FINANCE – GENERAL

1992

JUNE

Servgro gets 22% stake in Naspers

STAR 1/6/92.

Finance Staff (58)

Sanlam's services arm Servgro has expanded its interests to the mass-media market by acquiring 22 percent of Nasionale Pers (Naspers)from the Federale Pension Fund and Sanlam for an undisclosed sum.

While Naspers shares are not listed on the Johannesburg Stock Exchange, they are traded on a tender basis.

Naspers' most recent share price was R30, which would value the 22 percent stake at about R70 million.

The acquisition makes Servgro the largest single shareholder in Naspers.

Peet van der Walt, Servgro's chairman, says his company's investment in Naspers will blend neatly with Servgro's service interests, mainly aimed at the leisure market.

Servgro is to obtain a JSE listing after holding company Fedservices issues 25 percent of its current 100 percent stake in Servgro to the public.

The price at which Servgro shares will be issued hasn't yet been determined — nór has it yet been decided whether the shares will be sold via a private placing or a public issue.

Naspers will probably represent 10 percent of the value of Servgro, whose two largest investments are Interleisure and Price Forbes.

Crime-hit underwriters warn of uninsurable cargo

BDay 11/6/92

MEREDITH JENSEN

(58)

THE marine insurance industry, already suffering from a stagnant economy, has been hard hit by the crime wave sweeping the country, says Association of Marine Underwriters in SA (Amusa) chairman Garvitte Lombard.

In his annual report, Lombard said the extent of the crime wave was beyond the scope of any reasonably optimistic forecast and said truck hijacking was the most serious of the problems.

"Many insurers have taken stringent steps to force clients to become involved in protection of their vehicles and their cargo, but the claims are quickly turning hijacking into an uninsurable risk."

Lombard said the problem could get worse as sanctions were lifted and the economy began to recover. "An increasing number of foreign airlines and vessels will be calling into SA bringing a greater volume of goods."

To counteract this problem, Amusa has started discussions with various officials at airports, harbours and railroads calling for increased emphasis on security.

"Such liaison has resulted in thefts from Jan Smuts Airport being virtually stopped, with no new fraud cases having been reported for months."

The privatisation of national transport has meant more goods were being moved inland by private road transport. According to Lombard, smaller operators tend to overlook security measures, thus increasing the risk of hijacking.

MONEY MARKETS by Sheridan Connolly

Inflation dashes hope of interest cuts

B/Day 1/6/92

(58)

AN ALMOST unchanged consumer inflation rate in April dashed any remaining hope of lower official interest rates in the short-term, and also did not have much impact on the downtrend in money market rates.

The official inflation rate (CPI) rose 1,3% in April after rising 0,9% in March. The year on year rise was 15,6% compared with 15,7% to March. Early last week, Reserve Bank governor Chris Stals went on record as saying a lower rate of consumer inflation would be a pre-requisite to lower interest rates. The market, however, seems reluctant to accept a downtrend in market rates will not be followed by one in official rates in the near-term, and has discounted for a cut in the region of 2%.

Last week's money supply figures provided Stals with some support for maintaining official rates until necessary indicators are in line.

Thus far, Stals's monetary policy stance has seen success with money supply growth, producer inflation, the level of reserves, and also the balance of payments Consumer inflation, on the other hand, has proved to be the Bank's toughest problem

Mortgage bond rates were reduced last week with most major institutions cutting home loan rates to 18%. These rates were last cut in February and, one month later, the Bank rate was lowered to 16% from 17%.

Liquidity conditions and solid investor demand for short-term paper continued to put downward pressure on rates last week. Speculation in the market is that leading institutions could go ahead and lower prime rates before a Bank rate cut appears.

The three-month BA rate held steady last week. By the end of the week it was in a slightly narrower range between 14,50% and 14,55%. Call rates were trading between 13,75% and 14,50%.

The three-month Treasury bill (TB) rate ticked up in the Bank's weekly TB tender. The rate came in at 13,97% (13,93%) while the six-month rate was at 13,57% (13,50%) and the nine-month rate was 13,10% (13,03%).

The Bank received R602,7m in bids for the R100m on offer on the three-month tender. Bids for the six-month R100m tender totalled R330m.

RSA stock purchase payments sent the market shortage higher last week, and at the end of the week the Bank quoted the market shortage at R2,74bn from a previous R2,20bn

Capital market rates were steady towards the end of the week in quiet trade as a result of the long weekend. Towards the end of trade on Friday, the Eskom 168 was at levels of around 15,72% from 15,71% and the RSA 150 was at 15,92% from 15,91%.

Aida dividend down 33,3%

PETER GALL (S8)

IN SPITE of a 475% rise in Aida Holdings' taxed profit to R586 000 in the year to end-February, the dividend payment was dropped 33,3% to 1c a share from 1,5% previously while earnings more than quadrupled to 4,1c a share from 0,7c.

Director Philip Galasko said the decision was "prudent" and the company was looking at acquisitions and internal growth rather than gearing itself. 6 (Day)

"Our object is growth more than improved dividends and this will be reflected by capital growth in shares," he said. The share was traded at 25c on Friday, almost midway between its October 22 high of 30c and June 21 low of 18c.

The results also showed that despite a 10% rise in turnover to R1,04bn from R944m, higher operating costs saw operating profit drop 31% to R556 000 from R803 000 previously.

The interest bill was nearly doubled to R48 000 from R26 000, resulting in a pre-tax profit 35% down at R508 000. A reversal of R346 000 tax paid previously for training previously disallowed by the Receiver boosted taxed income.

The dividend recommendation was 33% down at R143 000 from R214 000 and retained income was boosted by R443 000 to R1,63m from R1,18m. 1/6/92

The group continued to expand its franchise base, now at 65 franchises nationally, up from 55 a year ago.

Ovbel manages to hold steady in spite of dismal conditions

B Day 2/6/92. (58)

LINDA ENSOR

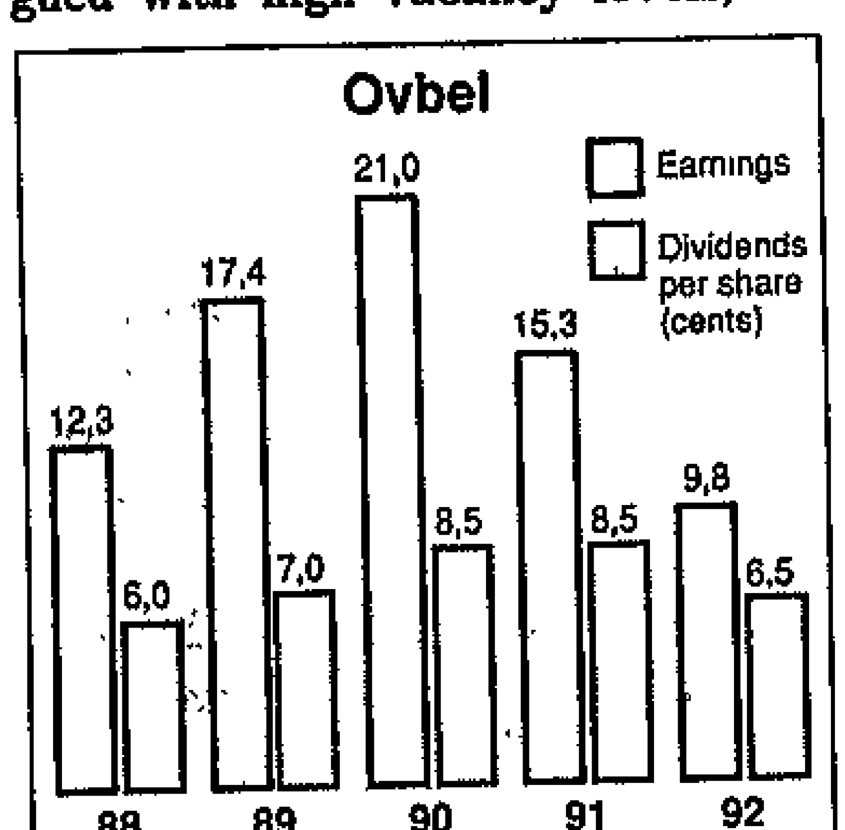
CAPE TOWN — Property development, trading and investment group Ovbel Holdings maintained earnings in the year to end-March despite deteriorating market conditions, which caused turnover to slide by 32%.

Earnings of 9,8c (9,7c) a share were produced. A final dividend of 3,5c brought the total to 6,5c a share. The results are compared with 1991 figures excluding Ovcon, in which Ovbel's stake was reduced to 20% from 70% at the end of the previous financial year.

Ovbel is involved in housing development through subsidiary Bellandia, and property development through Ovland, and has interests in coastal township developments.

"Trading conditions during the period under review have been extremely difficult," Ovbel chairman Andrew Ovenstone said.

While the office market was plagued with high vacancy levels, demand for industrial space was depressed. Bouyancy in the retail sector and in residential developments in the western Cape, Pretoria and Johannesburg provided a fillip.



Graphics RUBY-GAY MARTIN Source OVBEL

High interest rates, retrenchments, repossessions and a lack of housing subsidies meant little real development had taken place except in niche markets, group financial director Justin Millar said.

Bellandia managed a turnaround after closing its house construction business.

Ovbel invested substantially in industrial property projects last year in the hope that interest rates would fall in the next year. Consequently, long- and short-term debt rose to R17,5m (R10,8m) and R11,4m (R4,8m) respectively and gearing shot up to 61% (34%).

Ovenstone said interest earned exceeded interest paid. The group was confident that the investments would stand it in good stead in future.

Interest received helped reduce net interest paid. This, with the higher operating margin of 16,2% (14,4%) helped offset a 32% drop in turnover to R53m (R77,8m). Pretax income fell 9,5% to R5,3m (R5,9m). A lower tax rate meant attributable profit was almost maintained at R2,87m (R2,85m).

Millar said property industry conditions were expected to remain difficult. There would, however, be no further group restructuring.

Ampros stays on conservative tack

Business Day 3/6/92

(58)

ANDREW KRUMM

THE Ampros management team — together for the past 21 years — would continue to run the group's property portfolio with a conservative outlook, MD Gerald Leissner said at an analysts' function recently.

Leissner was presenting Ampros — which administers assets with an insured value of R3,9bn — to the Investment Analysts' Society of SA.

The group would remain conservative financiers, and would not capitalise on township development schemes or write off leasing expenses upfront. "We are not overgeared, if we are geared at all," Leissner said.

A wholly owned subsidiary of Anglo American Corporation, Ampros manages Amaprop, Compass Property Holdings, Apex Property Fund and the Mainstreet Property Fund — as well as Anglo and De Beers pension fund property interests.

Leissner said the broad thrust of the group's strategy was to move new investment away from township schemes to quality office and retail developments, to build fund revenues and expand certain portfolios by means of rights issues within the next two to three years.

"An Amaprop objective is to complete existing township development schemes, but restrict new investment in this area. Amaprop is already 66% invested in office space, with ownership heavily skewed towards Johannesburg," he said.

An old Amaprop flagship, the Carlton Hotel, was still not breaking even as its location in the Johannesburg CBD was a "negative factor". But, until it was possible to divest Amaprop of the Carlton Hotel, it would be maintained at a five star rating.

On the other hand, Compass Property Holdings would acquire additional properties by the issue of loan stock, when development of the Durban station site — estimated to cost R24m — was completed.

In September last year, Compass raised R40,5m in a rights offer.

Compass was skewed towards Pretoria, with 38,3% of its lettable area concentrated there.

Apex Property Fund's R195m portfolio was spearheaded by retail space, which contributed nearly 64% in rental revenue, Leissner said.

He said the main objective of the fund was to build revenue.

Financing in the form of rights issues would take place only when Apex had "established a satisfactory earnings growth pattern over the next two to three years".

Main Street Property Fund's big earner was office space, making up nearly 58% of rental revenue.

Worth over R430m, the Main Street portfolio derived 55% of its rental revenue from Johannesburg alone.

Main Street was "not able to expand its portfolio by the use of borrowings" or the issue of new units.

However, until it established satisfactory earnings growth over two to three years, it was unlikely to proceed with rights issues, Leissner said.

Call to deregulate industry

B/Day 3/6/92 (58)

PETER GALLI

THE Property Association (PA) and Free Market Foundation's Leon Louw have called for the complete deregulation of the real estate industry.

Their call follows a recent decision by the Estate Agent's Board (EAB) to lower the qualification requirements for the estate agents' examination. Candidates with as little as a Standard Five education would be given the opportunity to sit for the the exam, said PA chairman Jan le Roux.

"We are unhappy with this decision. It offers no benefit to the public and will serve only to further reduce the image of the estate agent," he said.

However, EAB chairman Norman Nel said the aim of the new syllabus was not to lower standards but to make the course more practical, relevant and job-related.

Economics, valuations, sophisticated mathematics and the need for a calculator would be removed, he said.

"We are concerned with the protection of the consumer and our job is not to create attorneys or bank managers. The need for a new syllabus was identified, and it will be applied for exams in 1993," he said.

As a result of legislative changes in SA over the past two years a large amount of the material, such as township development and the influence of the state on the market, was no longer applicable and had to be discarded.

However, other players in the industry feel the removal of what they regard as essential parts of the syllabus is a mistake and could affect the standard of agents who will qualify under the new exam.

Nel admitted that agents who would write exams this year could be disadvantaged as the focus of the course would be "on the legal side", and they would not have as good an understanding of the economic and banking side as they should.

Control

"As the new syllabus has not yet been finalised, we decided to remove economic sections covering the time value of money and other such fields, to make sense of the remaining exams this year."

Nel said it was understandable that the Institute of Estate Agents and the PA should call for deregulation as they were concerned with the interests of their members rather than those of the public.

However, Le Roux said the PA believed deregulation was the only route to follow.

Louw agreed, and said in a deregulated market the number of properties traded would double or treble. The costs involved in buying or selling property would then be lower.

"The Estate Agents' Board exam should not be compulsory. It should rather be something that is desirable, as the current situation creates an impression in the minds of agents of competence in many diverse fields, and this misleads the public," he said.

Nel said this was "utter nonsense" as every developing society needed training. The exam was there to protect the consumer by ensuring the agent had a practical rather than theoretical knowledge of the industry.

"The board does not interfere with free market forces and has no control over prices and other related issues, so I cannot see how the deregulation of the industry would allow the number of properties traded to double or treble."

Louw has proposed seven steps for the deregulation of the real estate industry. These involved:

□ Transferring freehold deeds to about 3-million black rural dwellers and 1-million black urban dwellers;

□ Changing the Land Act to make sub-divisions of property cheaper;

□ Scrapping transfer duties;

□ Eliminating conveyancing fees by changing the method of deeds registration to computer based technology; and

□ Scrapping land surveys for property that did not warrant the cost of the survey and revising regulations relating to the Fidelity Fund.

'Move will drain off R800m a day'

Stals unveils plan to tackle high liquidity

Bday 3/6/92 (58)

TIM MARSLAND and SHARON WOOD

RESERVE Bank Governor Chris Stals announced a three-point plan to drain excessive liquidity in the money market at a closed-doors monthly meeting with top bankers yesterday — a step dealers saw as a tightening in monetary policy.

Stals is expected to make a formal announcement on the plan on Friday.

Sources close to the meeting said Stals intended to increase banks' cash reserve requirement to 5% from 4%. Banks are at present required to hold 20% of short-term liabilities in liquid assets, of which the 4% is an interest-free deposit at the Bank.

Stals told the meeting that, for the first time, banks would be paid interest on the additional 1% deposit. The interest rate is expected to be half a percentage point below the weekly Treasury bill rate.

A dealer said this step would drain the system of about R600m to R800m a day.

An analyst said this was a policy shift that compelled banks to put more cash into the Reserve Bank and not money market instruments. "This shows how difficult it is to control the present liquidity situation."

The second step Stals announced was the issue of about R1bn in nine-month paper, probably Treasury bills. Banks would be able to trade in the paper only after six months had passed.

The third step was that banks would be allowed to increase the limit of their offshore foreign exchange holdings to about R640m from R360m.

Analysts expected the steps to be implemented around mid-July, which would counteract a huge inflow of liquidity in the next few months. About R5bn in government stock matures in July and August.

Also, huge inflows of money are expected from continued high government spending.

Money market rates soared after the meeting, with the key 90-day liquid BA rate hitting 14,55% from a 14,35% open.

On the capital market, at 11h37 (around the time the meeting was held) government's R150 bond was trading at 16,035% but within two hours had risen to 16,200%.

One senior dealer said the fact that a select group had access to the information before others amounted to insider trading. The rise was one of the sharpest he could remember. "The JSE floor was left high and dry. Clearly some bankers traded on the information," he said.

A source who attended the meeting said Stals had not spelt out exactly how the measures would work.

A forex dealer said banks would welcome the higher limit on overseas forex holdings because it would be a step closer to a freer forward forex market. "It will allow us to synthesise offshore forex deposits and the local money market." But its main effect would be to reduce liquidity and increase the money market shortage.

Stals also reportedly stressed that Bank rate would not come down until inflation fell meaningfully. Neither Stals nor Bank officials could be reached for comment.

Meanwhile, Reuters reported Stals told a seminar yesterday the Bank would continue with neutral monetary policy. He said: "We have reached the stage where there is no instant cure, where there is no painless convalescence, where there are no popular solutions."

Cape Town leads SA cities with high rates

B/Day 3/6/92

Own Correspondent (58) (80)

CAPE TOWN — Property rates imposed by the city council on office buildings in Cape Town are "virtually double" those in any other major SA city, says the Western Province regional committee of the SA Property Owners' Association.

The committee commissioned a study by Erwin Rode and Marlene Tighy to update a similar survey conducted in 1987 and found that, in respect of total rates and fees, the mean charges were:

- ☐ Cape Town — R2,80/m² a month (11,4% of gross market rental);
- ☐ Durban — R1,50 (6,3%);
- ☐ Johannesburg — R1,32 (6,3%);
- ☐ Pretoria — R1,18 (5,5%).

The mean total of rates in Cape Town was 1,87 times what was levied in Durban, 2,12 times that of Johannesburg and 2,37 times that of Pretoria.

However, in comparing three individual buildings in Cape Town, Johannesburg and Durban, Rode found that Cape Town's growth in total rates last year and the year before was far lower than the growth in rates in the other two cities.

On the particular building chosen in Cape Town, the increases in those two years had been 11,8% and 13,8%. Growth in rates and fees on a Johannesburg building had by contrast been 31,7% and 20,5%, and in Durban 18,5% and 24,6%.

Accordingly, Cape Town's total rates and fees as a percentage of the market rental were declining — 14,6% in 1986/7, 12,4% the next year and 10,5% the following year — while those in Johannesburg were increasing — 4,1%, 5,8% and 6,1% over the same period. In Durban, the percentages remained almost the same, at close to 5%.

