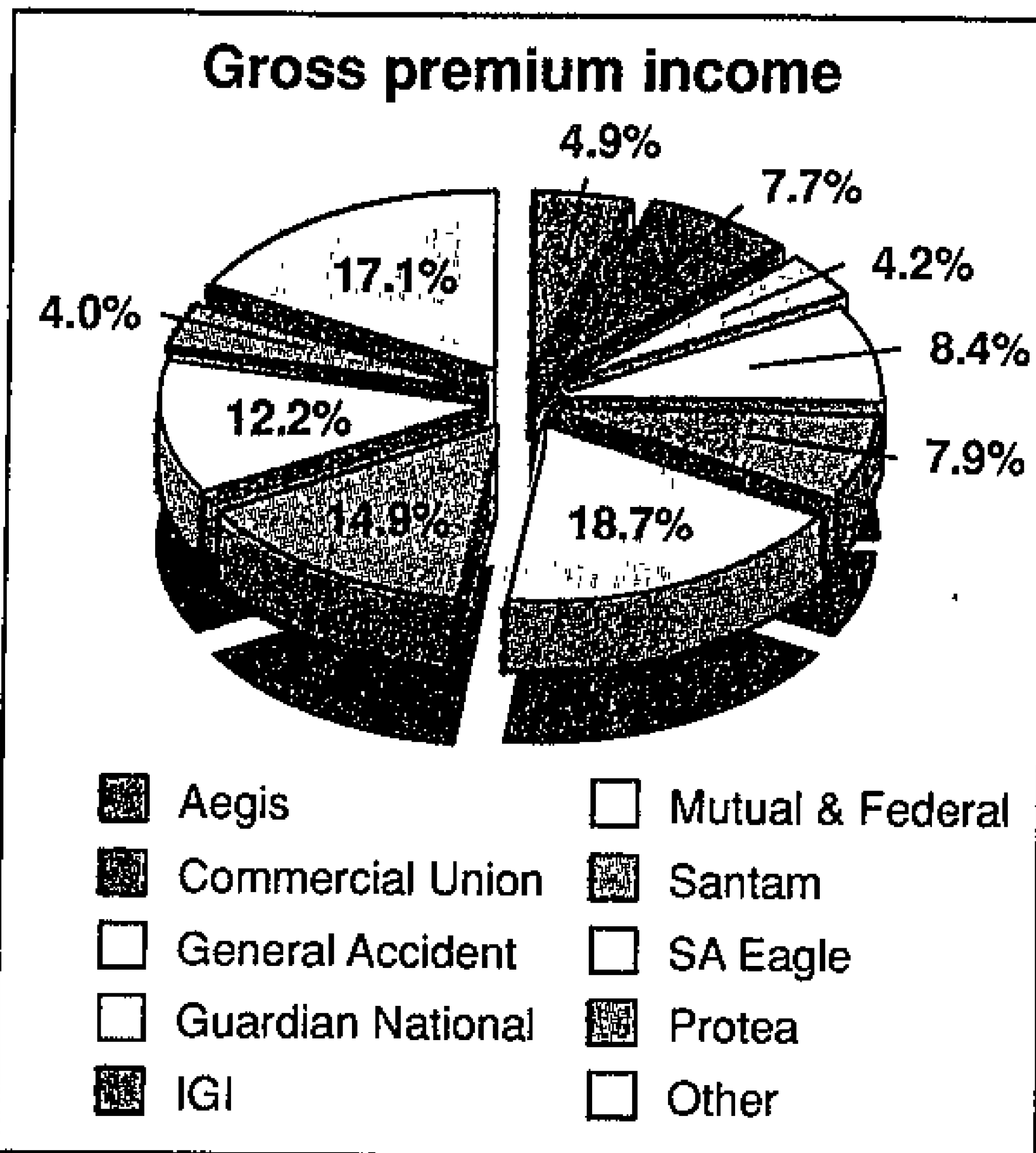
"The situation has to be brought under control this year," he says.

However, the industry trend is moving toward fewer but larger companies.

Although the insurance market seems to have hit its bottom curve and is showing signs of turning up, Registrar of Insurance Piet Badenhorst says short-term insurers' solvency margins have dropped over the past year.

He says the main thrust of the proposed Short-term Insurance Act is to allow for greater scrutiny of financial positions.

Insurers are already required to submit quarterly trading returns to the Registrar's office as a consumer safeguard process.



Graphic FIONA KRISCH Source: QUEST INSURANCE ADVISORY SERVICES

Insurers' profit/loss on underwriting as a % of net premium income

COMPANY	1989	1990
Aegis	6,4%	(4,2%)
Commercial Union	2,2%	(8,6%)
General Accident	1,7%	(35,8%)
Guardian National	3,4%	(4,3%)
IGI	5,7%	(0,1%)
Mutual & Federal	7,9%	2,5%
Santam	1,7%	0,3%
SA Eagle	4%	(6,7%)
Protea Assurance	(1,1%)	(20,7%)
Market performance average	2,9%	(5,9%)

Graphic FIONA KRISCH Source QUEST INSURANCE ADVISORY SERVICE

Business Day SURVEY

Excessive competition has put the short term insurance industry under severe pressure, resulting in large underwriting losses for the 1990 trading year. Analysts expect a number of players to fall by the wayside through mergers and takeovers. **SEAN VAN ZYL** *reports.*

Industry's ombudsman cuts through red tape

THE short-term insurance industry has often been criticised for its low public profile.

As a result, the industry decided in 1989 to establish the first SA short-term insurance "ombudsman" office under Advocate Bill Schreiner through which members of the public could take their complaints.

However, critics say they question whether the ombudsman has fulfilled a real purpose, in that he can only make recommendations without any legislative pull.

Schreiner says: "I'm more of a negotiator between the public, brokers and insurance companies than a legal arbitrator."

However, he says since the establishment of his office in August 1989 a number of complaints against brokers and insurance companies have been solved as purely misunderstandings.

Schreiner says his role as a mediator is cutting through a significant amount of red tape, lost time and legal costs.

One of the initial problems he encountered was the public's lack of awareness of his office, but after appearing on a number of television programmes response and queries increased.

B Day 5/9/91 (58)

Schreiner says the complaints taken up with his office have been marginal compared to the complaints previously handled by the industry.

"The majority of claims are resolved without any further steps being taken."

Other problem areas involve cover being stopped due to monthly debit payments not being made and misunderstanding on policies taken out over the telephone.