"Johannesburg and Durban are closing the gap between them and Cape Town," Rode and Tighy said.

Sapoa's Western Cape committee said Cape Town City Council's latest increase of approximately 16,5% was "excessive". It criticised the council for making insufficient effort to curb the increase.

"Taking into account that Cape Town's rates are already approximately double those of Durban, Johannesburg or Pretoria, the increase is extremely disappointing and is a negative factor towards encouraging new development."

The city council was approached for comment and is working on a response.

Still no decision

THE Transvaal Provincial Administration's executive committee has not yet decided where to settle the Zevenfontein community. Proposals were put to the Zevenfontein families scheduled to leave the farm north of Sandton by July 31, but the TPA was still awaiting their response, TPA spokesman Piet Wilken said yesterday. Last-minute hitches had delayed an announcement.

BDay 4/6/92

Priority for SA

A FAVOURABLE framework to attract foreign investment was an important priority for SA, Swiss Secretary of State for Foreign Economic Affairs Frans Blankart, who was due to meet Reserve Bank governor Chris Stals yesterday, said at a news conference in Johannesburg. He said he was asked by the Swiss government to assess the situation "in this country which is very important to our economy".

Factory orders rise

NEW factory orders in April rose 1% to a seasonally adjusted $243,85bn, the commerce department in Washington said. The April increase marks the fourth month in a row factory orders have risen.

REPORTS: Business Day Reporters, Sapa, AP-DJ.

... basic foodstuffs by an additional 19%-45% this year.

DP health spokesman Mike Ellis said the system used to distribute the money "is far too cumbersome on the one hand and yet strangely short of manpower on the other".

All requests for money had to be referred back to the National Health Department and "this obviously is causing serious delays, particularly since the department admits that it has a shortage of manpower", he said.

He asked why provincial administrations had not been given greater authority to distribute the money. "They have the infrastructure to handle the scheme and are more likely to be aware of the needs of the people in the region."

Venter said R110m had been dis-

... tention," she said.

☐ DP Trade and Industry spokesman Brian Goodall said yesterday SA faced an unprecedented food crisis which could stoke unrest and violence in urban areas to even higher levels,, reports GERALD REILLY.

The crisis was aggravated by growing unemployment and the inability of tens of thousands of black families to pay for even the most basic foods.

Goodall said the warning by Foodcorps CE Dirk Jacobs that the price of some staple foods could rise by up to 45% this year underlined the urgency for publishing the Board of Trade and Industries food price inflation investigation report. If rip-offs were taking place along the food price chain they had to be exposed.

R5bn a year for social investments — LOA

MICK ELLINGHAM

THE Life Officers' Association (LOA) will detail plans this month to invest up to R5bn of its funds a year in "socially desirable" projects.

LOA chairman Louis Shill said yesterday that "significant progress" had been made towards a mechanism through which life assurers would channel funds into projects such as low-cost housing and education.

BDay 4/6/92

However, he could not quantify amounts yet.

Life assurers may put as much as 10%-15% of their total income from premiums and investments in to the fund, according a report in the Financial Mail earlier this year.

Shill said the LOA would make an announcement "before the end of the month", giving complete details of planned arrangements.

58

Negotiations between the LOA, the ANC and other extraparliamentary groups took place in April this year to discuss ways in which the LOA could be involved in social investment.

Shill said he was "very pleased" with the LOA's progress.

ANC economic affairs spokesman Khetso Gordan was unavailable for comment.

REPORTS: Business Day Reporters, Sapa, AP-DJ.

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ANC economic affairs spokesman Khetso Gordan was unavailable for comment.

Interest on home deposits still being lost

BDay 4/6/92. (58)

PETER GALLI

HOME buyers and people who leased properties were still being denied interest on deposits as unscrupulous estate agents were not bound to inform them of their rights, industry sources said yesterday.

The interest was divided equally between the Estate Agents' Board and the agent. The board's share was placed in its fidelity fund, presently at about R90m.

A major source of discontent was that the fund only paid out about R2,5m a year in claims, which was more than covered by interest earned on the capital amount. Banking sources said interest earned on such an amount would amount to about R12m a year.

"The fund is in place to protect the consumer and it is essential that this be maintained," board chairman Norman Nel said.

However, Free Market Foundation executive director Leon Louw questioned this.

"The R90m is essentially consumers' money and some of it should be returned for the benefit of the industry and the public.

"Membership of the board is compulsory under the Estate Agents Act, which (creates) the impression they are protected by the Act. But this essentially protects the profession at the expense of the public," Louw said.

The board should be abolished and the Act repealed. Most people were not prepared to endure the lengthy process of applying for restitution.

Nel said the board had a recommended offer document that covered the issue of interest payable on a deposit, but it was not mandatory.

The present code of conduct allowed the board to remove an agent's certificate to practise or to fine him up to R1 000.

It had submitted a new code of conduct to the Department of Trade and Industry, which would force the agent to make full disclosure.

"We have asked for the maximum fine to be increased to R10 000 and are still awaiting approval of this from the department. However, the board is unable to make the agent repay this money should he refuse as it does not have powers of restitution," Nel said.

The Property Association chairman Jan le Roux said the fact that the fund could be used only for the restitution of deposit money misappropriated was limiting and of little help to the public.

"If the consumer suffers a financial loss as a result of the negligence of the agent, the board cannot do anything to compensate for this."

'Gem junkies' cause for optimism

MATTHEW CURTIN

DIAMOND addicts and the diversity of De Beers' interests were the keys to the group's long-term prosperity, chairman Julian Ogilvie Thompson and deputy chairman Nicholas Oppenheimer said at an investors' presentation hosted by Davis Borkum Hare in Johannesburg yesterday.

Oppenheimer said research showed that once a consumer had bought one diamond, he or she craved more.

The gem's addictive qualities meant there was still scope for growth in the key markets of the US and Japan, which were far from saturated. De Beers was interested in new areas of economic growth such as south east China, where it had started a low-key marketing campaign.

The fourth diamond sight this year indicated an increase in demand for rough diamonds, confirmed by indications from the current sight. Sales, though likely to be lower in the first half of this year compared with 1991, would better last year's levels in the second six months of 1992.

Illicit diamond business in Angola could be worth more than $100m this year. The Central Selling Organisation, De Beers' marketing arm, was buying up what Angolan supplies it could.

Ogilvie Thompson said De Beers' investing diamond profits in areas outside the industry allowed it to ride the troughs in the commodities cycle comfortably.

Servgro looks forward to a year of prosperity

B/Day 4/4/92

MARCIA KLEIN

SERVGRO International, the services group in the Sankorp stable, would raise R140m when it listed on the JSE in July or August.

Executive chairman Peet van der Walt said in an interview yesterday Rand Merchant Bank had valued the group's companies at R687m, and Servgro would place about 25% of the shares in a public offer. This could be through the issue of about 27-million shares at R5 each.

The R140m would be used to repay controlling shareholders' loans, and about R40m would be retained in the company for expansion.

Servgro's interests include Interleisure, Teljoy, Avis, Interpark, Fedics and Price Forbes. The company announced at the weekend it had also acquired a 22% stake in Nasionale Pers (Naspers) from the Federale Pension Fund and Sanlam, making Servgro the largest single shareholder in Naspers.

Van der Walt said the investment in the mass media market, particularly Naspers' magazines and television interests, blended in with its focus on the leisure market.

Van der Walt said it was a difficult time to go to the market, but various institutions had shown an interest in the leisure and services group. He said that both the leisure and services industries showed strong growth possibilities.

The group, which had interests in tourist-oriented Avis, Fedics and Protea Hotels, was looking at increasing its exposure to tourism. In this light, Fedics was undertaking a large inflight catering project at Jan Smuts airport.

The service companies within the group covered a wide range of activities, but there were similarities in terms of management issues, Van der Walt said.

While the service companies normally generated strong cashflow, the group also had capital intensive companies in its portfolio, like Avis and Teljoy.

Van der Walt expected "a fair growth" in earnings in the coming year. This would be dealt with in the group's prospectus.

Abcon confident of netting goals

B/Day 4/6/92

PETER GALLI

WHILE the market for prime decentralised offices still reflects chronic oversupply, activity in the sector has dropped substantially.

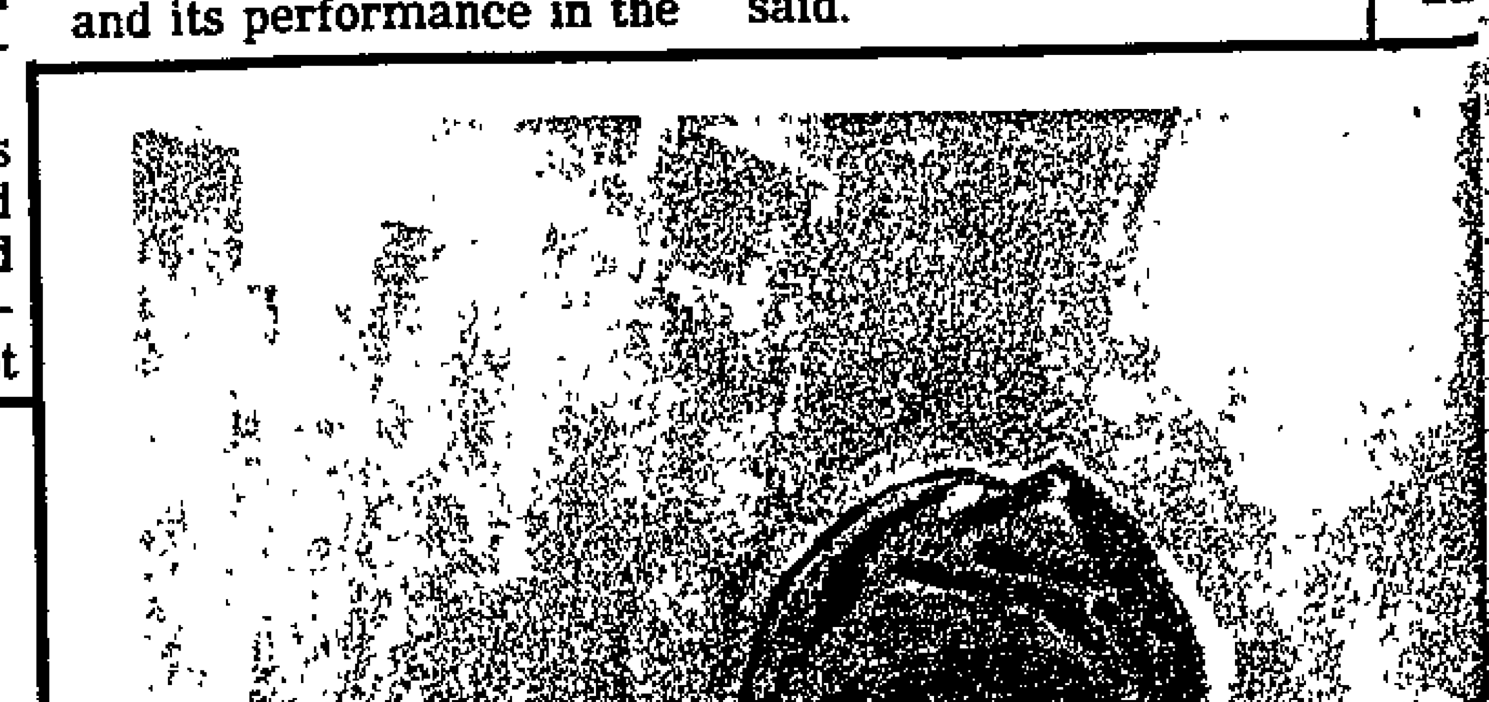
However, equilibrium between supply and demand was only expected by the third quarter of 1993, Abcon Properties chairman Dirk Conradie said in the annual review yesterday.

He said: "Rental levels especially in centralised office areas have declined in nominal terms while decentralised areas have not shown any signs of growth."

The industrial letting market also reflected a decline, in the number and quality of letting inquiries, while speculative industrial developments had practically ceased.

Abcon was listed on the JSE on December 2 1991 and its performance in the three-months to end-February was slightly ahead of the forecast.

"In spite of the difficult economic environment that has seriously affected the property market, we are confident that income distribution forecasts for the year to end-Ferbruary 1993 will be achieved," Conradie said.



Bank denies making profit

58

STAR 4/6/92

First National Bank has responded to a headline in the Sunday Star that it had made a double profit on the sale of a repossessed home by issuing the following statement.

"In the Sunday Star of May 31 articles appeared which implied that First National Bank had made a profit from a home mortgage which had been advanced to Mr and Mrs Szafranski.

"The duty of confidentiality imposed by the client/banker relationship prevented any comment being made to The Star about Mr and Mrs Szafranski's affairs specifically. This fact was explained to the Sunday Star at the time and we offered to discuss the account with them to show that no profit had been made if they could obtain Mr and Mrs Szafranski's permission to do so.

"The allegations have received such widespread publicity that First National Bank feels obliged to respond. The home loan account of Mr and Mrs Szafranski has been audited by Deloitte, Pim Goldby, who have stated that First National Bank has not realised any profit on the repossession and sale of the property in question."

The Sunday Star will be meeting the Szafranskis and First National Bank to discuss the issues arising out of last week's report.

Insurance plan (58)

By Joshua Raboroko.

IGI Insurance's Urban Business Development Region has launched a new programme to sell short-term insurance to individuals via their employers. Sowetan 4/6/92

The programme's main focus is on low-income earners who cannot be provided with insurance at an affordable level if they are signed on individually.

Top banks accused of insider trading

BDay 4/6/92 (58)

SHERIDAN CONNOLLY

JSE president Roy Andersen is to protest officially to Reserve Bank governor Chris Stals that commercial banks traded on confidential information when they learned of the Bank's three-point plan to drain liquidity from the money market.

Senior capital market dealers yesterday repeated allegations that banking institutions had indulged in insider trading after a routine monthly meeting between Stals and top commercial bankers on Tuesday.

Andersen said yesterday he would contact Stals in writing in an effort to avoid a repetition of the matter in the future.

"It would appear that Stals made mention of certain factors to bankers and that they may have abused this confidence — the net result being that JSE brokers, who didn't attend the meeting, lost a great deal of money," Andersen said.

A source said all of the major banks, including Absa, FNB, Standard Bank, Nedbank, Volkskas and all of the smaller banks and discount houses were present.

Senior dealers said the Bank should have foreseen that individuals attending the meeting would act on "confidential" information discussed.

"It was very careless and irresponsible of the Reserve Bank to discuss price-sensitive information during trading hours," one dealer said.

Numerous dealers alleged that bankers who attended the meeting contacted their dealing rooms shortly afterwards and divulged details of Stals's comments. Around the same time, trade on both the money and capital markets picked up and rates hardened sharply, they said.

Stals confirmed yesterday that he would announce measures to curb high levels of liquidity in the market within the next few days. Dealers said the move was the result of strong market pressure on the Bank to lower official interest rates after market rates dropped significantly over the past few months.

Sources said Stals had proposed plans to drain excess liquidity by raising the cash requirements for banks by one percentage point to 5% from 4%. Other proposals suggested were plans to increase the limit of the banks' offshore forex holdings to \$640m from \$360m and to introduce nine-month Reserve Bank bills.

Capital market rates drifted lower yesterday — the benchmark Eskom 168 finished easier at 15,78% from a previous 15,93% while the RSA 150 stock was down to 16,03% at the close from 16,16% on Tuesday. Money market rates were unchanged.

INVESTEC GOES DUTCH

FM 5/6/92

Integro, Amsterdam-based associate of the Investec Group, has bought a Dutch stockbroking firm, Th Wouters & Zoon BV. The price has not been disclosed but is believed to be about R4m-R4,5m.

Wouters is Integro's second broking acquisition in the Netherlands. In 1989 it bought Heerze Effecten BV. The firms will maintain separate indentities for the time being, with plans to merge the operations next year.

Integro director Peter Sieradzki says there will be no direct financial benefit for Investec, which has a 30% interest in Integro, but it could channel new gilts business to the SA group. He says there is growing Dutch investor interest in corporates like Eskom now that SA is starting to return to the international community.

PROPERTY

Professor LOUISE TAGER welcomes new organisations in the business community.

Property rip-off report to State

Sowetan 5/6/92

58

By JOSHUA RABOROKO

THE Business Practices Committee has submitted a report to the Government concerning black low-cost homebuyers who have been ripped off by property developers.

BPC's chairman Professor Louise Tager said organisations of "certain ability" have become active in the low income housing.

Entry into the market was generally to be welcomed. But the extent to which the financial and legal interests of consumers might be prejudiced had given cause for concern, she said.

The findings of the report have been supported by the Housing Advice Centre and the Wits Law Clinic who said they knew of hundreds of potential homeowners ripped off by developers.

HAC's Mr Brian Levison said they have attended to more than 4 000 complaints from blacks who entered into agreements with developers promising to find them homes.

"Homeless people are vulnerable to entrepreneurs who obtain money by promising to provide them with houses," she said.

Unlawful

The committee's investigation into one enterprise found the company guilty of harmful business practices and recommended to the Minister of Housing, Mr Leon Wessels, that it be declared unlawful.

The plans by that company to provide 2 600 houses for R22 500 each were described as being "grandiose and utterly unattainable".

Clients were invited to buy shares on the understanding that as shareholders they would be first in line to obtain the low priced houses offered by the company. It undertook to provide houses to all its shareholders. In fact, the report added, only some have been supplied with houses without security title.

It was also found that the company did not own land on which the houses were erected and it was not in a position to honour its obligations. Its accounting data and financial affairs were in disarray.

The report said that in order to exercise total control the company's owner had appointed several former employees with limited formal schooling as directors.

They were not well informed on the implications of their duties.

The company had built 100 houses in the Tsakane region, but capital required to complete infrastructural work ammounted to more than R1,3 million.

If it failed to fulfil its development obligations, the houses would return to the land owners, and residents with no occupancy or property rights could be evicted, according to the report.

SBDC opens a hive in Phillipi

Sowetan 5/6/92

By JOSHUA RABOROKO

MORE than 60 small businesses ranging from clothing manufacturers to welders have taken units in the Phillipi Small Business Centre in the Western Cape.

The majority of these have "graduated" from backyards and are operating from formal premises for the first time.

The centre, a landmark on the Cape Flats, was bought by the SBDC after it became aware of the need

MONEY SUPPLY FM 5/6/92

Off target (58)

An unexpected uptick in M3, the broad monetary aggregate, was the main feature of April's money supply figures. M3 grew a provisional 11,05% over 12 months to R190,2bn, or 1,03% month-to-month. From the base of the current guideline year in the fourth quarter of 1991, it grew a provisional annualised 12,49%, to a seasonally adjusted R190,6bn. This is above the Reserve Bank's guideline range for growth of 7%-10%.

But, says UAL economist Dennis Dykes, too much should not be made of the figures;

Cont →

FM 5/6/92 (58)

they can be revised down substantially, as they were in March. March growth figures for M3, over 12 months and from the base of the target year, were revised down from 10,45% to 9,5% and from 9,79% to 7,31%.

A Bank spokesman says monthly revisions of this magnitude occur because of differences between deposit-taking institutions' preliminary and final returns. "Not all branches are computerised, so it takes time for transactions to be cleared through the post before the institutions can give a final figure," he says.

However, even allowing for a revision of the same magnitude for the annualised, seasonally adjusted figure (about 2,5 percentage points), this brings April's figure to about 10%, just inside the guideline range but well above March's figure.

Credit aggregates are only available a month after money supply figures. Credit extended to the domestic private sector rose 9,95% in the 12 months to March, compared with 10,89% in February. However, there was a monthly fall in domestic private credit of 0,35%, the result of declines in the following:

- ☐ Investments down 27% to R2,7bn;
- ☐ Bills discounted 2% to R12,5bn;
- ☐ Hire-purchase credit 5% to R18,4bn; and
- ☐ Other loans and advances 0,8% to R74,2bn.

However total credit extension rose 9,85% in the 12 months to March (compared with February's 9,56%), or 0,53% in the month. This was a result of an increase in claims on the government sector, which rose to R2,6bn in March from R900m in February and R1,1bn in March last year.

Also mortgage finance continues to rise: 1,5% in March to R73bn following a 1,3% rise during February.

Monetary aggregates for March are as follows:

- ☐ M0 down 1,14% over 12 months to R1,3bn;
- ☐ M1A up 25,22% to R35,2bn;
- ☐ M1 up 14,18% to R64,2bn; and
- ☐ M2 up 11,77% to R161bn. ■

Tough economic struggle coming

Sowetan 5/6/92 (58)

By JOSHUA RABOROKO

THE black struggle for political equality will pale into insignificance compared with the struggle for economic democracy.

Speaking at the 20th anniversary of Prestasi Brokers in Johannesburg this week, chairman Mr Jan Erasmus said it would have far-reaching implications for the country's larger financial institutions, including the insurance industry.

Prestasi is one of the leading independently owned brokerage firms handling short-term insurance for 40 personnel associations, trade unions, municipalities, universities and other organisations.

Erasmus said the manner in which the industry coped with the growing power of black entrepreneurs would determine whether they would succeed in a future.

"Black entrepreneurs entering the insurance market wield enormous power. They may not have the capital resources or managerial expertise of the main players, but they command the purchasing power of the masses.

"This situation is similar to that which prevailed when Afrikaner business began emerging in the 1930s," he added.

Erasmus said black businessmen would for a long time remember the arrogance with which the white corporate world often used to treat them. The large insurers thought they were accommodating the black market by creating niche companies targeting black consumers.

SAGE GROUP FM 5|6|92

Degearing for growth

(58)

In a major restructuring described by chairman and CE Louis Shill as a watershed, Sage Group's three listed companies are to be restructured into one. After this certain investments classified as non-core will be sold, reducing gearing to "negligible levels." Shill adds there is a strong possibility Sage Life will expand either organically or by way of acquisition after this.

As Absa, which has a 49% stake in Sage Life, has little aspiration to become a major life player (particularly after Sanlam became a major shareholder through the Bankorp deal), it is possible the banking conglomerate will sell its Sage Life stake before the assurer sets out on its expansion drive.

Shill responds: "Some rationalisation of our relationship with Absa could follow the reconstruction." The reconstruction will also involve common shareholders in Absa and Sage, the most prominent being Rembrandt.

Shill says he wants Sage to remain independent in its two core activities: financial services (with a heavy emphasis on life assurance) and property. Among other major investments, which is where candidates for sale may lie, are stakes in Absa and Rand Merchant Bank.

Shill does not believe merging is the way

FM 5|6|92 (58)

to expand a life assurer like Sage Life. He says one might rather establish a close association "where the benefits of rationalisation can be derived without losing any identity."

Market sources reckon a link with either Momentum Life or Federated Life is on the cards. Getting into bed with Momentum would make more sense given Sage's existing stake in RMB, Momentum's controlling shareholder following the Sankorp deal.

Shill reckons reducing gearing through disposing of non-core activities will automatically bring earnings growth, at current high interest rates. Also dividend cover will narrow as most earnings, coming from subsidiaries, will be in cash.

William Gilfillan

FM 5/6/92 (58)

ABSA FM 5/6/92

Difficult gauge (58)

Reporting for its first full year as SA's largest banking and financial services institution, Absa's performance — and future potential — remain difficult to gauge as the mergers settle down and rationalisation continues.

The massive asset boost to what was UBS Holdings has created a group of considerable potential. Absa is the biggest in its sector. With total year-end assets of R56,2bn, it had a lead of nearly R5bn over SBIC, but since the effective merger with Bankorp on April 1, the asset base swelled to R84,4bn. That makes it the most asset-rich organisation, substantially bigger even than unlisted Old Mutual, which has assets of some R67,3bn.

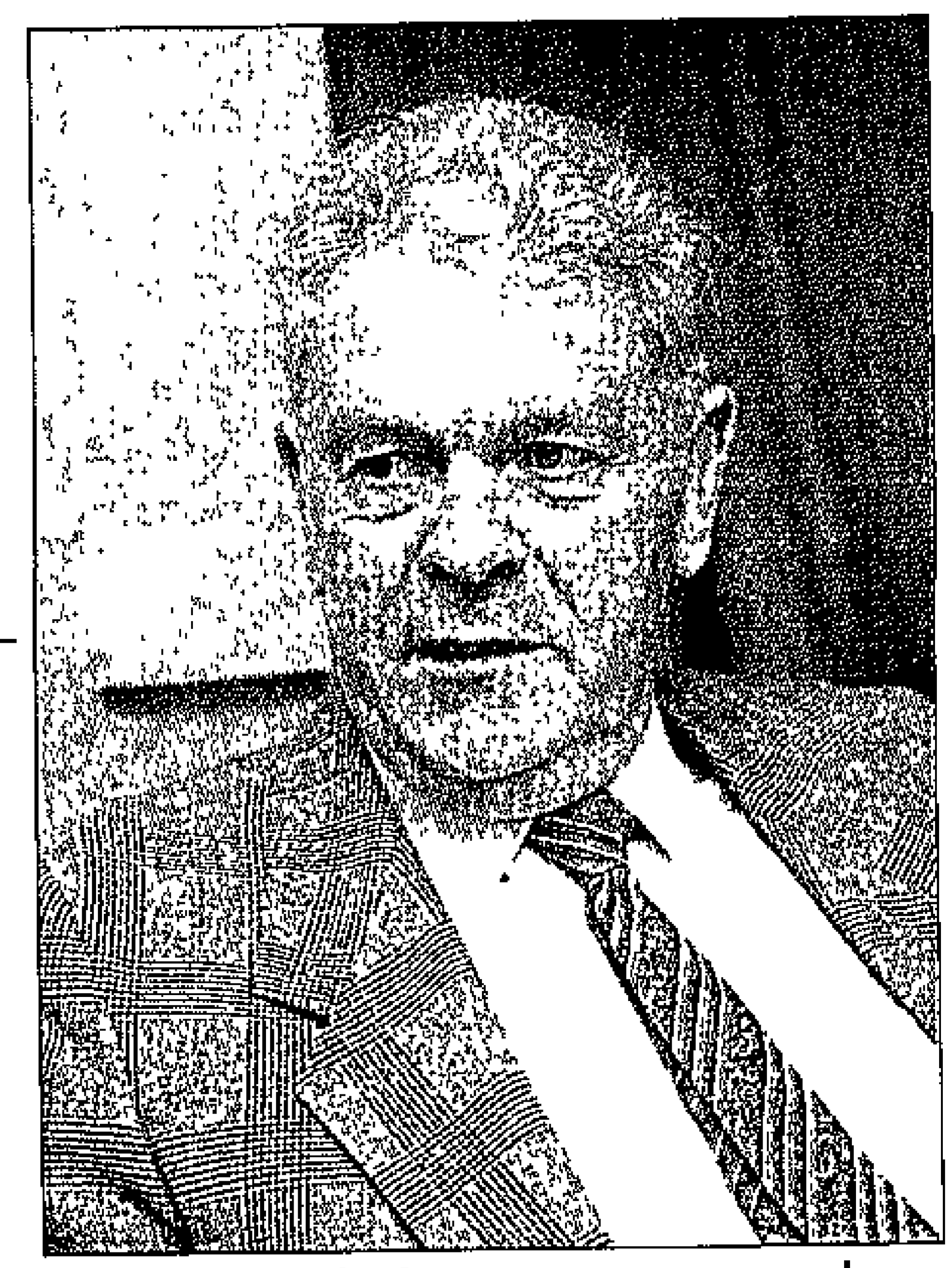
Making those assets work, particularly the previously underperforming Bankorp acquisition, will now be the trick. From what can be gleaned in the latest results, the group's performance is uneven.

Return on average assets dropped from 1,01% the previous year to 0,95%. CE Piet Badenhorst concedes this is out of line with the 1%-plus the group wants.

Admittedly, year-on-year comparisons are not fully meaningful. Chairman Herc Hefer points out that while 1992 results are consolidated for a full year, the former Allied and Volkskas groups only came on to the 1991 income statement for six months and the Sage interests after three months.

Still, growth in advances and deposits of 10,5% and 7,7% respectively are not too impressive. That compares with FNB's recently reported 20,7% climb in advances and Nedcor's 18,6%, while both competitors grew deposits by about 16%.

At R450,6m, provision for bad debts climbed by 157%. Once again this must be seen in perspective, including as it does the consolidation of three different books, but it's 19,3% of net interest income. SBIC and FNB, which reported relatively steep increases in bad debt provisions, kept the percentage against net interest to 18,5% and 17,4% respectively.



Absa's Badenhorst .. *now to make the assets sweat*

The impact of Bankorp's assessed loss and bad debt provision will probably never be known Badenhorst's somewhat enigmatic admission that it "might" be higher than previously assumed by analysts must mean it is significant. On the other hand, Absa projects that Bankorp, apart from the additional assets, will add some R22,5bn to advances once the final leg of the merger is complete.

The 69% increase in operating expenses to R2,2bn looks high, but its margin to operating income has only widened fractionally and compares with growth in operating income of 66,5%. In the midst of integrating the various operations, Absa does seem to have a firm hand on expenses.

The advantages of bringing together three banking groups and a part of Sage are apparent in the sharp, 64,3% increase in net interest income and 53% climb in net profit. This however translates to only a 15,2% advance in EPS, pedestrian by the standards of the banking sector.

The share price has taken a dip since the Bankorp deal was announced at the beginning of the year, from R11,60 to its present R9,80. Clearly the market is a bit nervous about the deal and a cautious investor should probably wait for a clearer view.

On the other hand, those who believe Badenhorst can get more value from Bankorp's assets may consider the price fair. *Shaun Harris*

STILL DIGESTING

Six months to	Mar 31 '91	Mar 31 '92
Advances (Rbn)	38,2	42,2
Deposits (Rbn)	45,4	48,9
Net margin (Rbn)	1,4	2,3
Net profit (Rm)	321	491
EPS (c)	93	108
Dividends (c)	36	39,5

MULTIPLE LISTING SERVICES
FM 5/6/92

New alliances, same battle

New lines have been drawn in the information technology battle (*Property* November 29) with the ultimate aim of dominating the lucrative residential market — bonds and all. It comes with the recently announced alliance between South African Property Transfer Guide — an upmarket service competing with Record of Transfers — and Comprehensive Property Services (CPS). (58)

CPS is backed by nine banks and building societies as shareholders. Their opponents are Absa and its newly acquired subsidiary Multiple Listing Services (MLS).

MLS, the first major property listing service in SA, was set up six years ago by MD Bruce Wilson. The company now has links with 1 200 estate agencies and about 7 000

cont

agents, many of whom feed information into the MLS data bank. So MLS has a big supply of data that is growing at about 3 500 items of housing information/transactions each month. (58)

This data enables MLS to provide estate agents around the country with instant access to information such as similar-sized houses for sale, or ones that have been recently sold or withdrawn from the market. This information can be drawn on for a specific suburb and even a particular street.

The advantage to buyer, seller and estate agent is that it enables the agent to prepare a comparative marketing analysis for any circumstance. Whether selling or buying, both parties want to know that the proposed price is within market limits.

Wilson admits that the concept is borrowed from the US where it was introduced many years ago. He also points out that a multiple listing service was established in 1976, and is still operational, in the Springs area.

Shortly after MLS's establishment, Absa (at that time the United) bought a one-third interest for R5m. It was the only building society that saw the opportunities the service offered. Wilson says Absa's cash injection was used as working capital. Now Absa has bought out the estate agents and private individuals who made up the remaining shareholders for a further R3,5m. Absa's offer to purchase was accepted by almost all the shareholders.

Two years ago other players in the home-loan business woke up to discover a major competitor had stolen a march on them. Attempts by Standard and Perm to secure participation failed. As a result, they combined with other parties to set up CPS. Its owners include NedPerm, Standard, FNB, NBS, EPBS, Boland and Bankorp. (Bankorp's share in CPS gives Absa a foot in both camps). The aim of CPS is to provide estate agents with a service similar to that given by MLS. However, CPS MD Stefan Swanepoel says that his company's ultimate intention is "to computerise all facets of the property industry."

Starting at a disadvantage in terms of timing and, therefore, in the size of its data bank, CPS decided to form a link with the guide, a close corporation set up last year by Anthony Selsick and Trevor Ahier The guide has cultivated a substantial base of municipal values, specific transfer information, addresses and zones. Swanepoel says one consequence is that his company now has available details of more than 100 000 recent property transactions on a data base he says will grow at 4 000 items of new information each month.

"The advantage for estate agents is that data on all property transfers, countrywide, for 1991 and 1992 will be available electronically in seconds," says Ahier.

So competition to provide a service to estate agents and, through them, to buyers and sellers, is hotting up. Each side is convinced it has superior and more complete

cont

FM 5/6/92 (58)

data and can provide a better service. Says Wilson: "We certainly take CPS seriously, and there's no doubt they'll get there in the end, but for the time being we have a five-year lead and they're going to have to run some to make it up."

The winner in this joust between giants will, for once, be the man in the street. At last he can expect realistic, market-related data from estate agents. There should be no need for any more thumb-sucking. ■

Fancourt laying Masterbond ghost

Star 5/6/92

(58)

The Fancourt group is trying to lay to rest the ghost of Masterbond, according to Fancourt chairman Andre Pieterse.

The failed Masterbond group, currently under liquidation and under scrutiny by the Government and the supreme court, were bankers to Fancourt, which sells itself as a "highly exclusive destination resort and real estate development".

Mr Pieterse stressed in Johannesburg yesterday that Fancourt was not part of the Masterbond project, nor of its group of companies.

He said his group would strive to meet the interests of shareholders and debenture holders who had indirectly invested through Fancourt in Masterbond.

"Masterbond went broke at a critical time for Fancourt, unable to pay R5,5 million due to Fancourt in terms of its bond obligations," Mr Pieterse said.

An indication of Fancourt's value was that it was quickly able to arrange bridging finance with the help of a merchant bank and its building con-

He said the curators of Masterbond and Fancourt shareholders and management had restructured the bonds held by Masterbond, in addition to the shareholders adding security to the value of about R12 million to further secure the debenture holders.

In order to ensure that interest and capital repayments were made to the debenture holders, Mr Pieterse said Fancourt was exploring various options, ranging from finding additional investors, to seeking a listing on the Johannesburg Stock Exchange, or even selling a large number of lodges to an overseas buyer on favourable terms.

Fancourt's director of sales and marketing Garth le Roux was optimistic about the success of the group, saying more than R20 million worth of sales were currently awaiting to be closed "following the laying to rest of the investors' fears regarding the collapse of Masterbond".

Mr Pieterse concluded: "It is the ghost of Masterbond that threatens the project and the security of the debenture holders." — Sapa.

Industrial property market is down

Sowetan 5/6/92

By JOSHUA RABOROKO

THE industrial property market is reflecting the dismal economic position of the country, says the research director of Real Estate Surveys, Mr Erwin Rode in a quarterly report on the property market.

He says wherever there may have been any small sign of nominal growth rental levels, these still represent a step backwards in real terms.

Investors have, however, not lost heart altogether, since capitalisation rates in many categories were down from last quarter.

The abolition of GST on building material last October reduced the growth in input costs to near zero, but non-residential tender prices for the last quarter of 1991 did not mirror this drop, he said.

While the tempo of non-residential building starts is slowing down, home building activity is again showing signs of life.

In the national residential market prices for lower price-class house are showing rises above the inflation level, although some regional markets are doing fairly well in all price classes.

Demand for flats remains high, with vacancy levels around zero in most areas surveyed. Rentals in Johannesburg's inner city nevertheless show a drop in nominal rands over the previous quarter. Elsewhere, levels are generally up, with strong growth in Durban and Pretoria.

Overall the office market picture is not particularly promising, especially if increasing vacancies are seen in conjunction with sagging rental levels.

Reports indicate that grade rentals in half of the office nodes surveyed were lower, even in nominal terms, than last quarter.

Top of the range A-plus rentals fared better, particularly in Johannesburg's best decentralised areas. Office rental in Durban CBD held up well despite increased vacancies.

TIME HOLDINGS (58)

FM 5/6/92

Property paradox

In yet another SA paradox, Time Holdings' low-cost housing activities made a record loss when the local housing shortage has reached crisis proportions. Time Housing, historically the group's largest operation, reported an attributable loss of R14m for the year to December and has been sold off as a result *(Property* May 22).

But expansion of the Time Life and Time Botswana operations will replace housing, Time Holdings MD Colin Hibbert says, "with Time Prop, the local property development operation, remaining a significant contributor to earnings."

Though Time Holdings was largely exposed to the affordable housing market when established in 1981, prescience, serendipity, or a combination of the two resulted in the group increasing the Time Prop, Time Life and Time Botswana operations to roughly half of all activity last year.

Hibbert predicts the Botswanan expansion will produce income soon whereas the expansion of Time Life will have a material impact in the medium to long term.

Over the past six months, Time Botswana has won three contracts worth over P100m (R130m). It has recently been issued Botswana's third life assurance licence.

Roughly 75% of earnings from continuing operations (excluding housing) came from Time Prop in 1991, Time Botswana constituting most of the remainder.