He says in the first instance the onus lies with the policyholder to check that his monthly premiums are being deducted from his account every month.

In the second instance, Schreiner says he plans to encourage companies making use of tele-marketing to keep audio recordings of their telephone dealings.

Once the cover has been decided over the phone, the insurance company will send a written contract to the policyholder for his verification.

"However, the vast majority of people don't bother to read the policy wording, which can lead to a problem when a claim is submitted."

whole / exclud

Vehicle theft is a serious threat

WHILE the number of vehicle thefts climbed by more than 30% to 73 510 in 1990 from 56 940 in 1988, the recovery rate was only around 11%, according to statistics released by the SA Insurance Association (SAIA).

Insurers say the greater loss incurred was due to the theft and hijacking of commercial vehicles and their loads — an estimated loss of over R6bn during 1990.

While the incidence of theft and hijacking seemed to be levelling off this year, insurers say the value of their insured losses will be about 20% higher than last year.

Hijacking

Insurers say the increase in the number of stolen vehicles, particularly hijacking, over the past two years poses one of the biggest threats to the SA insurance industry.

The SA insurance market faces one of the fastest rising vehicle related crime rates.

Other than introducing higher premium rates and providing rate incentives for alarms and immobilisers, insurers say they can do nothing else but hope the security forces are able to bring the situation under control.

Insurers have also provided a special fund for information leading to the arrest of thieves and the recovery of stolen vehicles.

While this has met with some success, the recovery rate of stolen vehicles remains dismally low.

Concerned

Mutual & Federal claim manager Percy Grohovas says motor theft and hijacking has become a way of life in SA and he is concerned with heavy commercial vehicle losses, which often exceeded R500 000 a unit.

General Accident claim manager Jeffrey Smith says the company's theft related claims climbed this year, on a monthly basis, by more than 30% compared to last year.

About 60 units worth R1,5m were stolen each month last year compared to 1991's monthly average of 80 units valued at R2m.

Although Auto & General reported a levelling off in the number of its vehicle theft claims, spokesman Nick Mew says on average the cost of claims in the PWV area rose by 25% in 1990, with a further 20% increase this year.

Santam says the value of its vehicle theft related claims have climbed by 25% this year compared to a relatively marginal increase of 10% in the number of claims.

Act is expected to result in clearer role definition

(58)

B Day 5/9/91

WHILE the proposed Short-Term Insurance Act is hardly deregulative, commentators say it will result in a clearer definition of the industry's role.

The authorities announced this year that short-term insurance and life assurance — which currently fall under the same legislation of the Insurance Act of 1943 — will be split under two Bills to suit the needs of the different industries.

Financial Services Board (FSB) spokesman Piet Badenhorst says the proposed legislation is expected to be implemented at the beginning of 1993.

The new Short-term Insurance Act is "99% complete", and a final draft will be passed by mid-1992.

Badenhorst says the 1943 Act, "which has undergone many amendments", has become outdated regarding the sophisticated activities of the insurance industry.

The proposed legislation is more consumer orientated, with greater provision for the safeguarding and disclosure of insurers' technical reserves.

From the authorities point of view, Badenhorst says the changes will allow for greater scrutiny of insurance companies' financial positions and the adequacy of their managements.

SA Insurance Association (SAIA) CE Rodney Schneeberger says the proposed Bill — on which SAIA worked closely with the FSB on its drafting — is a "fine tuning" of the old legislation.

Contentious

However he says two contentious items in the new legislation still have to be finalised.

Insurers are concerned with "Section 66" of the Bill, which determines the time allowed for brokers to submit premiums to insurance companies.

Under the old legislation, intermediaries had to remit premiums on new business within at least 30 days, with a 10-day accounting period, by the end of the month following the inception of the risk.

As a result, the maximum period allowed was two months and a 10 day accounting period before the premium would have to be forwarded to the insurer.

The new Act requires the maximum remittance period to be shortened by 15 days.

"Ordinarily, insurers would be pleased with this," says Schneeberger.

"But the new provision requires premiums to be forwarded only once the intermediary has received payment from his client, although cover of the insured's property will have been enacted immediately."

As a result, insurers could end up waiting months before they receive any premiums, although they will still be responsible for any loss incurred.

Schneeberger says the matter has been taken up with the FSB and expects the problem to be resolved shortly.

Furthermore, the new Bill requires public disclosure of intermediaries' commission — which has not been well received by brokers.

However, Schneeberger says insurers will welcome this step as "the public will be able to see that insurance companies don't take all of the premium for themselves."

Alarm

While the proposed Bill has been generally accepted, the changes caused some initial alarm as it requires companies undertaking both short-term and life business to split their activities into two operations.

The majority of composite insurance companies have already formed separate companies to house their different business activities.

Schneeberger says the proposed Short-Term Act is evidence of greater co-operation between the industry and the authorities.

Motor claim costs rise steeply

WITH motor premium rates generally inadequate as a result of the rate war, insurance companies say their claim costs on the motor account outstrips other classes of risk.

Their motor claim costs on both personal and commercial business has climbed steeply over the past two years due to increased incidences of fraud, theft, hijacking and vehicle accidents.

However, while the number of claims seems to have levelled off in 1991, they say the value of the risk is rising as a result of inflationary pressures.

Vehicle repair costs have also climbed by an average 50% over the past 18 months.

NICK MEW

They say vehicle accident related claims comprise about 70% of motor claims. The increase in repair costs is largely labour driven in the panel-beating industry.

While Auto & General's vehicle accident claims have run consistently over the past three years at about 12 claims for every 100 policyholders, company spokesman Nick Mew says the average cost of claims has increased.

"The average cost of repair has been going up faster than inflation."

Auto & General negotiate regularly with panel beaters on service rates, Mew says.

Santam claims manager John Murray says the company's number of accident-related claims went up by 5% in the first six months of 1991, compared to last year. The cost of these claims has climbed by 18%.

General Accident claims manager Jeffrey Smith says repair costs have climbed by about 25% this year.

Although the biggest cost increases were labour rates, the prices of auto parts and services such as spray painting have also risen sharply.

Insurers see themselves as being held to ransom by panel-beaters and tow operators.

The insurance and panel-beating industries have for years been at odds over vehicle repair service rates.

A number of insurance companies have now acquired their own panel beating and damage assessing shops.

Massive underwriting losses in 1990

INSURERS cannot afford another underwriting year as poor as 1990 — which resulted in the majority of companies reporting massive underwriting losses — says SA Insurance Association (SAIA) CE Rodney Schneeberger.