The R15m market capitalisation is a 45% discount to NAV despite there being "a number of undervalued assets in the balance sheet," says finance director Neil Carter. He notes Time Life is shown at R4m and Time Prop at under R1m, in line with NAV.

Taking Time Prop's fully taxed earnings of about R6,5m in 1991 and capitalising the earnings flow, it would be worth much more. Hibbert says Time Holdings may sell minority stakes in operations to narrow the NAV discount. This includes a probable listing of Time Botswana, expected to raise over P3m.

At 40c, the share is at a 3,3 p:e on EPS from continuing operations of 12c. It could have recovery potential. *William Gilfillan*

HIT BY HOUSING

Year to Dec 31	**1990**	**1991**
Turnover (Rm)	265 148	263 591
Operating income (Rm)	4 640	2 831
Attributable (Rm)	2 593	(9 585)
Earnings (c)	7,3	(25,8)
Dividends (c)	5	—

INVESTEC GOES DUTCH

FM 5/6/92

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... while Stals turns the screws

IN what was viewed as further tightening of monetary policy Reserve Bank Governor Chris Stals this week told a meeting of the captains of the banking industry he would implement new measures to curb money market liquidity. W|Mail 5/6-11/6/92

It was reported this week that Stals had told the bankers this would involve a three-stage process whereby the banks' cash reserve would be increased by one percentage point, there would be an issuing of Treasury bills and an increase in the amount of foreign reserves banks can hold. 58

Comex gold futures trade at 13-year low — Sunter

B/Day 5/6/92

MATTHEW CURTIN

WHAT little investor interest there is in gold is confined mostly to the Far East, and the amount of gold futures traded on New York's Commodity Exchange (Comex) in the past year is the lowest since 1979, says Anglo American gold and uranium division chairman Clem Sunter.

However, Sunter said yesterday, gold prices had withstood the dearth of investor interest and large sales of Soviet reserves between 1989 and 1991 relatively well.

In his annual review of Freegold's operations in the year-ended March 1992, he said 200 tons of Soviet gold, deposited on swap with Western banks, were a real danger for gold prices. The disposal of such swaps during the attempted Soviet coup knocked prices to about $340 from $370 an ounce in September last year.

"Under these circumstances the physical market has held up well", he said, noting steady jewellery consumption in 1991 and so far this year.

"Now more than ever producers are dependent on a healthy gold market to ensure their long-term survival. The effective and regular promotion of gold, and of gold jewellery in particular, is vital and deserves the support of all gold producers."

Sunter said good jewellery demand had played a key role in the steady buying of bullion, which had supported prices in the past year.

He said Freegold had enjoyed a period of constructive industrial relations, blighted only by the outbreak of violence at the President Steyn mine last November, in which 86 people died and 403 were injured.

In spite of the completion of five-year long discussions with the NUM over a code of conduct, which dealt with many of the recommendations made by the Goldstone Commission investigating the violence at the mine, an agreement on the code had not been signed.

"It is in the interests of all concerned that the code be signed and formally implemented as soon as possible", Sunter said.

It was vital the realism and creativity which typified 1991 wage negotiations prevailed in the current wage talks. Productivity and gold price related bonuses remained an essential part of the year's wage settlement.

Sunter said the decision not to abolish ring-fencing in the 1991 Budget was "a major disappointment". He hoped undisclosed recommendations made by the Tax Advisory Committee would encourage the authorities to abolish "this artificial restriction", which would make it easier for gold mines to invest in new mining ventures once gold prices improved.

In the year under review, Freegold increased its earnings to R280m from R167m, as forward sales lifted the gold price it received by 4% and more than offset a marginal drop in gold production to 19,8 tons (21,3 tons).

Prepaid meter market soaring

B/Day 5/6/92

DUMA GQUBULE

THE market for prepaid electricity meters is growing rapidly and SA electronics companies are gearing themselves to supply the large quantities needed when Eskom's "electricity for all" programme gets off the ground.

Purchases from Eskom, local authorities and the homelands have already reached an estimated 200 000 units, with Eskom taking more than half of those.

But Conlog, Plessey Tellumat and Spescom — the companies who pioneered the technology — are expecting demand soon to reach hundreds of thousands every year. Eskom plans to eliminate the backlog of 3-million households needing electricity by 1996, and bring electricity to 90% of the population by the decade's end.

Conlog, which has the largest installed base in the country, is already producing 800 units a day (nearly 200 000 a year). Plessey MD John Temple says his company is expecting production to reach "the hundreds of thousands" in the near future.

At nearly R400 a unit, the potential financial rewards are great and other companies in the industry, including electronics giant Altech, are getting involved. Export potential is immense, industry sources say.

Sage Life premium income has grown 22% to R350m

B/Day 5/6/92 (58)

DUMA GQUBULE

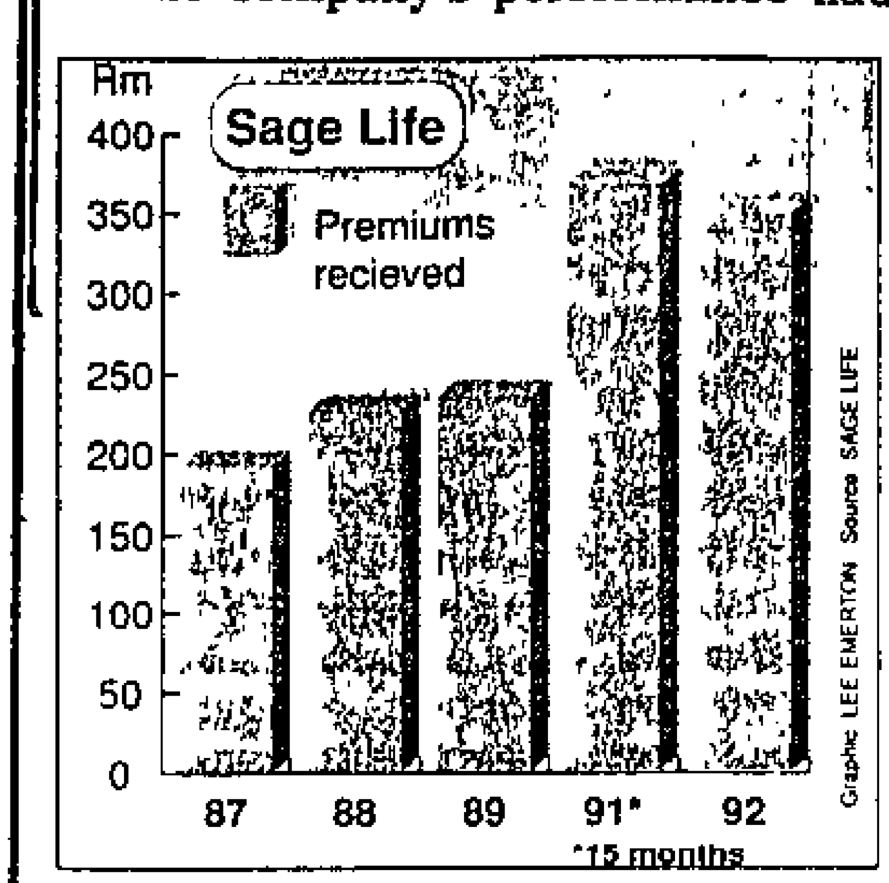
SAGE LIFE has maintained its good growth record, boosting premiums received by 22% to nearly R350m in the year to end-March 1992.

The results are compared with estimated figures for the previous 12 months, as the results to March 1991 covered a 15-month period following a change in Sage Life's financial year-end.

Executive chairman Louis Shill said the company had made excellent progress on all fronts.

It had expanded the scope of its activities and achieved accelerated new business growth, reaching two milestones — total assets exceeded R2bn and total income passed R500m for the first time.

The company's performance had



further entrenched Sage Life's position as the largest single contributor to the earnings of the diversified Sage Financial Services (SFS) group.

Annualised new business premiums rose 27% to R173,2m, while total premiums received increased 21,7% to R348,6m.

Shill and MD B M Ilsley said the increases could be regarded as satisfactory because the economy was in recession, unemployment was rising and stubbornly high inflation was restricting savings potential.

The growth in business compared favourably with an increase in expenses of only 14,2%.

Other salient features included a 20,2% increase in profits attributable to shareholders.

The company significantly increased its internal reserves in spite of substantial technical strains resulting from the high level of new business.

Total income showed an 18,7% increase in income to R504,1m. Total assets rose 22% to R2,2m (R1,8m).

Sage Life's total assets had shown an annual compound growth rate of 21,4% during the past five years.

Shill and Ilsley said the expansion reflected Sage Life's continuing position as one of SA's top 10 life assurers.

SWEETHEART DEALS FM 5/6/92.

How long will they last? 58

Glitzy pamphlets and stunning offers herald the previously unthinkable — nine months to a year of rent-free accommodation in upmarket buildings. There is no doubt these sweetheart deals are a sign of the times. The question is: how long will the offers last?

The market believes the oversupply of office space will continue for the rest of the year and probably well into 1993. But scrutiny is needed because the duration of offers will depend more on location and the state of individual institutional portfolios than on general factors.

Prospective tenants can bank on one thing. When the market turns, bleeding landlords will want to claw back a few years of lost profits.

Area averages are a good lead into the market, but, as everyone knows, the five-month-odd average figure for Braamfontein, Johannesburg, belies the truth of what is occurring in some buildings. Ampros is offering as much as nine months' free rent for new tenants in the revamped Braamfontein Centre, at Jorrisen Street, Garden Plaza, Bertha Street and 222 Smit Street. The same deal applies to three office buildings in central Johannesburg, including the Carlton Centre.

Sanlam Properties GM Banus van der Walt, commenting on how the recent property construction boom in CBDs and suburban centres has produced office space for which there are few takers, agrees that this is when aggressive marketing moves in to persuade hesitant businessmen that the opportunity of a lifetime is there for the taking.

Rode Report author Erwin Rode notes in his latest issue that "more and more new leases have to incorporate such inducements (rent-free periods) in order to get tenants to fill vacant space." In a comprehensive table of average rent-free periods around the country (see graphic), Rode specifically pinpoints the Johannesburg CBD and Braamfontein as areas where extended rent-free periods can be negotiated.

Ampros MD Gerald Leissner, whose company has taken the lead in rent-free offerings, notably in Braamfontein, says: "In the current market, we are prepared to offer discounts of this kind." However, prospective tenants, lured by the prospects of getting away with long periods of rent-free accommodation, would be well-advised to read the fine print. For a start, do they qualify?

Leissner says Ampros is selective in its choice of tenants. It does not intend to expose itself to clients likely to fold up their tents and disappear. "We have very good tenants," and adds that Ampros intends to hold on to that track record and will thoroughly examine prospective clients.

Leissner confirms there are several ways of shaping sweetheart deals. These include meeting removal expenses (which can be substantial), providing tailor-made office renovation, allocating additional parking and easing up on operating expenses charged.

There are also cheap rentals such as R1,50/m² now offered by some landlords *in lieu* of free rents. Van der Walt says that, despite free periods, tenants still pay operating costs, rates and electricity.

Then there is the matter of the lease period the tenant will be asked to sign. Sanlam Properties is prepared to consider rent-free periods as long as 12 months but it will require lease periods of as much as 10 years. Van der Walt says one important qualification is that there must be a review of the lease in three years: "We are prepared to take the knock now but we have to be in a position to benefit when there is an upturn in the economy and demand for office space strengthens."

Ampros' nine-month deal goes with five-year leases.

Sanlam Properties says it has no across-the-board policy. It recognises the general trend nationwide and will offer rent-free periods depending on the property, location and extent of the problem in the area.

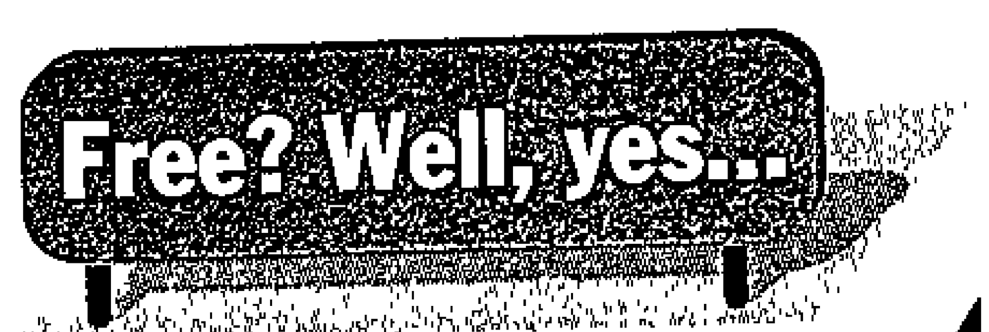
Old Mutual Properties investment manager Ian Watt takes a different view: "The difficulty we have in granting rent-free periods is that it has a negative effect on existing tenants. They will feel they're being discriminated against."

He says rent-free policy depends on the state of a company's leasing portfolio. His company will pursue this course only if it has a high percentage of unleased space on its books. It has no vacancy problem now but would, in any event, be deterred from offering rent-free deals because of concern for the reaction of existing tenants.

Watt says too much office space has been built around the country — yet market observers say Old Mutual Properties has contributed to the oversupply. Watt worries that, in some hard-hit areas, it could take up to three years before reasonable ratios of supply and demand are seen. "There are some horrifying statistics," he adds.

Sapoa's May figures show A-grade office vacancy rates in the Durban CBD to be 29,3%, in the Pretoria CBD 12,8% but as high as 29,7% in Arcadia. The figure varies from 17% to 25% in other eastern suburbs of Pretoria. Sapoa's figure for the Johannesburg CBD is only 8% (Sandton is 11,9%) and for Braamfontein 5,4% — statistics which tend to confirm Watts' contention that the rent-free policy is linked to individual companies and not to areas.

For businessmen contemplating an office move, whatever the protestations of landlords, this seems an opportune time to drive a hard bargain. ■



Rent-free office space
Average period in months

1st quarter 1992	Grade A	Grade B	Grade C
Johannesburg CBD	3,41	3,79	3,25
Braamfontein	5,24	3,72	2,39
Sandton CBD	2,21		
Randburg CBD	2,29		
Rivonia	1,50		
Rosebank	1,88		
Illovo	2,20		
Parktown	2,00		
Bedfordview	1,83		
Bruma	2,17		
Midrand	2,00		
Pretoria CBD	1,19	0,91	
Hatfield	2,17		
Verwoerdburg	1,67		
Durban CBD	2,56	2,78	1,81
Berea (Durban)	3,00		
Port Elizabeth	3,00	3,00	3,00
Cape Town CBD	1,52	1,42	1,57
Bellville	1,00		
Claremont	3,00		

Source RODE REPORT

Nedbank gives Green Trust more than R1m

(58)

B/Day 5/6/92

MEREDITH JENSEN

NEDBANK has given more than R1m to the Green Trust over the past year, while increasing its client base and profits.

Since the establishment of Nedbank's "green" credit cards, checking and savings accounts, the bank has attracted a flood of new customers.

Nedbank's executive GM of marketing John McCall said: "It is quite remarkable. People have really taken to the idea."

If y[illegible] a green acc[illegible] donated [illegible]centage [illegible] turn- [illegible]us a [illegible]ce [illegible] green checkbooks, sold to customers for R5 each, were also passed on to the trust.

"We provide a conduit for our customers to be involved with the Green Trust and the environment," he said adding that the bank received a financially satisfactory return.

McCall said Nedbank's client base had expanded, while the ratio of conversions of existing customers had been "very impressive."

This week, Nedbank introduced the same green services to their corporate clients.

"Now, interested corporate clients can become associated with the Green Trust," he said.

McCall referred to the scheme as mutual-benefit marketing.

"We have a double lock on the customer. If he locks out of Nedbank, he also locks out of the environment."

"Now, corporate SA can contribute to an emerging society in a way agreed to by its staff and customers."

McCall said green account customers had proved less of a credit risk.

"They have less problems with debt and delinquency."

In addition to the R1m raised through the green accounts, Nedbank had pledged an additional R1m a year for five years to the Green Trust.

embarked on action in

help and support of ... leaders of the country's

Even 3% rate cut will not restore confidence

58

Star 6/6/92

THE Reserve Bank is the wrong place to go knocking for an upswing in the economy, because even a 3 percent Bank rate cut will fail to get things moving, says the chairman of Campbell's Business Information in Pretoria, Rowan Haarhoff.

He explains: "Recent hire purchase relaxations and the modest drop in interest have had little discernible effect on the demand for durables, and the man in the street is clearly not biting. He knows this time things are fundamentally different."

South Africa has never before faced such political and economic uncertainty and every citizen, black and white, is filled with doubt, he says.

Retrenchments have been everyday occurrences and no reasonably prudent man is going to sign a three-year HP agreement when he does not know if he will have a job next month, let alone in 1995.

Until a new government is in place and clearly demonstrating sound free-market principles, only the reckless will be tempted by lower interest rates to commit themselves beyond 12 months, Haarhoff adds. — Sapa.

Sanlam 'bonus'

SANLAM Unit ...

Halt Japan's danger ships, Greenpeace urge

FW (52) ARG 6/6/92

HUGH ROBERTON
Weekend Argus Foreign Service

WASHINGTON. — Greenpeace, the international environmental group, has made an appeal to President De Klerk to object to Japan's planned shipment of up to 100 tons of plutonium — possibly via the Cape of Good Hope — in ships which the group allege have not been tested to withstand severe accidents at sea.

The appeal was made to Mr De Klerk this week as he began talks with Japanese leaders and businnessmen during an official visit to Tokyo.

Greenpeace warned: "We believe these shipments pose a significant threat to South Africa, and we believe your fellow citizens have a right to know about these transports and decide whether or not they should be sanctioned."

Earlier, Greenpeace delivered a letter to South Africa's ambassador to the United States, Mr Harry Schwarz, appealing for a firm stand by the government against the shipments until the Japanese ships had been tested for safety.

The US Congress has already passed legislation barring entry to US ports of the Japanese plutonium freighters, and has urged other countries to do likewise, pointing out that the shipment would involve the same amount of plutonium contained in the nuclear arsenals of the US or the former Soviet Union.

South Africa's response to the appeals from Greenpeace and the US Congress is regarded as crucial since nuclear experts are convinced the Cape of Good Hope tops the list of the probable routes which the huge Japanese shipment would follow between Europe and Japan.

By the year 2010, Japan wants a stockpile of between 85 tons and 100 tons of plutonium.

Japan has announced it will not disclose the route, or routes, which the plutonium shipments will follow for security reasons.

But environment groups and leading members of the US Congress believe the Japanese government is trying to suppress rising international opposition to the plan.