1990 was the worst underwriting year in the history of the short-term insurance industry.

"The majority of companies returned underwriting losses, with many reporting bottom-line losses."

As a result, the capital base of the industry had been partly eroded, with many insurers' solvency margins dipping.

He says the losses experienced resulted largely from excessive rate competition over the past five years despite escalating crime and catastrophe claims — such as the Welkom tornado, Natal and Free Sate floods — during the period.

The industry's government watch-dog body, the Financial Services Board (FSB), has now asked short-term insurance companies to submit quarterly returns on their trading results to safeguard the insurance consumer.

Schneeberger says the industry applied various corrective underwriting procedures last year through higher premium rates and policy excesses and more stringent underwriting requirements.

"We had to bring the situation under control," he says.

Although the premium rate increases introduced in 1990, which varied between 40% to 50%, are proving beneficial, Schneeberger says the incidence of theft and fraud is continuing to rise.

Insurers say the increases are insufficient to balance the increasing cost and rise in claims, particularly on their personal lines and motor accounts.

Overtaking

Claim costs, largely due to inflationary increases, are overtaking the massive rate increases introduced over the past 18 months.

Although the industry has reached its "bottom curve" and a slight underwriting improvement can be expected this year, FSB spokesman Piet Badenhorst says 1992 will be a tough trading year.

This year's most recently submitted quarterly trading returns to March show insurers' solvency margins have dropped on average, although they are still operating on adequate margins.

VAT will add to premium rates

SHORT-TERM insurance companies will increase their premium rates by between 4% and 6% when value added tax (VAT) is introduced on September 31.

Insurers say, based on the information released on VAT by the authorities, premium rates are expected to climb on average by about 5% once VAT comes into play.

They say the impact of VAT on insurance would have been much higher, at about 6% to 8%, but for the 11th hour change reducing VAT to 10% instead of the original 12%.

Insurance watchdogs say some rate increases could be higher due to underwriters making use of the opportunity to build an additional cushion into their premium margins.

Hard hit

SA Insurance Association (SAIA) CE Rodney Schneeberger says he does not expect insurance companies to take advantage of the VAT system to sneak further rate increases through.

However, the short-term industry, which has been hard hit by underwriting losses over the last five years, is expected to introduce additional rate increases in the second half of 1991.

Schneeberger says there are a number of VAT issues which remain unclear.

SAIA is holding discussions with the Receiver of Revenue to finalise administrative points, after which a comprehensive document on VAT will distributed within the industry.

While the industry has applied for exemption from VAT, "or at least a zero rating" to spare the inflation-pressed consumer, Schneeberger says the tax authorities are adamant VAT must be applied to short-term insurance premiums.

However, insurance critics are sceptical suggesting insurers will hike premiums even further under the guise of VAT

Insurance brokers PFV Group director Olli Lieb says, based on the industry's average claims ratio and the manner in which it qualified for VAT input credits, premiums should not increase by more than 3% to 4%.

Lieb says if the average claims cost ratio of an insurance company is about 66,2%, of every premium rand received insurers would pay out about 66,2c on claims.

Under the VAT system, an insurer's claim cost per premium rand would, as a result, be reduced to 59,5c — or 59,5%.

The difference between the VAT rate of 10%, or 10c per premium rand against the 6,7c saved through the VAT input on claim costs will reduce the outstanding amount needed to only 3,3c for every premium rand received.

Impact

As a result, Lieb says, as the system stands, the higher an insurer's claim cost ratio, the less of an impact VAT will have on the average premium rand — should insurers pass on the full VAT input benefit to the consumer.

A number of insurance consultants say there are loopholes in VAT of which insurers could take further advantage

Insurers could increase their claims ratios proportionately, thus negating the tax cost through their input credits.

Civil debt bounces up 34%

Own Correspondent

JOHANNESBURG. — Total civil debt for the first six months of this year was R1,24bn, up 34% on the 1990 figure of R904m, Credit Guarantee senior economist Luke Doig said yesterday. (58) CT 20/9/91

Total civil debt for the whole of 1989 was also R1,24bn. This rose by 60% to R1,96bn in 1990.

Doig said the effects of increased debt would endure for a long time.

"Our experience as a credit guarantor is that there is a nine- to 12-month lag between an upturn in the economy and the corresponding reduction in civil debt."

He said the June figure of R204,4m was down from R216,4m in May, but despite the decrease, civil debt figures were on a much higher plateau than last year.

Meanwhile, Information Trust Corporation MD Tony Leng said latest figures showed civil judgments against black consumers were increasing as they made more use of credit facilities.

Financial empire? Not at Liberty to say

(58) CT 20/9/91

By ARI JACOBSON

SHARES in Liberty Life and First International Trust (FIT) — its offshore arm — were suspended on the JSE and the London Stock Exchange yesterday, sending rumours rippled through the market of the possible formation of a financial services empire overseas.

But FIT Chairman Donny Gordon stationed in London was not willing to comment.

"Just believe me its positive," he said before rushing off into a meeting.

A leading analyst was willing to speculate that this could signal a joint venture between the domestic and overseas components — (including possibly Standard Bank Investment Corporation (Stanbic) — to build an integrated financial services system overseas.

He said SA's position, over the last five years, had been tainted by the political climate.

"The time is now ripe for an involvement with a powerful financial force overseas."

The idea of one-stop-services, coming out of SA and flowing onto the international scene could be the most exciting recent financial development, he said.

FIT's overseas investments include about 29% of UK based life assurer Sun Life and effective control through TransAtlantic of UK property group Capital & Counties.

Speaking of the possible effect on share prices a dealer said "the man's (Donny Gordon's) record speaks for itself. Those that have backed him are already retired".

But FIT has had a less than glorious rise since its listing two years ago on Diagonal Street.

The share which peaked at about R17 in mid-1990 was suspended close to its lows of R9,40 yesterday. A slump in the UK property market and the strengthening of the financial rand were the main contributors to its failure.

This translated into a 6% fall in earnings a share for the six months end June. FIT is presently raising R375m through a rights issue of 30 for 100 shares.

Recovery stock

Cape-based Viscount Portfolio's Ralph Hoffman said FIT at its current market low was considered a recovery stock, even before this announcement.

Hoffman said factors considered were excellent property assets all held offshore, strong management and the likelihood of the UK property market turning favourable over the next two years.