They have accused Japan of reneging on the US-Japan Nuclear Co-Operation Agreement, signed in 1987, by refusing to disclose the routes. The treaty requires advance emergency contingency plans to be agreed to between the countries before the shipment of highly dangerous nuclear susbstances.

The plutonium is needed for a series of breeder reactors which Japan is building to produce nuclear fuel and make the country almost self-sufficient in generating electricity.

In their letter to Mr De Klerk, delivered through the South African consulate in Tokyo, Greenpeace urged him to take the matter up with his Japanese hosts, and gave him details of the dangers of the Japanese shipments.

"Under the present circumstances of inadequate consultation and safety planning, we believe the shipments should be prohibited," the letter said.

The group also offered to provide the South African government with further information and assistance in reaching a decision.

Government and Reserve Bank get to work

New plan for SA's revival

S/Times [BUSS] 7/6/92.

By CIARAN RYAN

FINANCE Minister Derek Keys and Reserve Bank Governor Chris Stals are laying the foundations for an economic programme to nurse the economy out of recession and back to economic growth.

Measures were announced this week to restore business confidence and maintain monetary stability.

Dr Stals told Business Times that the time had come for SA to implement a structural adjustment programme (SAP) to break the deadlock of stagflation, high interest rates, low capital and labour output ratios.

The Reserve Bank was developing a programme which could catapult economic growth through 3%, a level at which economic bottlenecks traditionally developed. It would bring sustainable long-term growth

"We need to start looking beyond cyclical and short-term economic stimulation and introduce a more permanent restructuring of the economy.

"Because of the political transition, economic reform will be difficult. But the time has never been more favourable. Political reform cannot succeed without economic reform.

"We must realise that we can get back on the growth path. Sooner or later radical action must be taken."

The Reserve Bank stuck to its decision not to drop interest rates this week in the face of falling money-market rates and rising liquidity.

CHRIS STALS: Action stations

Among this week's developments were:

● The Reserve Bank announced a plan to soak up excess liquidity in the money market, issuing special nine-month bills to the banking sector, doubling the permitted foreign-currency holdings of the banking sector to $632-million and requiring institutions to maintain an additional cash reserve equal to 1% of short-term liabilities.

The new measures are aimed at curtailing money creation by commercial banks — a major cause of inflation. One of the targets is banking margins which have widened in recession. Money-market rates are expected to firm following the Reserve Bank's mopping-up operation.

● Finance Minister Derek Keys boosted investor confidence by scrapping tax on interest earned by foreigners.

Stable

The concession will not result in a large loss of revenue because the tax ruling was difficult to enforce.

● In an apparent reversal of statements that SA was not overtaxed, Mr Keys vowed to rein in State spending, one of the main reasons for low growth. This would open the door for fiscal reform and stimulate economic growth.

● Dr Stals reiterated his commitment to positive real interest rates, a stable exchange rate, curtailment of money creation by commercial banks and an increase in the gold and foreign-currency reserves.

The first prerequisite of a SAP is to bring stability, the line now being pursued by the Reserve bank, followed by a liberalisation phase and then a stimulatory one. The three phases can be run simultaneously, says Dr Stals, monetary policy playing a lesser role in the stimulatory stage.

Taxation, the Budget and public finance, monetary management, labour and trade policies have to be consistent and be geared to common objectives.

Goals

Economists welcomed Mr Keys' plans to bring runaway State spending under control. Without a cut, there is little hope for tax relief.

"I don't want to sound unduly negative, but Derek Keys' predecessors all promised to bring down State spending — and it just went up and up," says Econometrix's Tony Twine.

"If Mr Keys has a demonstrable way of doing this then I welcome it."

Board of Executors senior portfolio manager Rob Lee says the programme should not find too much opposition from the ANC because it shares many of the goals

"Both the ANC and the Reserve Bank support the control of money supply, promotion of manufactured exports and control of State spending. Taking a short-term view, I think there is room for a cut in interest rates. But I do not disagree with Dr Stals' view of the economy's longer-term prospects."

Ducking and diving in great bank leak

58

S/Times [BUSS] 7/6/92.

By JULIE WALKER

FINGER-pointing about insider trading was rife this week on the back of JSE president Roy Andersen's intention to complain to the Reserve Bank about confidentiality leaks.

The row began when Reserve Bank Governor Chris Stals gave bankers notice of his intention — announced on Friday — to mop up liquidity in the market.

Dr Stals is loath to bring down bank rate while inflation remains high, but bankers query how he could manage this in a highly liquid market.

Market rates have fallen since February, but jumped on Monday.

Early sellers, it appears, had access to the confidential information and tried to take advantage of it. Those attending the meeting would have been sworn to confidentiality.

Blame

But the temptation to use the information and so avoid serious financial loss must have been great.

Mr Andersen says: "We do blame the Reserve Bank. It acted in confidence which appears to have been breached. I have written a polite letter asking that price-sensitive information matters be discussed and released outside trading hours."

Mr Andersen says it would be foolhardy to try to quantify losses.

"We think we know what brokers lost, but not those suffered by their international clients. This kind of thing does the reputation of the country no good."

Tony Norton, president of the Council of SA Bankers, says he does not have facts about alleged insider trading by dealing rooms of banks which attended Dr Stals' Monday meeting.

Mr Norton says he will take the matter up with the clearing banks.

Johannesburg Options Market managing director David Bullard maintains that the JSE brokers should have made a lot of money if they acted as intermediaries because the volumes were high, generating brokerage.

Mr Bullard, an independent trader, says: "If they lost, it means they must have been holding positions that went against them.

"That means they must have acted as both principal and agent. Although they are allowed to do that, stockbrokers have insufficient capital bases to act as principals and withstand large market movements."

Mr Bullard finds it interesting that JSE trade in Umgeni Water Authority stock was most active ahead of Finance Minister Derek Keys' announcement that interest earned by non-resident investors would not be taxed.

"The JSE can't accuse others of insider trading on the one hand, then be guilty of it on the other."

Mr Bullard says it took nanoseconds — not seconds — for the information to be dispersed. His view is that the market moved up because jobbers acted on impulse.

"It is a huge non-issue," says Mr Bullard.

Marilyn Visser, gilts analyst at stockbroker Simpson McKie, says insider trading is difficult to prove in any circumstances and most dealers adopt a pragmatic approach.

"There was a timely upward correction in rates on Monday, but nobody regarded it as a reversal," says Miss Visser. "There were many stale bulls and a lot of jobbers hurried to get out of the market. Institutions were willing to come back once positions were cleared. They were not keen to buy at the lower levels and saw value when stability had been restored after the correction.

"The correction could have been on technicals only, or on a combination of technicals and inside knowledge. It is hard to say exactly what was responsible."

Blood

Neville Boner of Boner & Freemantle confirms that certain people were selling stock before others and ahead of rates hardening.

"There was a lot of blood on the floor," says Mr Boner, "and quite a lot outside. Sentiment had been bullish until then."

He says market speculation was that the Reserve Bank was buying finrands ahead of expected foreign interest in the gilt market. Rates steadied by Thursday and resumed their bullish descent.

"That is the irony," says Mr Bullard. "The best thing the insiders could have done was to have done nothing. They have probably lost more by selling short and have not benefited at all in the long run."

MORE MONEY IN YOUR POCKET

Dividends, gifts and sales profits

S1 Times [BUSS] 7/6/92 ? 58

—By DES KRUGER and VICKI TAYLOR of Deloitte Pim Goldby—

THIS article, based on the booklet Pay Less Tax — published jointly by Sunday Times-Business Times and Deloitte Pim Goldby — is intended to highlight some tax-saving opportunities, using the basic structure of the annual IT12 return.

CERTAIN interest and buildings society dividends were either fully or partly exempt from tax in the 1989-90 and earlier tax years — for example, Post Office savings and building society subscription shares.

With effect from March 1, 1990, this exeception has been phased out. In the 1991-92 tax year only 60% of such interest income and previous fully tax-free dividends is exempt. Partly tax-free building society dividends which were previously subject to a dividend deduction (normally up to a third of the payout) are now treated as other similar building society payments. Only 60% of the dividend deduction may be claimed in 1991-92.

Note that this phasing in applies only to investments with no set term. Fixed-period shares-deposits made before March 1, 1990, will remain partly tax free for the duration of the fixed investment term. Dividents or interest on building society fixed-period shares-deposits made on or after March 1, 1990, are fully taxed as interest income and are not subject to phasing-in concessions.

The basic interest exemption of R2 000 is available to each taxpayer. Thus, where a husband and wife both earn interest income, up to R4 000 is exempt. Building society dividends are classified as interest income for tax purposes. Therefore, where you earn less than R2 000 actual interest the remaining part may be deducted against your building society dividend income.

Other dividends received from public and private companies are still exempt from tax in 1991-92. You are required to disclose the dividend income under part 8.3 (exempt income) of your tax return. Other exempt income, such as transfer-relocation costs paid by your employer, must also be disclosed under part 8.3.

Other non-taxable amounts may comprise income from sources outside SA (disclosed under part 8.2) and profit from the sale of shares, fixed property and other marketable securities (disclosed under part 8.1).

Donations, proceeds from insurance policies and the sale of jewellery, inheritance, prizes, gambling profits, losses etc. must also be disclosed under part 8.1. Supporting information to the amounts declared under part 8 must be supplied.

WHENEVER you buy or sell any fixed property, shares or other marketable securities, you are required to complete part 10.1 of the return. This canvasses the dates, cost and selling prices, your reasons for acquisition or sale.

Unless your intention was to deal in these assets for gain, the profits should generally be of a capital nature and not subject to income tax in 1991-92.

However, be warned that a person's intention can be questioned by Inland Revenue, especially where several similar transactions have occurred, even if spaced over a few years.

Your reasons for acquisition and sale are of great importance and should be clearly noted on your return. Likewise, any change in intention should be noted.

Where you have sold listed shares which have been held, inter alia, for a continuous period of at least 10 years, so-called "affected shares", you may elect in part C of schedule A (page 7 of the return) to have the profits treated as being of a capital nature and therefore tax free. Such an election will be binding on any future disposal of "affected shares".

The nature of large gambling profits may be questioned where there are a many transactions each year.

Otherwise the recipient of proceeds from inheritances, donations, insurance policies (provided they are standard) should not encounter problems with Inland Revenue concerning taxation.

The general problem pertaining to taxation of profits derived from the sale of assets is complex and each case is decided on the facts. The important issues are the taxpayer's intention and the circumstances surrounding each purchase and sale.

Bear in mind, that the onus rests on the taxpayer to convince Inland Revenue about intentions. The 1992 tax return does not require information concerning purchases or sales or non-taxable receipts of your spouse.

Copies of Pay Less Tax can be obtained at a cost of R29 (including VAT and postage) from L Mlambo, Deloitte Pim Goldby — Pay Less Tax, Private Bag X3, Benmore 2010.

Panel to look into insider trading

B Day 8/6/92 (58)

SHERIDAN CONNOLLY

THE independent Securities Regulation Panel is to investigate allegations of insider trading following a meeting on Tuesday last week between top bankers and the Reserve Bank, a senior spokesman for the panel said on Friday.

The allegations started after Reserve Bank Governor Chris Stals gave representatives of 54 deposit-taking institutions a confidential early warning of Bank plans to mop up liquidity. The information was transmitted to the banks' dealers whose trading lifted interest rates and left outsiders with large trading losses.

The Bank will not identify the people who attended the meeting, nor which institutions they represented.

"It's very difficult to pick up and to prove allegations of insider trading. However, under the new Companies Act, the machinery is now in place for easier surveillance," a panel spokesman said.

In terms of the Act, the penalties for insider trading offences were severe. A guilty party would be liable to a fine not exceeding R500 000 and/or imprisonment not exceeding 10 years, he said.

Although a number of cases of alleged insider trading had been investigated by the panel, no case had yet been tried.

JSE president Roy Andersen welcomed the panel's investigation and said the allegations would be complex and difficult, but not impossible to prove.

"This is not a witch-hunt for what happened in the past, it is merely an attempt to prevent it happening again in the future," Andersen said. He believed banking representatives had acted on confidential information but stressed that the JSE did not hold the Reserve Bank responsible.

Andersen said the JSE would give the panel access to information it would require in its investigation. The JSE would supply the panel with details on the deals that took place on the days in question.

At the Reserve Bank meeting, Stals proposed measures designed to drain excess liquidity from the money market. He proposed the changes to bankers present at the meeting for their consideration before

☐ To Page 2

Insider trading

B Day 8/6/92 (58)

☐ From Page 1

a final decision was taken

On Friday, Stals gave details of the bank's new measures, the first of which was an offer on tender of special Reserve Bank bills with a maturity of nine months. The bills would be issued to bearer and would be fully tradeable. Offers would also be made from time to time through public tenders on the same basis as Treasury bills were currently being issued.

Stals said a second measure was to double the permitted foreign exchange holdings held by foreign exchange dealers to \$632m from the \$316m level set in 1983. "Taking account of the increasing volume of foreign trade and the rising demand for forward foreign exchange cover, an increase in the limits at this juncture can be justified," he said.

The Bank's third measure was to require registered deposit-taking institutions to maintain an additional cash reserve equal to 1% of its total short-term liabilities in a special deposit account with the Bank. In total, the institutions would have to hold a compulsory minimum cash reserve equal to 5%, compared with the current 4%.

Stals said a further measure was to relax the R18bn limit on sales of government stock and Treasury bills provided for in the 1992 Budget. Additional sales would be made dependent on Treasury needs and market liquidity. He said the measures would "enable the authorities to maintain orderly market conditions"

Rates defy Bank plan to tackle high liquidity

MONEY MARKETS by Sheridan Connolly

BDay 8/6/92 58

DESPITE the unveiling of a Reserve Bank plan to tackle high liquidity, market rates continued moving downwards last week.

In a contentious quarterly meeting between top banking officials and the Bank, Governor Chris Stals proposed a three-point plan designed to counter the high levels of liquidity which have exerted strong downward pressure on rates in recent months.

The plan has been viewed as a policy shift aimed at compelling banking institutions to place cash with the Reserve Bank rather than in the money market.

Details of the Bank's proposals were leaked to the market on Tuesday and both money and capital market rates hardened within a few hours, but later drifted back down to their earlier levels.

By the end of the week, the Bank had drained R1,5bn from the market via special Treasury bill (TB) tenders which brought the market shortage up to R1,012bn from R805m. The BA rate seemed unfazed by news of the Bank's upcoming tactics and held steady in a 14,40%-14,55% range compared with 14,50%-14,55% the previous week.

The format of the weekly TB tender was altered last week with only three- and six-month and no nine-month paper being issued. The Bank is expected to introduce new tradable nine-month Reserve Bank bills which form part of Stals's draining plan.

The average rate on the three-month TB was marginally higher at 13,99% from 13,97% the previous week. The rate on the six-month tender was also slightly higher at 13,58% compared with 13,57%.

Also topical was the announcement by Finance Minister Derek Keys that all interest earned on foreign investment would now be exempt from tax. The move was well received by the market and should clear up uncertainty and boost foreign investor confidence.

Keys's tax break did have some initial impact on capital market rates which eased after the news filtered into the market. Political uncertainties and the ANC's proposed mass action campaign still seem to be the overriding factor holding potential investors back.

At the end of the week, capital market rates were moving sideways. The key Eskom 168 was at 15,74% compared with 15,72% at the end of the previous week and the government RSA 150 stock was at 15,95% from 15,92%.

Standard gets UK banking licence

SHARON WOOD

STANDARD Bank received a UK banking licence from the Bank of England at the weekend, the first given to an SA bank since the 1985 debt moratorium.

Standard London, a wholly owned subsidiary of Standard Bank Investment Corporation (SBIC), also will handle the business of its UK representative office.

It will provide support sevices, including trade finance, loan finance in SA and abroad and investment and financial advice. The London branch also deals in SA equities, rand-related currency and treasury products, gilts and derivatives.

A Standard Bank spokesman said at the weekend: "The UK banking licence will permit Standard Bank London to assume a central role in the group's international network. As a key element in the group's long-term strategy of supporting its customers' global business, it will greatly facilitate trade and capital flows between southern Africa and the rest of the world."

Until now Standard Bank and First National Bank were the only two major banks that did not have UK licences and had to operate subsidiaries.

Nedcor Bank and Volkskas received licences before the debt standstill and operated London branches.

The news of the banking licence follows hot on the heels of the group's intended acquisition of British merchant bank Brown Shipley.

This is still subject to the approval of the UK authorities.

"On the assumption that Standard receives approval, Brown Shipley will report to Johannesburg and will not operate out of London," Standard Bank spokesman John Gaunt said.

Broederstroom guerrilla indemnified

THE fifth member of the ANC's all-white Broederstroom guerrilla cell has been granted indemnity and has returned to SA. BDay 8/6/92

Paul Annegarn, who left the cell to return to ANC headquarters in Lusaka before his fellow cell members were arrested in 1988, has been given indemnity from prosecution for deserting the SADF, entering SA illegally and making an illegal explosive device.

Annegarn had been variously reported to have been held by the ANC at its Quatro detention camp, executed by the movement, and to be studying in London. A family member said he returned to SA this year. His indemnity was published in the Government Gazette at the weekend.

Three other Broderstroom cell members, Damian de Lange, Iain Robertson and Susan Westcott were jailed but released early last year.

Viability study of Masterprop firms is mooted

LINDA ENSOR 58

CAPE TOWN — An immediate audit and viability study of nine of the 11 Masterprop syndicated property companies had been called for, companies representative Donald Slade said at the weekend. BDay 8/6/92

Executive committees consisting of three members each were elected last week to manage the affairs of the nine companies under boards of directors' supervision. The boards were elected by shareholders recently.

Former Masterprop MD Graham Manchip has been appointed CE and manager of all nine properties.

Slade said the first task of the executive committees — which had limited delegated powers — would be to assess the companies' current affairs and report to shareholders. Focus would also be on centralising the functions of the individual companies.

Negotiations to defer legal action were in progress with bondholders whose bond interest was in arrears. Slade said possible tax liabilities in certain of the companies were also receiving the executive committees' urgent attention after Inland Revenue raised objections to certain tax deductions made.

Three members elected to most of the committees were Slade — a consultant for Masterbond's curators — Manchip, and Chris Bruyns, a shareholder with a long history of involvement in property matters.

The other people elected were J H Isaacs director Peter Holling (on the executive committee of Masterbloem), Bill van Wezel (Mediforum Welkom and Brackenfell committees) and Johan Swiegelaar (Main Street, Port Elizabeth committee).

"The composition of the various executive committees was determined with continuity and depth of knowledge in property development management and finance in mind," Slade said.

Manchip was not involved with Masterbond's collapse. His deep knowledge of the properties would provide continuity in their management, Slade added.