● The suspension of Liberty Holdings, Liberty Life, FIT and Liberty Investors was requested by the companies and triggered speculation of a major offshore restructuring involving Liberty's TransAtlantic and Sun Life, our Johannesburg correspondent reports.

Market speculation was that Gordon was close to achieving his long-standing ambition of gaining undisputed control of UK assurer Sun Life Corporation through Liberty's Luxembourg-quoted insurance and property investment holding company TransAtlantic.

Sources close to TransAtlantic said the group was negotiating with l'Union des Assurances de Paris (UAP) to acquire the French assurer's 27,9% stake in Sun Life for about £180m.

Last night, Gordon would neither confirm nor deny that Liberty was planning to acquire additional shares in Sun Life.

The deal would probably involve a combined equity swap and cash payment for the French interest, stockbrokers believe. London's takeover regulations would mandate a comparable bid for minority shareholdings.

The brokers added that Liberty was expected to take a direct interest in TransAtlantic in addition to its indirect holding through FIT.

Richard Connellan of the JSE's listings department yesterday confirmed the exchange had recently passed a special resolution which authorised listed companies to enlarge their equity bases by up to 10% in a private placement to raise quick cash. No public offer would have to be made in this instance, unlike in a conventional rights issue.

Ken Coleman has been promoted to senior manager, financial systems in the corporate finance division of Southern Life in Cape Town.

Henry Vermeulen h[...] been promoted to a[...] sistant GM, sal[...] support at Souther[...]

Keep disciplinary powers urges estate board boss

(58)

THE Estate Agents Board should have extended disciplinary powers and should re-examine its public protection role, says board chairman Eskel Jawitz.

Sowetan 5/9/91

Jawitz, who was addressing the annual convention of the Institute of Estate Agents at the Wild Coast on Tuesday, said disciplinary committees of the board should be granted additional powers to impose compensatory fines, or order forfeiture of commissions when members suffered or the public suffered loss through the unfair practices of estate agents.

Jawitz also criticised calls for the complete deregulation of the estate agency industry. If the board were to be disbanded or its activities curtailed, unscrupulous operators would gain entry to the industry which could financially prejudice home buyers. - *Sapa*

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Property still the best investment

Sowetan 5/9/91. 58

Despite poor economic conditions many people are taking the advice of estate agents that you can never go wrong with investing in property.

PROPERTY remains the most reliable of investments as even "small" properties usually break the R100 000 barrier, estate agent boss Mr Scott McRae said in the United Building Society housing survey.

By PHANGISILE MTSHALI

McRae attributed this development to rising building costs, good demand for property, an increase in immigration and the pending introduction of VAT.

Inflation

"It would seem that some of the price-rise pressure is coming from a market that is anticipating the inflationary effects of VAT," he said.

McRae argued that property has outperformed inflation.

"Nobody loses on property," he said.

"A bond is in fact a forced saving. Unless a household is particularly well disciplined, that bond money would almost certainly have dissipated elsewhere without any real return."

McRae, however, warned homeowners not to expect major cuts in their bonds rates because the current economic conditions simply "won't allow it".

He said if there were any further rate cuts they would not be dramatic and would amount to no more than two percent, in his view.

This would not affect the general upward trend in home prices.

He, therefore, advised against delaying a purchase in the hope of prices coming down was a mistake.

McRae was also quick to add that even a one or two percentage drop in interests rates would ease the burden of the homeowner.

Payment

He advised that ideally the homeowner should continue to pay his bond off at the same rate or even increase his payment, thus saving himself considerable amounts of money in terms of interest.

Perm Home Line.
When you need somebody to lean on.

First-time buyers will find going more difficult

THE first-time homeowner is an endangered species, according to Camdon's group marketing director, Mr Bryn Hossack.

Reacting to the news that home subsidies are effectively being phased out by taxing them at almost the same level as the current bond rates, he said there was a distinct lack of Government support for the first-time owner.

A fresh approach to the situation was called for, he said.

Rising home costs, expensive bond finance and high taxation rates have put home ownership beyond the reach of thousands of South Africans. A potential brain drain to other parts of the world was one possible consequence.

Home ownership was one of the greatest aspirations of South Africans. There was now a strong possibility that only existing homeowners would be able to afford to buy property by trading into another property, using the appreciated value of their property to do so.

"There are already far fewer first-time homeowners and ultimately this is unhealthy for the vitally important property market - and for the long term prosperity of South Africans in general.

"First-time homeownership is literally the first step towards long term wealth creation. For the majority of South Africans, property ownership is the one certain route to creation of an asset in their retirement years.

"With the dubious compliments of inflation, that asset appreciates more rapidly than most other investments open to the average man in the street," said Hossack.

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FOCUS ON PROPERTY

Bond finance options are increased

Sowetan 19/9/91. 58

DEVELOPERS and prospective owners of low cost homes have a wide and growing variety of bond financing options open to them.

That is according to Mr Gavin Hardy, executive director (housing division) at Murray and Roberts Construction.

Hardy says traditionally financial institutions have been reluctant to provide financing below R35 000 for reasons of economic and political risk and diminished profitability.

"However, recently several institutions and independent development organisations such as the Urban Foundation and Independent Development Trust have announced or implemented innovative bond financing schemes designed to restore dignity by allowing individuals to purchase their first home, albeit a very modest one.

Among these schemes are the Loan Guarantee Initiative, which was developed by the Urban

By JOSHUA RABOROKO

Foundation in conjunction with the Association of Mortgage Lenders and now run by the Home Loans Guarantee Company.

The objective of LGI is to open the R12 500-to-R35 000 sector of the mortgage bond market, particularly for "starter" homes up to 55 sq m.

Expands

This initiative is all the more significant because it expands the potential market from 10 percent of the black population to 33 percent.

The LGI encourages institutions to provide financial assistance by providing them with insurance to cover losses in the event of default by the purchaser and the sale in execution of the property.

The LGI's insurance is available where the borrower can provide a minimum of five percent or an equivalent collateral guarantee; and the loan value does not exceed R35 000 (exclusive of costs).

With the LGI intervention, a property package costing R30 000 breaks as follows:

- Five percent deposit /collateral (R1 500);
- 15 percent deposit replacement collateral, a single upfront insurance premium which insures up to 15 percent of the bond depending on the deposit (R4 500);
- 15 percent risk replacement collateral, a single up-front payment which covers the institutions against "political" risk (R4 500); and
- 65 percent lender's risk (R19 500).

The major players in the initiative are Nedperm, FNB and Standard Bank, while Volkskas, Provincial and Allied have a very small involvement or are corporate lenders only.

Joint venture

To finance homes requiring loans of under R12 000, that is, below the minimum limit of the Loan Guarantee Fund, the IDT and UAL Merchant Bank are involved in a joint venture to raise R500 million from the private sector.

To date about R120 million has been raised from financial institutions, on the basis that the IDT provides funds to the Independent Development Trust Finance Corporation to acquire, through UAL, a portfolio of fixed interest rate securities.

These, in turn, will be used as collateral for the cash flows due to the institutional investors.

Also available from Nedperm is the Perm Salary Linked Home Loan, wherein repayments are determined as a percentage of the borrower's income. Loans (typically 100 percent) are made to employees of companies approved by the Perm, and the borrower's compulsory contributions through company pension or provident fund membership are used as collateral.

Unhealthy

To qualify, the borrower should earn R800 a month or more, be employed by a Perm-approved employer and be an established member of a pension or provident fund.

He or she also should be able to repay the loan by the age of 55 years.

Important advantages of this scheme are that payments are kept affordable, and are unaffected by fluctuations in interest rates.

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HOUSING PRO

Foreign aid can make impact here

Sowetan 26/9/91

58

THE chief executive of Perm, Mr Hugh Maclachlan, has told representatives of foreign governments in South Africa that their governments, at this time of transition, have a critical input to make, internally and externally on the country's future.

By JOSHUA RABOROKO

Welcoming diplomats to a presentation by Necor/Old Mutual at Permpark in Johannesburg, he said foreign countries could make an impact on South Africa by becoming major players in business to appreciate the urgency with which the South African economy must be rejuvenated.

He said: "Your influence cannot be gainsaid in securing a change of attitude among the major players towards the business opportunities that exist in this land."

Emphasising that Perm was committed to playing its part in the socio-economic and political process in South Africa, Maclachlan said he believed, however, that the future would look better from an economic point of view if all members of the private sector had been alerted in the past to the opportunities that exist, and had seen the needs of the future.

"For that is what will have to be done by the private and public sectors, as well as political organisations, if South Africa is to progress as country and become an economic force to be reckoned with in the world and in Africa."

Speaking later in the day at Emaphupheni, a housing scheme developed near Benoni by the Perm, he cited the housing development as an apt illustration of a social compact akin to the compacts suggested by the Nedcor/Old Mutual scenario.

As part of Perm's commitment to provide housing for a broad range of market sectors, including the traditional housing market, the company has also developed innovative schemes such as Emaphupheni in which its has co-operated with local communities to meet their needs.

"The fact that we have progressed so far down the road in overcoming problems through participative decision-making by business on the one hand and the local community on the other, is a living demonstration that social compacts can work if the required amount of managerial commitment is given by all parties concerned," he said.

"Where we feel it is appropriate, we at Perm stand ready to share the knowledge we have gained in putting together this concept of Emaphupheni, together with the developers and the community, with other business interests which have the housing needs of all our people at heart."

After the ceremony at Emaphupheni, Mr Chris Liebenberg, chief executive of Nedcor, and Mr Colin Adcock, chairman of Nedcor chairman's Fund, presented a cheque for R375 000 towards a school in the community.

The presentation marked the announcement of the Nedcor Chairman's Fund.

Guidelines on VAT, property sales issued

Sowetan 26/9/91

THE imminent application of Value Added Tax on September 30 has spurred the property industry to issue guidelines.

Sowetan Reporter

Last week saw the publication by Ampros of a publication on VAT and its implications for players in the market.

Though admittedly an administration hassle, most people associated with the property market have welcomed the introduction of VAT.

Summing up its thrust, Mr Lawrence Kaplan of Werksmans says most sales of commercial or industrial property will be subjected to VAT, as the seller would generally be a vendor as defined by the VAT Act.

A vendor is defined as a person or entity who or which conducts an enterprise with a turnover exceeding or likely to exceed R150 000 a year.

"Commercial or industrial property which has not been developed and which is sold by a person on entity not defined as a vendor by the VAT Act, will not be subject to VAT.

"If the purchase is a vendor as defined by the Act, however, he will be entitled to a notional input credit payable either by that credit being set off against his output taxes (for the tax period in question), or at latest, within 21 days of the submission of his VAT return for the tax period in question," he said.

Kaplan says it is important to note that, where industrial or commercial property is being sold through the sales of the close corporation or company owning it, no VAT will be payable on the sale of the shares (unless it is a shareblock), nor on the sale of members' interests - or on the cessation of the loan accounts.

There will, however, as has always been the case, be a stamp duty of one percent of the consideration attributable to the shares.

Kaplan highlights one of the major advantages of VAT for the property industry.

"The effect of VAT is that whereas in the past, transfer duty of five percent would have been payable on the sale of a commercial or industrial property to a company or close corporation, a transaction of that nature is now subject to VAT and tax neutral both from the seller's and the purchaser's point of view.

The reason for this is that the seller will pay 10 percent VAT on the purchase price which he will usually build into the purchase price, and thus collect, and the purchaser, and purchaser, will obtain an input credit in respect of the transaction.

Property sales have been a big let-down

RELAXATION of the Group Areas Act was an important political development, but has proved to be something of a damp squib in terms of the property market, according to Camdons Group MD Mr Scott MacRae. Sowetan 26/9/91

This, however, does not suggest that in the long term the changes won't bring additional impetus to the property market, he says.

"Politically and economically it was a sound move, but for the moment the full benefits are being diluted by unrest and the general economic climate," he points out,

Other factors, such as high bond rates which were influencing the property market, were also having a negative effect.

Soaring property prices made it difficult for all but the wealthy black, Indian or coloured buyers to sell their existing homes.

The anticipated racial problems have not materialised to any degree, he says.

Willing

"There are plenty of willing buyers and willing sellers of all races. Racial objections have been raised in some areas, but they are conspicuous by their absence in general."

The biggest stumbling block is the unrest, he says. "This is hardly conducive to normal property trading conditions. There are of course ultra-wealthy black, Indian and coloured buyers and they are buying into the prestige white suburbs, irrespective of the unrest.

But most middle-class buyers relied on selling their existing property beforing buying a new one.

The banks and building societies are reluctant to advance bonds in unrest areas for obvious reasons. They must protect their investment.

The business climate has made it difficult for many bond holders, both black and white, to maintain their payments.