Trying year ahead for the squeezed banking industry

BDay 8/6/92.

SHARON WOOD

(58)

SOUTH Africa's banking industry faces a trying year, with Nedbank and Absa undergoing large restructuring programmes and all the banks likely to find little relief from bad debts as the recession continues.

Banks are enjoying comfortable interest rate margins at present, which enabled them to reduce their mortgage rates at the end of May without putting pressure on their margins. But plans by Reserve Bank Governor Chris Stals to drain liquidity from the market dashed hopes of easier monetary policy and lower interest rates this year. It is expected to prevent a further widening in margins and may even reduce them.

Standard Bank and FNB have been nominated by market analysts as leaders of the pack this year. Analysts are wary of putting their bets on Absa, and market sentiment about Absa's future is divided, even though the first year's results showed the group's rationalisation programme to be on course.

Earnings for Standard Bank and FNB are expected to rise about 20% in the year ahead, in line with the 1992 performance of both banks. Absa earnings are expected to trail, increasing by about 13%.

"Bankorp has been accident-prone and we have got to be a little bit cautious. But we can't deny that Absa is a serious, major player and its shares are marketable," says Martin & Co banking analyst Richard Jesse.

However, the market remains wary of possible skeletons in Bankorp's cupboard, which will be revealed only in the next set of results, if at all. Absa MD Piet Badenhorst has declined to give figures quantifying Bankorp bad debt provisions and its assessed loss. The memory of the speculated R1bn Reserve Bank lifeboat loan has not dimmed.

At the same time, there is a strong feeling that Badenhorst is highly capable of handling the task at hand. Analysts consider him to be ruthless enough to effectively streamline the operations of SA's largest bank.

At the release of the results, Badenhorst assured the public that the worst was over and the lessons learnt from rationalisation in the bank's first year would dramatically cut down the time it would take to rationalise Bankorp. "The Absa management team have honed their skills and have made more progress in the Bankorp rationalisation than in the first six months of Absa. It is running well and effectively," he said.

There is evidence of this already. The rationalisation of Volkskas and Trust Bank, under the leadership of Hennie Diedericks, took only six weeks compared with the expected six months. Staff numbers were slashed and the complement for the two banks' single head office and branch network now stands at just 800. Diedericks could not give the staff count before rationalisation.

Nedcor Bank, previously Nedperm Bank, is the second major bank to embark on a restructuring programme. The plan is to have a single head office structure supporting its separate divisions, which include the commercial, personal, corporate and international divisions of Nedbank, the Perm and Nedfin. The restructuring occurs after a disappointing performance in the first six months of its 1992 financial year

Analysts are also concerned about the group's future computer expenditure because, they say, it is still a long way from reaching the technological levels of its major competitors.

In the restructuring process the Perm's name has been dropped from the bank's masthead and the bank has been incorporated as a division of the group. A reason for this could be the shadow placed over the group's interim results by the Perm, when it accounted for most of the group's bad debt provisions. This is reflected in the plans to trim down the administrative operations of the Perm division.

Gone are the days when Bob Tucker headed up the Perm, giving it a distinct character as it broke new boundaries in the black home loan market. But group CE Richard Laubscher says there are no plans to cut back on any part of the Perm's advances book, including black home loans.

All of the four major banks deny moving away from the black home loan market, despite the problems they have experienced with township bond boycotts. Their responses are they do not categorise their lending by race, but rather by risk criteria, and they assert that they are "bankers for all the people of SA". NBS, in contrast, has stated it is focusing on higher income clientele and moving away from black home loans.

Nedcor has given lending criteria a new slant, shifting away from income profiles to attitudinal profiles. Laubscher says studies have shown that different client attitudes determine the choice of bank. For this reason, the target market of the Perm is now seen as the "belongers" — those opting for safety, security and off-the-shelf products. Nedbank will cater for the "astutes", who are less risk averse and look for tailor-made products to suit their own needs.

Boosting home loans will remain the main lending focus this year, ahead of the implementation of new capital adequacy standards in 1995 because home loans have the most favourable risk-weighting. Standard Bank and FNB will be particularly aggressive, because they intend to increase their market share closer to Absa and Nedcor levels. Absa and Bankorp together had 49,2% of the home loan market at the end of March, Nedcor had 24,4%, Standard Bank 15,2% and FNB 11,3%.

Standard group MD Eddie Theron says the bank aims to lift its stake to its "natural share" of 25%. A major drive to increase its home loans began in 1986 because the bank had never been in the market before, he says.

The sector's capital adequacy ratios are looking healthy, and all major banks should comfortably meet the 8% risk-weighted capital-to-asset ratio target in 1995. FNB has the strongest risk-weighted capital position at 9,6%, followed by Nedcor at 7,7%, Standard Bank of SA at 7,4% and Absa Bank, excluding Bankorp, at 5,5%.

A burgeoning informal financial sector has also alerted the formal banking sector to the tremendous untapped potential of the black community's informal savings. As a result several banks, including Standard, NBS and the Perm have created special savings products based on the stokvels, or group savings, concept.

Standard has also created a specialised division to cater for this market — the community services division. "The objective of the division is to identify the financial requirements of the community," Theron says. He adds that the bank's portion of business done in the black community is growing.

When asked whether the creation of Bob Tucker's proposed Community Bank would pose a threat to commercial banks' access to a large and lucrative market, Theron says any banking business has to meet certain basic criteria of risk, and to the extent to which a new bank could identify more ways of providing services to the lesser privileged, could only do everyone good.

Economic fundamentals do not look favourable for banks this year. But even so, with the industry's performance above expectations last year, they have shown themselves to be resilient in the face of adverse conditions.

R30-m Durban property deal

(58)

STAR 9/6/92

By Frank Jeans

Estimated to be one of the biggest-ever property deals in central Durban, the NBS has sold its head office in Smith Street to Old Mutual Properties (OMP).

The price has not been disclosed, but market sources say the building changed hands for more than R30 million.

NBS is scheduled to move to its new headquarters at Kingsmead in October 1993.

- OMP acquired the NBS's Randburg and Roodepoort buildings in 1990.

Oldest bank's profits soar

58

CT 9/6/92

By AUDREY D'ANGELO
Business Editor

THE Cape of Good Hope Bank — the oldest in SA — celebrated its 161st anniversary yesterday by reporting a 48,6% rise in after-tax income for the six months to March 31.

But MD Ron Rundle said that, with no economic upturn in sight, the bank had increased its provision for bad debts from R10m to R11,9m.

In his interim report Rundle says the after-tax income of R8m "represents a satisfying increase of 48,6% over the R5,4m for the comparative period last year.

"Return on shareholders' equity of 39,1% and return on assets of 1,75% were well above average."

Discussing growth in the bank's assets Rundle said residential bonds grew by 34%. Bonds on commercial and industrial property grew by 21%.

But instalment and leasing finance — the bank is involved with industry including transport, construction and manufacturing — showed negative growth, reflecting the state of the economy.

Rundle said he saw no sign of an upturn. He did not believe a further cut in bank rate would help the situation.

"If the interest rate were cut by 2% it would not make a scrap of difference. We need an injection of capital from overseas and a revival of investor confidence for the economy to start growing again.

"But the economic platform must be sound before anything else moves forward."

This, said Rundle, could not be achieved without a stable political situation and the end of violence.

It was also vital that the inflation rate should be brought down. "Any heating up of the economy without that would only fan the fires of inflation. We agree with Stals' monetary stance — although there has been a devastating increase in insolvencies."

Discussing how this had affected the bank, he said its bad debt experience "was well within budgeted levels and no major write-offs are expected due to our stringent control.

"Our focus in this regard will be to minimise write-offs to the bank's financial year-end."

However, he said, further transfers were made to specific and general risk provisions.

Rundle said the higher margins general throughout the industry had contributed to profits having exceeded the forecast, and had made it possible to make increased provision for bad debts.

Deposit taking activity through the treasury and 11 branches "displayed a steady performance in that it expanded well in its selected target markets, making a healthy contribution to profitability and margins.

"The bank benefited from offering consistently good rates as opposed to focusing on attractive month-end terms."

Stals action 'too late' to stop build up of cash

BD aug 9/6/92 (58)

SHERIDAN CONNOLLY

THE Reserve Bank's change in monetary policy, aimed at mopping up excess liquidity in the money market, would be insufficient to prevent a cash build-up in the market, analysts said yesterday.

They said inflows into the market in the next two months arising out of maturing government stock were estimated at R4bn, while interest payments on stocks on issue should amount to just under R5bn.

"If the Bank does its sums, it will realise it will need to find additional ways of preventing the market from moving into surplus," a senior analyst said.

Recessionary conditions had led to a decrease in demand for bank credit, which put downward pressure on market rates. This in turn put pressure on the Bank to cut its key Bank rate, they said. "Dwindling credit demand resulted in the Bank's activities in the market being limited to providing investment outlets for liquid funds rather than making its discount rate policy effective," one analyst said.

Reserve Bank Governor Chris Stals recently said that from August government revenue should catch up again with expenditure and reverse the substantial addition of liquidity to the money market expected from now until the end of August.

Stals said the Bank had consulted the Finance Minister and had decided to provide banking institutions with additional facilities for investment of surplus short-term funds. This was expected to prevent volatile fluctuations in money market interest rates and encourage banks to make better use of Bank accommodation.

Stals said the Bank would not limit itself to the budgeted R18bn provision for sales of government stock and Treasury bills in the current fiscal year. "Additional sales over and above this figure will be made as may be deemed necessary in the light of Treasury needs and general market liquidity conditions," he said.

Analysts said R8,1bn of the budgeted R18bn requirement had to come from the capital market. About R8,5bn had already been raised in the current financial year.

One analyst warned: "Under the Bank's new policy, Stals will just continue to tap stock in the market to drain liquidity. Additional funds raised from the market could be used to finance drought relief programmes, but if the funds just result in government overspending, the overfunding provision would be a bad thing."

Perm to build industrial and commercial portfolio

STAR 10/6/92 (58) [redacted]

Permprop, the property development arm of The Perm, is expanding into the commercial and industrial sectors.

Phillip Chilton-Jones, managing director of Permprop, says: "While we are strongly associated with the residential market and will remain active in this area, our move into commercial and industrial property is in accordance with our strategy of developing a balanced portfolio."

The company is aiming at a 40 percent commercial and industrial involvement in its total portfolio.

Mr Chilton-Jones points out that the residential market is still subject to downward pressure and fluctuations and even the recent cut in the bond rate has not made any substantial difference to the situation.

"We need all-round increased stability before this sector shows any meaningful movement," he says.

Mr Chilton-Jones sees the industrial market as being poised for an upturn and expects positive indicators there as the economy improves.

Permprop will make its commercial and industrial thrust in the main centres and one of its first projects is the Vineyard — an office and retail complex in Stellenbosch.

Graham Bailey, the company's development manager, says: "Research indicates a decentralisation trend from central Cape Town to certain select areas offering prestige location along with room for expansion.

The Vineyard is a low-rise development with 6 000 sq m of office space, linked to a retail component.

The first phase is set for completion by the end of this year.

"Asking rents of R23 a sq m gross for A grade office space compares very favourably with those in Cape Town's CBD and other decentralised nodes."

Term home loans present home should be but there is no transfer duty.

BOE enters home loan market

58

South Africa's oldest company, established in 1838, has ventured forth into the home loans market.

Board of Executors (BOE) had been based exclusively in the Cape, however, around 10 years ago the company started its Transvaal operations.

The company's merchant bank used to be solely an agency money market operation. Last year it was registered as a Deposit Taking Institution, all its assets and liabilities are now on balance sheet, and it is a proper bank.

The bank's treasury operates around the country taking deposits and lending money, mainly to the top corporates and the banks. The bank's corporate finance team is developing into project finance.

BOE Merchant bank managing director Mike Thompson says the bank has decided to move into commercial paper and home loans because it is efficient for the bank from a capital employment point of view.

Mr Thompson admits it is unusual for a merchant bank to become involved in home loans but says it makes sense when considered alongside the company's other operations.

"The group focuses on the high net worth individual in its trust company operations. The home loan is targeted at these individuals.

STAR 10/6/92

"We are looking at the corporate 'made it'. We require the client to have a net worth of more than R500 000 and the property in question should have a valuation, by us, of more than R500 000. Against this we will advance 75 percent as a mortgage."

"We are aiming at the people who run the companies with which we deal," says Mr Thompson.

"The main reason they will come to us is that our rates of interest are, at this point in time, 1,25 percent below the market rate and we intend keeping it there. We are giving people a reward for being a better credit risk.

"The bank does not expect or want bad debts, we haven't had any yet. However, our book is very small. We have set fairly aggressive targets and intend expanding our book by around 10 times its current value, from R30 million to R300 million, in a year. We are ahead of our targets at present.

"We have a very lean infrastructure in our home loans section, our costs are low and we are using a pricing strategy to attract people to us. Many of these people are on our books already through our other services.

"Our standards are high, our vetting very thorough. Once we have all the information at our disposal we will give an answer in 24 hours and brief attorneys within seven days. We are trying to be efficient and slick.

"We are not in the mass market at all. Anything under R500 000 is not really of interest and our average is currently running at R400 000, which is below our target," says Mr Thompson.

He is not unduly concerned about possible competition from the major financial institutions in the bank's chosen market segment. The bank's lean operations allow it still further leeway in determining the rate it offers.

The bank is not part of the electronic banking system so is not able to offer electronic access to the bond account. However, Mr Thompson points out that clients can access the unused portion of the bond by making a telephone call.

Despite the venture into home loans the company does not plan to move further into commercial banking in the future.

Bank of Athens also starts issuing bonds

STAR 10/6/92

A relatively new entry into the home loans market is The South African Bank of Athens, which started issuing bonds last year.

The bank's strategy is to protect its client base by providing a full range of banking services to its existing clients.

Managing director Stavros Androutsopoulos says: "Our clients can now get their home loans directly from the Bank of Athens, rather than having to go to our opposition."

The home loan is designed only for the bank's clients as the bank wants some idea of the borrower's track record and financial background.

However, the bank has very attractive rates to offer the home-owner and it may win some friends from outside its present client base. New clients will have to be with the bank for at least six months before being eligible for a home loan. Where the client has been dealing with the bank on a corporate basis, the waiting period may be waived.

"As we know our clients and the risk, we are able to offer better rates than many other institutions," says Mr Androutsopoulos.

The bank's rates operate on a sliding scale. Loans start from 17,25 percent which applies to the first R80 000 of the loan. As the amount borrowed increases so, in steps, does the rate charged. The rate charged from R80 000 to R150 000 is 17,5 percent.

Mr Androutsopoulos says: "We conducted a survey of our clients' needs and took the average loan requirement and this formed the basis for our scheme.."

Term home loans present home should be duty.

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A safe investment for your surplus funds

STAR 10/4/92.

Putting surplus funds into paying off the bond is probably the most rewarding avenue for investment at present.

Paying extra amounts into the bond used to have the disadvantage that it was difficult to withdraw funds if the homeowner miscalculated.

This all changed with the introduction of AccessBond which was introduced by Standard Bank in 1988.

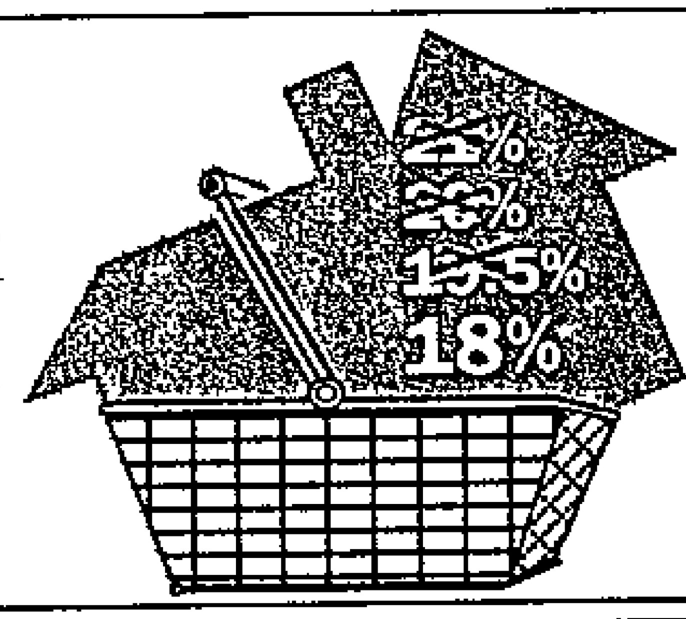
The facility can be used as a special savings account which enables users to put money directly into their bond account. The homeowner benefits by the reduction in the monthly interest commitment on the bond and, thus, increases the payment on the capital sum.

Interest is calculated on the daily balance so users have the advantage from the first day they make a payment.

AccessBond can be accessed electronically via the bank's automatic teller network and surplus cash in the account can be draw in multiples of R1 000 up to three times a month, this is done by electronically transferring money from the AccessBond to the user's current, savings or MasterCard account.

The extra cash paid into AccessBond substantially reduces the interest and repayment period.

Home Loans: More for less



A Star Advertising survey

Despite two cuts in interest rates this year, the property market is still sluggish. However, banks advise that the market will turn around by year end. This survey was compiled by Andrew Gillingham with assistance from members of the mortgage-lending sector.

HOME LOANS

Bargains abound in dull market

STAR 10/6/92. (58)

Despite two falls in the bond rate over the past three months the property market remains dull and good deals are available.

Standard Bank divisional general manager Duncan Reekie says the market is very sluggish.

"Properties are taking somewhat longer to move, particularly those with a larger value, above R300 000. One factor pushing the market is the inflation in new building costs. As new house prices rise the existing housing stock values tend to move up.

"In normal times when the house market is dull, the rental market is strong. However, currently the rental market is weak, indicating that young people who usually rent are staying in family homes," says Mr Reekie.

United/Allied deputy managing executive Archie Hurst says the drop in interest rates should have sparked an upsurge in the property market. However, the anticipated strengthening of the market has failed to materialise.

"I think once there is more positive movement on the political front, there should be more confidence.

"Existing housing stock, if considered in the light of replacement cost, is still very cheap. It could be under valued as much as 23 percent. However, it is unlikely that prices will increase overnight but should show a steady upward trend, says Mr Hurst.

Perm home loans marketing manager Steve Bird says he doesn't believe the gap between new and existing houses can grow too large or new houses will not sell.

"The market is down at the moment, and when turnover starts again I think the prices of existing stock will rise to catch up with the new cost per square metre.

"I would expect the correction to take place, possibly, within a year.

"I think people are sitting tight waiting for the market to move. Once it does buyers will have to move fast because it is bound to take off," says Mr Bird.