Civics to move on rate hike

THE Civic Associations of Southern Transvaal will consider a bond rates boycott on September 30 to force banks and building societies to stop increasing interest rates.

Mr Moses Mayekiso, the president of Cast, addressed about 500 Kagiso residents before a march to the police station to demand the resignation of the township mayor, Mr Eddie Moeketsi. Sowetan 24/9/91

Grievances

He accused banks of exploiting people.

"Banks take people for a ride. They do not listen to grievances. Rates must be decided by the people."

"The council must implement nonracial local governments.

"The Krugersdorp council must run Kagiso while we prepare for the implementation of nonracial local governments because they have money.

"The wealth of the country must develop our township."

At the police station the marchers were met by the head of protective services, Captain Ignatius Senekal who accepted the memo.

High rates could kill recovery in property mart

Sowetan 26/9/91

LAND prices are now more realistic, judging by the increased tempo of sales.

And the Government has been warned of the consequences of possibly raising bond rates once again.

A spokesman for Camdon's Group said, by way of example, a prime piece of land bordering on Nicol Drive and on which a second "Fourways Gardens' type residential area will be developed, had sold to an investor for R1,7 million.

It is proposed that the 14,5ha expanse of land in Bryanston's Magaliesig extension 31 area be subdivided into 112 stands and will be marketed in a number of sections to spec builders.

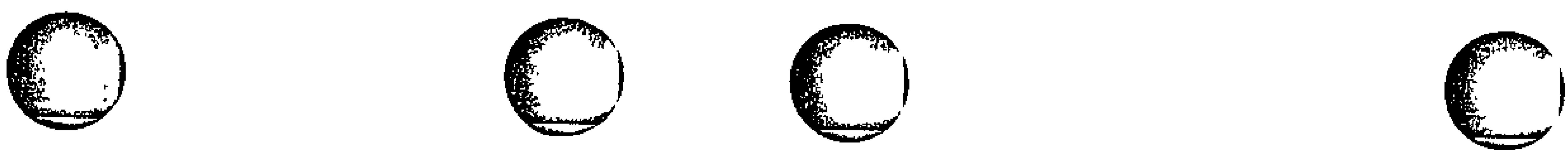
"It is understood that proclamation and servicing will be completed early next year.

The spokesman was commenting on speculation that in view of the renewed upsurge in the inflation rate, Reserve Bank Governor Mr Chris Stals could be tempted to raise interest rates.

He said this would result in "overkill" of the property market at a time when it was deliberately poised to make a strong recovery.

"One understands and sympathises with the planners' intention of wringing inflation out of the economy," he said, adding "boosting exports and reducing imports to protect the balance of payments, so allowing South Africa to meet its international debt obligations, is suppposedly one solution.

"There are two very distinct schools of thought as whether high interest rates curb inflation or encourage it - Government planners say the former, some important private sector voices believe the latter." he said.



Fabcos' quest to advance blacks

By JOSHUA RABOROKO

THE rapidly growing Foundation of African Business and Consumer Services (Fabcos), representing the majority of the informal sector organisations, has made tremendous strides towards black economic empowerment.

Fabcos has established a black Bank, Futurebank, to open in November, introduced a Smartcard - a prepaid value card which will introduce cash free travelling to its affiliate Sabta's 55 000 taxis and signed a deal with a major catering group, Fedics, to sell food in the townships.

The three projects, to benefit hundreds of thousands of their members, will herald a new era for the informal sector that is estimated to be contributing millions of rands to the country's economy.

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Focus

The bank, which is an effort between Fabcos and FNB's Westbank, will focus primarily on the investment and installment credit needs of the individual as well as developing informal and formal sectors of the South African society.

It will, however, be a primary objective of the bank to ensure that suitable blacks are recruited and trained so as to fill senior management positions.

Speaking at the signing ceremony of the Futurebank, chairman-designate Mr Jabu Mabuza, managing director of Fabcos, said the bank was another step towards black economic empowerment.

The board of directors consists of 12 members, six of them black. The bank will have a black majority shareholding and initially key personnel will be seconded from Wesbank.

Mabuza said: "Yes, we will participate in the mainstream, but we have to chart a way for this mainstream. We have to be assured that this mainstream leads to the African economic lake and finally to the world seas.

Wesbank's Mr Neville Watchurst, who becomes FutureBank's managing director, said the establishment of FutureBank was the forerunner of many arrangements which would emerge in the banking industry.

The new bank will be innovative, seek to fill the void in the present structures that have prevented all the people of South Africa from participating in the economy.

FutureBank will have a number of branches in strategic locations. Where the bank is not represented, Westbank will provide the necessary service.

Anchor

The Smartcard scheme, in which the FNB provided anchor sponsorship, was born of a consortium, in which includes Fabcos, FNB, Smartcard Supplier International Resource Technology and the Pretoria-based EG Chapman.

Fedics and Fabcos have joined forces to promote black business by forming Fabfoods, in which the catering company has a 40 percent shares and the organisation 60 percent.

It will develop the catering in black areas, by identifying entrepreneurs and the informal sector operation that could benefit from training and development in food service.

Mangope may release prisoners

PATRICK BULGER

BOPHUTHATSWANA's President Lucas Mangope would probably announce a partial release of political prisoners today, the homeland's opposition Progressive People's Party (PPP) leader Rocky Malebane-Metsing said yesterday.

Mangope would be making such an announcement in the face of intense pressure from the UK and US to release the 166 soldiers who attempted to overthrow him in 1988.

The president is also holding eight members of the PPP's national executive.

Malebane-Metsing, whose party is effectively banned in the homeland, is also a member of the ANC's national executive committee.

He fled to London after the coup failed.

He said the ANC believed the prisoners should be released in terms of the Pretoria Minute agreement negotiated and agreed on between the ANC and government last year.

Pensions, medical funds hurt by AIDS

SEAN VAN ZYL

PENSION fund managers and medical aid societies will face cost escalations and diminishing returns as AIDS spreads in SA.

Southern Life benefits actuary Don Brown said yesterday a mass spread of AIDS would also ultimately boost medical aid and life insurance costs beyond reasonable access by the general public.

Addressing a Southern Life seminar in Johannesburg yesterday, Brown said the virus could be on the point of an endemic upsurge, resulting in about 25% of the population being infected by the year 2005.

A 1% incidence rate of AIDS among a company's employees would probably require an increase of more than 30% in medical aid contributions.

"Medical aid societies will probably respond by imposing limits to treatment for AIDS sufferers."

Brown said the increased risk of AIDS on the average mortality rate would boost the average cost of death benefits by 300% annually by 2000.

While AIDS presented immediate problems for the medical aid and insurance industries, Brown said, the cost implications would also embrace general industry through loss of manpower, skills and escalating medical treatment costs. Eventually, he said, it would result in lost profits and declining share prices.

Carriers

"Estimates suggest an endemic incidence of AIDS in SA would result in the gross domestic product dropping by 5% over the next 15 years."

Current trends indicated a dramatic surge in AIDS by 1995, with more than 20 000 AIDS-related deaths expected a year.

Statistics also suggested that roughly one-million people would be carrying the HIV virus at this stage. The incidence trend was expected to climb rapidly from this point, with more than two-million carriers in 1997, before levelling off by about 2005.

However, the actuarial panel noted that pinpointing the future spread of AIDS was difficult. "The fact that sexual intercourse is a regular and essential activity thoroughly enjoyed by most adults makes it difficult to predict who may be infected by the virus."

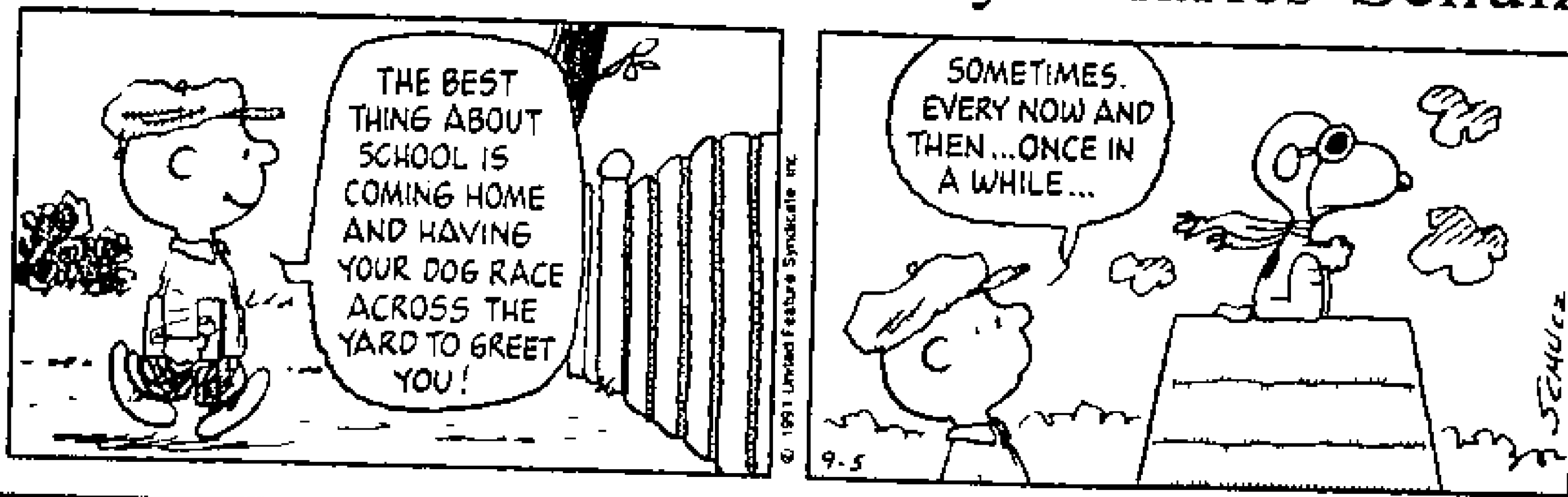
The panel added that statistics showed a dramatic swing in 1990 from homosexual transmission to heterosexual incidence.

Life actuary Paul Truyens said life assurers would have to adjust their premium rates in line with the greater risk and also implement procedures to limit their exposure.

"Life companies are building up AIDS reserves to meet future AIDS-related claims, but these funds will eventually be depleted. The only answer is to reduce our exposure and regularly adjust rates."

As a result, Truyens said, Southern might soon introduce AIDS tests for all applications for life and disability cover. He felt AIDS policy exclusion clauses were ineffective. He expected the market eventually to adopt AIDS testing regardless of the size of the policy concerned.

PEANUTS By Charles Schulz



As Bankorp starts its recovery, fears linger over its health

B/Day 13/9/91. LESLEY LAMBERT (58)

BANKORP has returned to profitability after a dramatic start to the process of restructuring and rationalisation, but there is still concern in the market about certain fundamental aspects of its health

Stockbrokers are concerned about chairman Piet Liebenberg's latest estimate of the time needed to make management fully competent They also question Liebenberg's decision to continue using the secrecy provisions of the Companies Act and wonder about the quality of assets, given that total advances dropped by less than the 10% targeted last year

In an interview in which he candidly defended his position, Liebenberg said the bulk of Bankorp's rationalisation had been completed on deadline. The capital and liquidity bases had been restored and a more streamlined and clearly focused business structure was in place But, he admitted that full restoration of the "profitability and professional management capabilities at all levels within the group" would take several years to complete

Liebenberg's term was recently extended by three years to 1997 To many this is a good sign, given his past successes and the lack of an obvious successor But others believe the extension may be linked to obstacles encountered during the rationalisation.

While Liebenberg has never denied that the restructuring was more difficult than expected, he argues that his term was extended simply to ensure the maintenance of stability once the new culture is instilled

But he does concede there are some big gaps in top management and that the question of who will succeed him has not yet been resolved.

Bankorp lost many senior managers before and after Liebenberg's appointment last year. Some left of their own accord, while for others departure was involuntary. It is also widely believed that Hennie van der Merwe shifted across to FSI at Liebenberg's behest to keep an eye on the heavily borrowed conglomerate.

Liebenberg is clearly on the lookout for a senior corporate banker to relieve him of his second job as Senbank CE — the position vacated by Van der Merwe when he joined FSI. There is another senior vacancy in the merchant bank's corporate division and two more in Bankorp's risk management and accounting divisions

Liebenberg has also had to tighten controls over managers and executives whose approach to banking had grown lax.

"Otherwise our senior and supporting management is excellent. But it will take several years to refine the specialised skills required to give our clients the best service," he said.

Stockbrokers are concerned that Bankorp may have used its right of non-disclosure to show a more favourable financial picture in the recent year-end results

Since the contingency reserve is undisclosed and the provision for bad and doubtful debts is reported after transfers to and from the secret reserve, the group could well have used its secret reserve to massage the provision for risky assets in order to show shareholders and depositors a more favourable financial picture, they say.