The cost of new housing has been rising ahead of existing homes despite the fact contractors are designing and building more efficiently. They are coming down to the more compact home such as cluster housing.

"However, people are getting less for more money. On the other hand, buyers are paying for what they want in terms of security. It is a buying pattern which has emerged in recent times. People will ask what the security is like before they look at the kitchen. So people are paying for the cost structure of putting the developments together and the security aspect," says Mr Bird.

He believes the normal home, which is going through a slump at the moment, should experience a readjustment in expectation of demand. He says the larger, higher priced homes may not be a good bet at present.

Says Mr Bird: "I think the middle range homes are the place to be, they should jump ahead in price.

"I am talking about the average three bed-roomed house. It should be secure and maintenance free. Plot sizes should tend to get smaller."

Invest excess cash in your bond repayments

STAR 10/6/92. 58

The bond rate has fallen yet again and homeowners will have the opportunity to have a little cash in pocket, but it might be a better idea to add the excess to the bond repayment.

United/Allied deputy managing executive Archie Hurst suggests even with mortgage rates at current levels it is an attractive proposition to reduce the home loan as quickly as possible. The added advantage is that excess payments can be withdrawn by arrangement with the bank manager.

"Where do you go to find an equivalent return? The stock market is currently considered over-priced by many experts. Investments in fixed deposits are subject to tax.

"To obtain the equivalent return to paying off your bond, you would have to find a return around 28 percent.

"For people who are thinking of buying, now is the time to buy. There should be a window of opportunity for the next four months. There are some real bargains out in the market."

Perm home loans marketing man ager Steve Bird says in a scenario of rising rates people should immediately cut their discretionary expenditure and pay off as much of their bond as possible, in order to reduce the impact of possible future rises.

"The home is the person's primary asset and they should do everything to protect their investment. It is vital to ensure they do not get into arrears otherwise they are always trying to catch up and it ends up compounding the problem. There is no magic formulae, it is time to tighten the belt.

"When rates are moving down, as they have over the past few months, people have many choices, but we advise people to pay into their bond. Maintain your existing payment and watch the capital sum reduce," says Mr Bird.

At current rates of around 18 percent, people are paying R15,43 per R1 000 of their bond on a 20-year bond. The saving of a one percent drop in rates on R100 000 bond is around R77,37 each month. However, if people maintain the same level of repayment as when the rate was 19 percent the effect is to reduce their repayment period by five-and-a-half years. On a 25-year bond the repayment period is reduced by nine years and those with a 30-year bond will repay their bond 14 years earlier.

Mr Bird says the advantage to the bank in getting people to pay off more of their bond is that the bank then has more security on the loan. The banks then relend the additional funds.

"However, if we can't lend the money again, it is costing us money.

"There is a marginal advantage from the security point of view.

"The disadvantage to the lender is that it wishes to maintain loans and be able to receive its interest payments.

"However, the main reason we are advising people to pay in more into their bonds is that it is the best investment for the individual and we are filling our role as financial advisers. It is a relationship building exercise.

"Another factor is that if they pay off more of the loan they have increased borrowing capacity."

Insurers urged to put funds in housing

STAR 10/4/92

Channelling a miniscule percentage of the Life Offices Association's (LOA) free investment income into a fund for "socially desirable projects" would realise about R2 billion for low-cost housing and labour intensive factories.

So says Issy Goldberg, chairman of the Shareholders' Association, in response to the recent announcement by the LOA that it would invest several billion rands annually in socially responsible projects.

Mr Goldberg said in Cape Town this week he had for some years proposed the LOA become involved in providing funds for low-cost housing and factories, but had beeen told it was not the policy of the life institutions to "give away" policy holders' money or to risk funds entrusted to their care.

However, he believed investment in socially responsible projects had become the fiduciary duty of life institutions, not only to produce good earnings but to protect investment capital against the possible ravages of violence and anarchy.

He proposed the LOA make available a percentage of its free investment income each year to a private sector trust which would channel the money into housing and labour-intensive enterprises.

A small percentage — up to 5 percent — would produce about R2 billion a year from the LOA, whose total managed assets, shares, property and government paper could be estimated at over R200 billion — about the GDP of South Africa.

"Investment on the JSE by LOA members is in some cases three to four times the investment in property (which produces a return of about 10 percent), thus the average return now on total funds committed is between six and seven percent."

But, the government might be prepared to guarantee a return on the LOA's social invesments, which would mean payouts for present policy holders would, on maturity, be minimally affected, Mr Goldberg said.

Ownership education plans

58

Many of the difficulties in which homeowners find themselves is due to a lack of knowledge. Star 10/6/92

First National Bank chief manager home loans and property Andre Latre says: "I believe it is essential to educate people into the benefits and responsibilities of homeownership. I think this should be introduced as part of the school syllabus. It should cover fluctuating interest rates, the responsibility of maintenance, rates and taxes, water and electricity.

"It should make it very clear that once ownership in the property is theirs. They can't go back three years later and say the roof is leaking. They must have all those things looked at in the beginning. The consequences of not paying should be explained."

First National Bank has already started its own pilot education programme for homeowners.

"We have a trainer who speaks ~~four~~ languages and we have groups of potential homeowners in. There are videos and a slide presentation. This is a trial scheme which we are hoping to expand further. The feedback from people who have been on the course has been very positive."

Perm home loans marketing manager Steve Bird says the institution produces a booklet on what is involved in home ownership, initially it was aimed at the emerging market.

"We soon realised there was no such thing as people who know and people who don't. Whether it was a housewife in Sandton or a Soweto resident, everyone is confused.

"In addition, we have produced a desktop flip-chart style presentation programme to show prospective homeowners the various aspects of homeownership," says Mr Bird.

Bad debts on the rise — banks

STAR 10/6/92 [redacted] (58)

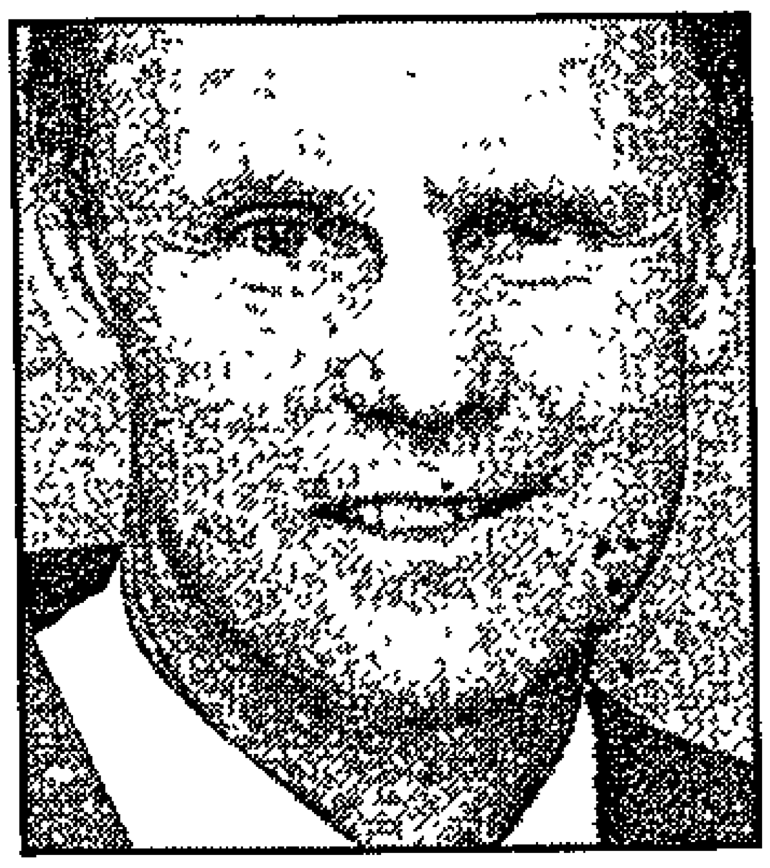
As homeowners are squeezed by high interest rates, inflation and a lack of corresponding salary increases, so the financial institutions' bad debt experienced has increased, though not as much as was feared.

Standard Bank divisional general manager Duncan Reekie says though the bank has been aggressive in the home loan market, it has not done so at the expense of lending standards.

"We may have been aggressive on price, but there has never been a question of lowering lending criteria.

"The only institutions which have been badly burnt are ones that have gone very aggressively into the lower income group market.

"The reason for the bad experience in this area does not necessarily relate to the lending criteria, but rather the changing socio/economic conditions in the country. We are involved in the lower income market. As a national bank we would not exclude any group, other than on grounds of not being credit worthy.



Duncan Reekie . . . Standard Bank divisional general manager.

"What the bank may look at is limiting its exposure in certain areas and possibly discontinuing lending in particular problem areas," says Mr Reekie.

United/Allied deputy managing executive Archie Hurst says arrears in the middle-to-upper-income categories are running slightly higher than experienced historically. Repossessions are also running at around the same levels as in the past.

"People are struggling but they are making their payments," says Mr Hurst.

However, in the lower income level arrears tend to be higher because of unemployment. However, this is in line with past experience.

"Repossessions tend to be concentrated in particular areas. Often this is due to large developments taking place and people who have bought the houses have not understood what is involved in buying a home.

"People realise it is very important to retain their homes. Their first priority is to save their home and they cut back elsewhere rather than lose their houses.

"I don't think that people realised the recession was going to be as deep and as long as it has been," says Mr Hurst.

Perm home loans marketing manager Steve Bird says bad debt on an industry basis is probably worse than it has ever been. More and more is being put aside for bad debt provision.

SA must get used to range of rates

(58)

Star 10/6/92

South Africans have all, in the past, paid roughly the same bond rate, but this is changing.

Today there are a range of rates on offer depending on the individual's particular circumstances. Usually the higher the person's net worth and the larger the bond, the lower the rate.

United/Allied deputy managing executive Archie Hurst says differential rates are on offer to people who take packages with the financial institution and qualify in terms of their net asset worth and income.

In the case of United there are cheque products to which the mortgage bond is linked and for this the borrower gets a reduction in the mortgage rate depending on his income and net asset value.

"These clients must have a cheque account with us. The idea behind it is to cross-sell all the bank's products to a particular client. We want them to do more business with our bank. We look at the total business which they are doing with the bank and can give a reduction in the interest rate. To a degree this compensates for the loss of interest income.

"You want to attract the high net worth individual to the bank, generally, he is a lower risk," says Mr Hurst.

"Obviously you try and tie the client in to the bank by offering a benefit on the mortgage loan and getting his cheque account business so you are building a relationship with the client," says Mr Hurst.

First National Bank chief manager home loans and property Andre Latre, taking a view of the future, believes that over time banks will certainly differentiate their rates further from a base rate.

"The institutions would do this in much the same way as they do with the overdraft rates. The banks would assess the risk of the area and the person, and load their rates accordingly. At the moment because of the sensitivity of home ownership this is not happening," he says.

Perm home loans marketing manager Steve Bird agrees that differential rates are probably here to stay.

Says Mr Bird: "I think it may cause some confusion in the market place while the concept settles in.

"Basically, you have the base rate and then under and over-base rates. The selection of the rate offered to the homeowner is going to be more on the individual. This is something that didn't come into the lending exercise in the past.

"In the building society days we were very concerned about the value of the property, but as long as you thought you could pay and you had a deposit, you were not much of a factor. Now in a totally different economic situation, we have to look at not only the property, the area, the quality, resalability, but also at the jockey. This is very much in line with bank overdraft lending.

"Most of the former building societies are doing the same as we are, creating risk management departments, and a whole new lending policy is being followed.

"It is standard banking practice and we in the building societies are going to have to get used to it."

In the past people who took larger mortgages, which offer a higher margin to the lender because of the lower administration costs, and who were low risk clients, were being charged the same or even higher rates than the smaller, high cost and risk client.

"It is becoming a risk-lending analyse. We are going to have a multitude of different rates and lending criteria," says Mr Bird.

In the United States differential rates have long been used and the market mechanism has adapted. US homeowners often use mortgage brokers who shop around for the best rates in much the same way as an insurance broker operates in South Africa.

If the range of differential rates expands, as many members of the industry believe it will, mortgage brokers could find a niche in this country.

[redacted]

Bank Rate unlikely to fall in near future

Star 10/6/92

SS

Homeowners experienced another welcome drop in the bond rate this month, the second in three months.

However, the Reserve Bank has signalled that it is not ready to bring down the bank rate and further cuts are unlikely until later in the year.

United/Allied deputy managing executive Archie Hurst says: "The financial institutions have dropped mortgage rates one percent below prime but all indications are that the Reserve Bank will not follow their lead and reduce rates at this stage."

Mr Hurst says the institutions have every intention of keeping the rates at their present level.

"It depends on the cost of money.

"Liquidity in the economy is going to build up between July and August but it appears to be the Reserve Bank's intention to manage the money market through this period and prevent any immediate drop.

"In this scenario it is possible that the bank rate might fall one percent in October/November.

Archie Hurst . . . United?Allied deputy managing executive.

"The institutions might follow this fall, bringing the mortgage rate down another percentage point," says Mr Hurst.

Mr Hurst says that the fall in rates below prime has been brought about because the financial institutions have all wanted to build their mortgage loan book because of the benefits it has on their capital ratio and also because of a lower cost of funds.

"There is a lot of competition out in the market.

"However, even this fierce competition is unlikely to cause rates to fall any further without a drop from the Reserve Bank," warns Mr Hurst.

Perm home loans marketing manager Steve Bird says there are other reasons for the institutions bringing rates down.

"We are concerned about the cost of funds. It doesn't help us when rates are high, it makes our job more difficult.

"If rates are low, both the client and the mortgage lender benefit.

"We are worried about the stretched ability of clients to pay.

"Inflation is rising and peoples' incomes have not increased at the same rate.

"The market is stagnant and it needs regeneration. If rates come down and the market picks up it helps everybody.

"This starts the buying, building and employment cycle.

"It is not simply a question of the home owner smiling, the whole economy is affected so it is a good move to make.

"However, this is the second move in three months where the financial institutions have led the rate downwards without a corresponding drop in the prime rate," says Mr Bird.

He says that as the marketing manager of home loans he would like the rates as low as possible because this would suit all the clients he would like to deal with, stimulate the economy and the home building sector.

However, he points out, there is a very important other side to the issue.

Investors need a real rate of return above inflation.

Says Mr Bird: "We owe them a return and if the rates come down too far deposit rates would have to gear down accordingly.

Seeff defies a quiet market by opening 10th Reef branch

(58)

BDay 10/6/92

SEEFF Residential Properties has opened its 10th branch on the Reef, in Williams Road, Norwood.

Seeff entered the Reef market nine months ago when it bought O'Riain Estates in Sandton, Golf Estates in Johannesburg and Klooster and Steyn in Pretoria, after selling 25% of its equity to the Absa group.

The new branch will cover the area from Yeoville to Glenhazel and Houghton, Dunkeld and Melrose to Norwood. It will fall under Mannie Simon and employ 22 agents.

"We will be running about 20 show houses a week and have launched an extensive marketing programme for the branch. Initial results have indicated the new branch was a good decision," chairman Lawrence Seeff said.

A small block of flats had already been sold for R940 000, and a house in Westcliff for almost R1m. "Our branch will have a target of R6m a month despite the quiet state of the market," Simon said. However, sellers needed to ask realistic prices to see their properties sold.

Seeff said the group intended to open offices in Natal and the eastern Cape in the next year to help it achieve its goal of residential sales of R1bn a year.

Two established branches also achieved record monthly turnovers in April. The West Rand branch, with its office in Honeydew, had confirmed sales of R4,4m. The most active suburb was Weltevreden Park, where an agent closed nine house sales of under R200 000 in a month.

Branch manager Linda Erasmus said: "Buyers are looking for realistic prices."

The Greenside branch reported a R6m sales turnover, largely because of the positive referendum vote.

New move on loans for black housing

Bloay 10/6/92

PETER GALLI

FINANCIAL institutions are prepared to consider granting bonds in problematic black areas if they are convinced the risk factor is reduced.

Nankan Real Estate, established five months ago, will, along with many other agencies, sell some of Absa's and NBS's repossessed properties in black areas, MD Vino Nankan said.

"The institutions have guaranteed bonds for these homes as they are already exposed and have undertaken to consider the refinancing of low-cost housing by granting bonds for other homes in black areas," she said.

An NBS source said repossessed properties were made available to a number of estate agents for resale as the building society needed to resell these properties.

Selective

"This is normal business practice and it is quite likely we will consider further funding in these areas if the agent proves the risk factor can be reduced," he said.

Allied/United operating executive Nallie Bosman agreed, saying Absa would like to resume normal lending in problematic areas, and would do so if the problems could be resolved.

"We have never withdrawn completely from the market and still lend on a selective basis. However, our focus is naturally on areas where problems are not experienced," he said.

Nankan hoped to bring owners, civic and financial institutions together to try to negotiate an alternative to evictions.

"Absa and NBS have indicated that they are prepared to take a loss that they will then write off on some properties," she said.

"Their primary goal is not to evict home owners, but rather to find a compromise. I believe I am able to bring all the parties together and we can find an amicable solution to some of these problems."

The man in the street was suffering as, while there were buyers for these properties, the fact that bonds were not readily available made it difficult for buyers to acquire them.

Also, there was no guarantee that another bond would be granted for the property should the buyer want to sell it at a later stage. The future of lending lay in the black market and this needed to be addressed now to avoid problems becoming more severe.

"Most black buyers tend to fall into the R100 000 to R200 000 price range, and we are seeing good interest in the areas close to Soweto," Nankan says.

However, most black buyers were not interested in buying a townhouse or flat, but were looking for a house with its own garden.

"I have had discussions with several of the established estate agencies about ways in which we can work together. They have a far greater exposure in the traditional white areas, and I understand the black market," she said.

Quick response bond applications launched

Bloay 10/6/92

ANDREW KRUMM

HOMEBUYERS looking for a bond can now apply electronically and receive an answer from a financial institution within one day, according to Comprehensive Property Services (CPS) MD Stefan Swanepoel.

The new system, known as the "24-hour bond approval in principle", came on line on Monday. It links buyers — through subscribing estate agents — to seven financial institutions.

"All the buyer needs to do is complete a shortened application form, which the estate agent then sends off electronically to the buyer's bank," Swanepoel said. Should the answer be negative, the client can reapply to any other bank by sending the same electronic application.

The seven participating banks — First National, Nedbank, Standard, NBS, the Perm, Boland Bank and the EP Building Society — undertook to respond via CPS and the estate agent within 24-hours of receiving an application, Swanepoel said.

"Market interest in the system is high, since it does away with weeks of delay inherent in past bond approval systems. More than 750 estate agencies, who will be charged a R200 monthly user fee, have requested that the service be installed."