But Liebenberg is adamant that the R284m provision for risky assets was a "fair and reasonable" representation of reality

Significantly, the provision was based on the current situation. It did not cover the "old book" of bad debts which, to a large extent, are a legacy of the "asset growth at all costs" philosophy adopted by parent company Sanlam in the past decade. "The chase for market share under the guidance of the previous top management was done in a most imprudent way," Liebenberg remarks

Last year's efforts to reduce assets by 10% fell short of the target and, at the end of the past financial year, the group disclosed the transfer of an additional R100m to internal reserves and for a further provision against bad debts — over and above the R284m provision charged to the income statement.

Some stockbrokers interpreted this as a sign of management's ongoing concern about the quality of the advances book But Liebenberg insists the additional amount was provided for unexpected bad debts which may have arisen as a result of the prolonged economic downturn.

"By making additional provision, we wanted to show we were concerned about the performance of the economy during the current financial year. We are convinced that the upturn will only happen next year and bad debts are worst towards the end of a recession," he says.

Liebenberg adds that the asset reducing programme was delayed "by the need to work out mutually acceptable programmes with clients", and will be completed this year.

Having turned its back on the old style of asset management, Bankorp's new management is focusing on controlled growth of quality assets, by means of prudent risk management.

Apart from targeting a 10% reduction in existing assets, Bankorp has implemented prudent exposure limits — similar to those enforced by the Bank of England — for the first time in its history Risky advances exceeding the limits have been separate from the rest of the portfolio and will be amortised from internal reserves over five years to limit any adverse effects on profitability.

In a further effort to encourage prudent banking, managers' bonuses which were linked to asset growth, are being linked to several other performance measures.

Bankorp has some way to go before it reaches acceptable levels of profitability Bankfin is budgeting to exceed the target of a minimum 5% real rate of return on capital employed while Trustbank and Senbank are likely to reach it only in two to three years.

Liebenberg is confident Bankorp will not have to raise capital by way of a rights issue until about 1993.

The group's risk-weighted capital to asset ratio of 5,7% exceeds the Deposit-Taking Institutions Act requirement of 4,5%. When additional capital is required it will be raised by way of secondary capital instruments such as debentures or preference shares.

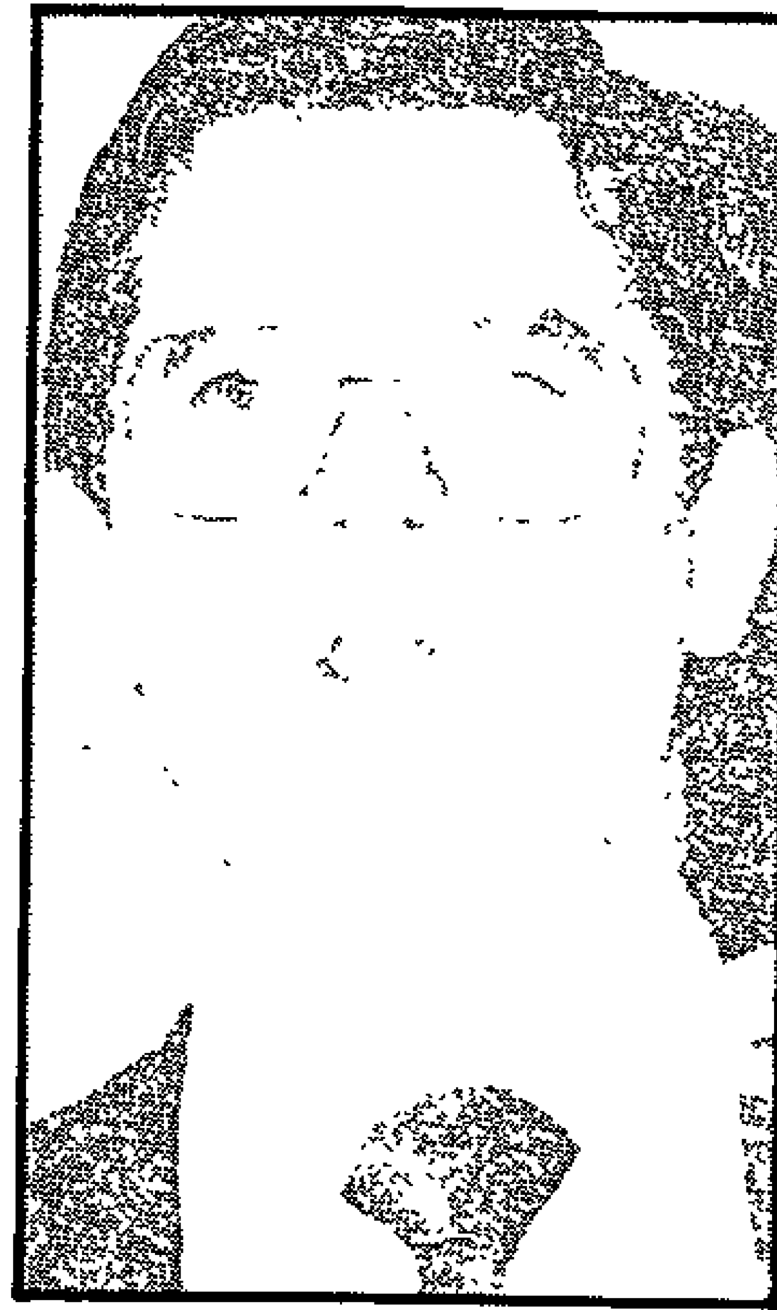
In the meantime, major shareholders Sanlam and Sankorp have agreed to take up bonus shares in lieu of dividends, increasing their stake by 89m to 85%

In an effort to instil a culture of excellence and integrity and clean up the images of corruption which tainted Trustbank, Bankorp has drawn up a code of conduct. "It has received the approval in principle of 50 of my top managers and those who would not approve are no longer with us," Liebenberg says.

One tradition on which he has stood firm, though, is that of non-disclosure, declaring he will move to full disclosure only if the law requires it.

His conviction is based on the belief that internal undisclosed reserves — provided they are controlled by managers of integrity — make for stability and trust in the banking sector, while disclosure can result in the feelings of alarm which trigger a decline in confidence.

"Disclosure is not a safeguard for shareholders or depositors. The US banks have the highest level of disclosure and they fall like tenpins," he says.



☐ LIEBENBERG