Users will not, however, be charged transaction costs, Swanepoel said.

"Our programmes were developed to minimise the costs to subscribers and can be used on any IBM compatible PC or MS-DOS system.

"To accomodate smaller agencies, our programmes can also function on the Telkom 'minitel'."

Swanepoel said it was hoped the service would eventually be extended to all who dealt in the buying and selling of property.

Although CPS was wholly owned by the seven participating banks, he said, it was not a profit-making venture.

"Bond application is only one of about 50 functions identified by the owner-banks in an effort to streamline the market's trading, legal and financial hurdles into an efficient network," Swanepoel said.

A vital role played in creating employment

B/Day 10/6/92

SAPOA provides employment for some 4-million people in the formal economy — about 75% of those employed outside agriculture — if employment in the services, retail, industrial and construction sectors are taken into account.

Sapoa president Derek Stuart-Findlay says Sapoa members therefore play a vital role in the generation of employment and international evidence has shown that only the cities can generate work on the scale required to meet the huge population rises in the developing countries.

"Everybody is looking for that first job that will enable them and their families to start climbing the ladder of economic fortune. The activities of our members play a crucial role in this process," he says.

The commercial property industry represents about 20% of SA's total gross domestic fixed investment and consists of three major forms of investment — the office, retail and industrial markets.

The office market is occupied by the services sector of the economy. This sector, which includes finance, trade, tourism, communication and government, represents 50% of gross domestic product (GDP).

"Locally, the services sector employs 1,5-million people. The office market houses this sector and I believe that our developers have acted responsibly during the last recessionary period in relation to similar conditions in many Western economies," he says.

Distribution

An outstanding characteristic of the local economy is its excellent distribution system. In many parts of SA, competition between retailers is as intensive as anywhere in the Western world.

In metropolitan areas today there are about 16 regional centres each with a gross lettable area of more than 45 000m², 30 hypermarkets with an average area of 20 000m², more than 50 community centres averaging 17 500m² and hundreds of convenience and "high street" city and town centres.

"The challenge is now to provide appropriate facilities in the less affluent suburbs. The potential is mind boggling. We face a situation where black South Africans represent some 75% of our country's population.

"Although only about 57% of this group is urbanised, their spending power already represents 41% of the total," he says.

Some 760 000 people are employed in the local formal retailing sector and there is no doubt that the retailing industry will continue to be a major generator of employment, wealth creation and distribution.

Sapoa members participate in this process by funding and developing structures within which retailing activities take place.

Members also manage a great proportion of the properties used for manufacturing and warehousing. The strength of this sector has been one of the surprises of the last few years of the recession, he says.

"With indications of renewed stability in our capital account and with the

Sectional title needs to change with the times

SAPOA's sectional title and group housing committee has been at the forefront of new legislation.

It has had prominent industry figures contributing to its involvement with the Sectional Titles Act of 1971, which has been replaced by a new, amended Act, says chairman Arthur Schoeman.

Sectional title is a "living thing".

The committee continues to make recommendations to government regarding amendments to the Act where practical issues arise, he says.

It has also been involved with the Surveyor-General and the Deeds Office in an attempt to smooth out practical administrative difficulties.

B/Day 10/6/92

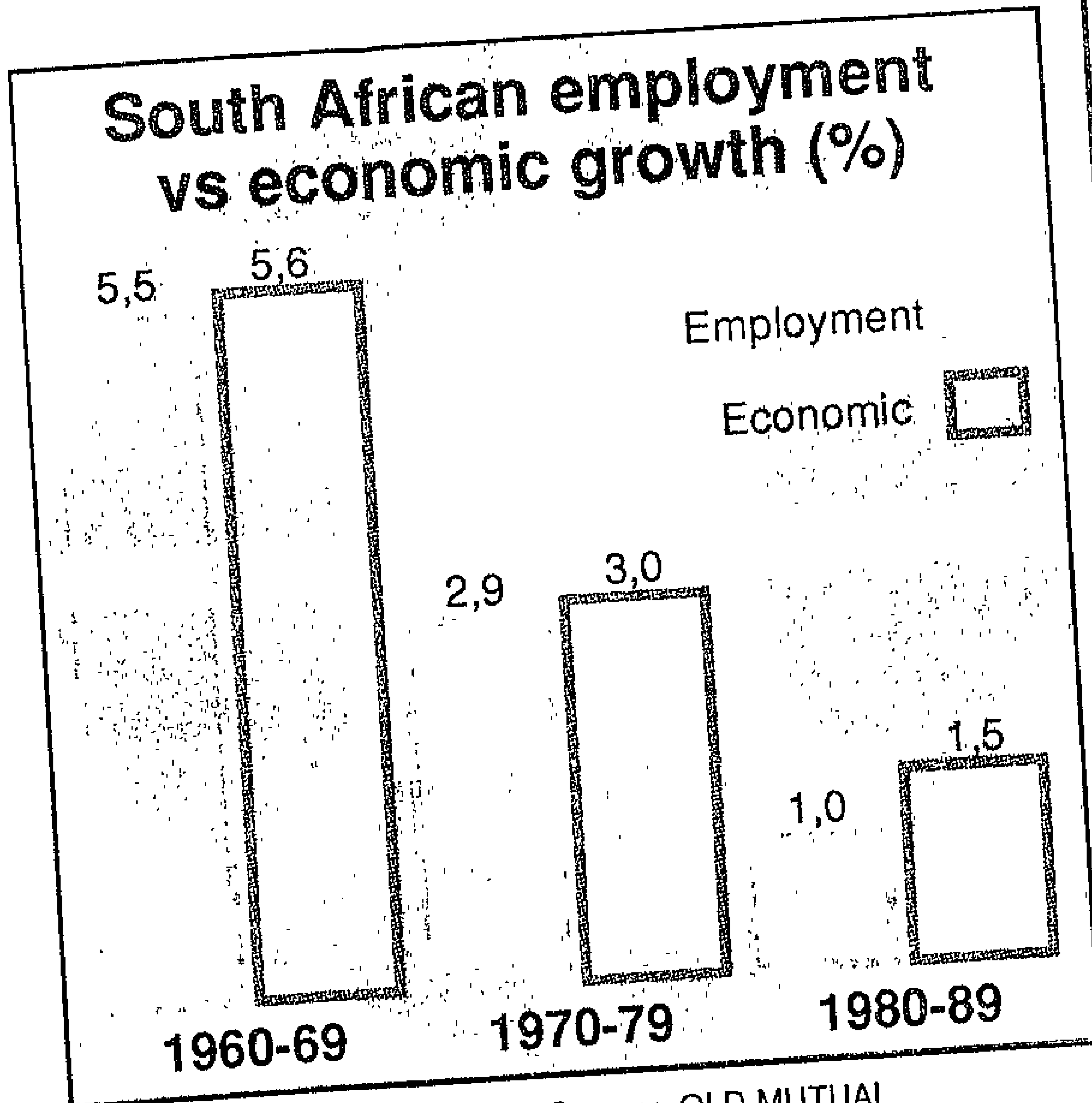
Examines

The committee examines administrative difficulties that arise from the Act. "There is seldom much wrong with the law; the problem lies in administration," he says.

Good relations have been established between the private and public sectors, and regular meetings are held with local authorities to iron out any problems.

The committee tries to examine matters such as cluster and group housing in a broad context. It is producing guidelines for the development of cluster housing. Regular seminars are to be held on issues relating to these areas.

"We hope the guidelines will serve as a practical guide for developers. We are involving experienced developers and town planners and will highlight their positive and negative experiences in this regard," Schoeman says.



Graphics: RUBY-GAY MARTIN Source: OLD MUTUAL

rebuilding of gold and foreign exchange reserves, interest rates should continue to decline slowly.

"As a result, we are likely to see increased investment in manufacturing. Given a reasonable investment scenario, offshore investors could start setting up new manufacturing plants," he says.

Apart from the jobs created (190) by businesses housed in office blocks, retail outlets and industrial developments, the commercial construction industry is also a major employer of labour, with some 400 000 people employed.

During the 1960s, local economic performance at an average of 5,5% a year compared favourably with the rest of the world. During the 1970s SA grew at only 3% a year compared with 3,5% for the developed countries and 5% for the developed world.

"The 1980s were disastrous for SA, which grew at only 1,5% a year while the rest of the world grew at 3% to 3,5% a year on average," he says.

Border gets results on rates action

SINCE two members of Sapoa's Border region committee took up the issue of inequitable municipal rates with the East London city council, Sapoa has been advised that sewerage rates are being reviewed.

B/Day 10/6/92

The members have also objected to the council's decision to reconsider development of the Clarendon Gardens site as a shopping centre. "As a result, the committee has prepared a statement reflecting its policy towards urban development in the area," says chairman John Clogg.

About 40 Sapoa members have offices in the Border region. (58)

Regional functions held during the year included an address by president Derek Stuart-Findley, a discussion by Erwin Rode on the prognosis for the local property market and addresses on the local and national property scene and squatting implications.

(38)

Collaboration

"The co-ordination and distribution of a rental survey was undertaken in collaboration with the local Institute of Estate Agents."

Details of vacancies in the East London CBD were published in Sapoa's office vacancy surveys released in August and November last year and in February and May this year.

After the CBD seminar last May, a follow-up meeting was organised with representatives from the East London municipality, Spoornet and Portnet.

"The meeting indicated that a lot had been done . . . regarding issues of concern to property owners, with closer liaison between Propnet and the East London municipality an area of some concern to Sapoa."

"I'm sure ab

B/Day 10/6/92

Sapoa

(58) whole page

Discretion needed in ensuring SA's growth

IT IS up to local developers, through the co-ordinated efforts of Sapoa, to ensure SA's sustained and continued growth is undertaken with discretion, says Ovland Real Estate director Pat Kelly.

"Since the inception of Sapoa some 25 years ago, Ovland has played a role in the continued growth and development of the organisation alongside many of the country's major property players," he says.

Ovland applies a significant level of responsible management and foresight in planning and executing its projects.

This bodes well for future generations, which will have to live with these developments. Aesthetics and environmental concerns rank high on the list of responsibilities.

"Overseas speakers are often brought out to address members and give fresh perspective. While the local market has developed to cater for its own needs, we are always able to benefit from sharing other peoples' experiences," he says.

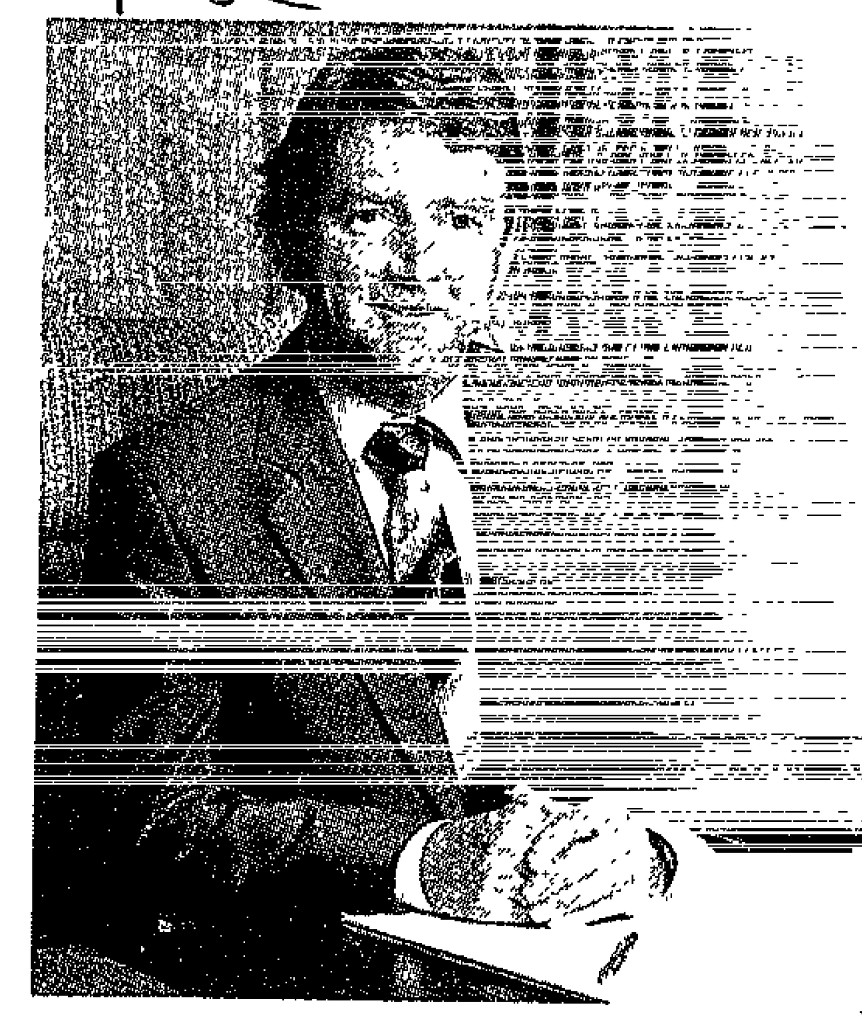
Preservation of old buildings is part of Ovland's and Sapoa's belief in responsible development. The Avalon in Cape Town and the Koedoe Arcade in Pretoria are examples of renovation within historical surroundings.

"We will continue to work closely with Sapoa and its members in years to come, striving to achieve even higher standards of property development for the future."

Concor Property Developments manager Ian Clark says Sapoa offers an opportunity for the fertilisation of ideas and a forum for their exchange.

"Members are given the opportunity to learn from and share in other members' knowledge. In simple terms, it could be said that Sapoa offers this free exchange to all of those in the industry," he says.

Developments in the industry are imparted as soon as they happen and people are able to learn from others' successes and failures. In many cases, members are given new ideas or fresh direction.



NOEL MILLS

Organisation takes a peek into the future

B/Day 10/6/92 (58)

NOT content to rest on its laurels, Sapoa continually strives to be objective about its function, its role in the market and its weaknesses.

Its executive committee recently held a conference in Cape Town entitled Sapoa and the Future — the second session of its kind in the organisation's history.

Those who took part were given the opportunity to examine where Sapoa stood, which market segments it was involved with and which customer groups it served.

Protect

It was agreed that Sapoa was in business to serve and protect the interests of commercially directed property ownership.

Sapoa president Derek Stuart-Findlay says: "While Sapoa is in business to serve the interests of its members, it is actually the members themselves who provide these services."

Late last year executive director Brian Kirchmann visited about 15 property-orientated associations abroad and made valuable contacts.

"There are very few associations that offer the same broad range of activities that Sapoa does," he says.

Another highlight was a Sapoa shopping centre tour of Europe. An interesting point is that local shopping development and the level of expertise in Sapoa is comparable with the best elsewhere, Stuart-Findlay says.

Delayed

Looking to SA's future economic situation and factors that could affect the country during the latter half of the decade, he says the business cycle recovery for 1992 has been delayed by drought.

He says: "1993 will be relatively better after this year's drought and 1994 should be good. After that it depends largely on what happens in the world economies, particularly the growth economies."

Germany will battle for some time to cope with integration of former East Germany, with huge banks in Japan starting to reflect strain.

Around the world, attempts are being made to pull back international funds in an attempt to reconstruct balance sheets.

In the US, total debt, including debt to Japanese banks, is about $14-trillion. Savings and loans institutions have collapsed, putting strain on the banking sector, with many US banks appearing to be technically insolvent, Kirchmann says.

"However, the fiscal discipline exercised by the Reserve Bank over the past few years may prove to be a blessing in disguise.

Favour

"The forced repayment of debt, sanctions and the inability to borrow funds abroad should now work in our favour.

A huge advantage of the changed SA situation is that precious capital no longer has to be wasted on its Sasols, Armscors and Mossgases.

It should be possible to redirect this to much needed infrastructure.

Finances better than ever, says treasurer

B/Day 10/6/92 (58)

SAPOA's finances are in a healthy state, possibly better than they have ever been, says honorary treasurer Noel Mills.

"The funds are derived from membership subscriptions, educational activities, interest on accumulated funds and revenue from publications and advertising. Its expenses are limited to salaries and the associated costs of maintaining offices," he says.

Sapoa believes that subscriptions have to be sufficient to allow for a break-even situation before income from other sources is taken into account.

The profit from educational and other activities is ploughed back into services for members.

Membership over the 25-year period of the association's existence has risen from 32 at the first annual meeting to more than 800 at present.

"Management policy has been to ensure a surplus of funds over existing needs and, as such, Sapoa is abl[e] to undertake funding special projects. It has vested a small amount property unit trusts about R500 000 in equi[ty] unit trusts," Mills says.

An association such [as] Sapoa needs flexibility almost immediate ac[cess] to its funds. It has set goals regarding the allocation of its spare resources.

These include help[ing] education in the industry using professional services where necessary and financing special projects approved by the executive committee.

Industry mouthpiece launched in the Cape

B/Day 10/6/92 (58)

SAPOA was started in early August 1966 when about 33 representatives of the largest property-owning organisations gathered in the Cape to found the body that was to become the property industry's mouthpiece.

The need for a single unified body that would have strength in negotiations on legislation, controls, regulations and procedures was identified, all of which were then dictated by government and other bodies, says founder chairman Andries van Riet.

Categories

The initial steering committee recommended that members be classified into categories, each with a councillor. Six categories were identified and provision made for a further four.

"Professions and estate agents were initially not admitted as members, although individual firms owning properties could join. Not long after, however, all professions involved in the industry were admitted and soon became very active," he says.

The announcement that government was to extend rent control to include all residential buildings built before May 1966 saw many new members join.

A joint committee was formed with other concerned bodies to prepare representations before the next parliamentary sitting.

Fierce

This controversial and highly sensitive issue was a major issue for Sapoa for many years and is still subject to fierce opposition from the industry.

Government recently extended rent control for a further year, which evoked fierce criticism from agents.

Executive president Brian Kirchmann then said the issue needed to be sensitively handled, taking both the developers and tenants into consideration.

Contact was established with government and semi-government bodies within the first year and a parliamentary committee was established in Cape Town to liaise with key people.

(58)

Regional committee identifies key areas for debate

BDay 10/6/92 (58)

THE identification of key issues facing members and the opportunities these afford them in a post-apartheid SA is one of the main objectives of Sapoa's Southern Transvaal regional committee.

Chairman George Skinner says this is achieved by regular communication, members' meetings and educational activities like tours and seminars.

Some of the key issues that the region has identified as being of value to its members include:

□ Exposing members to the reality and needs of all relating to the commercial property industry in a post apartheid SA,
□ Developments in urban and regional planning, transportation, urban management and government, industrialisation and housing development options for the land reform debate; and
□ Property education and dialogue with representatives from cities and towns in the region.

"We see our role as one of service to our members by regular communication. This is achieved by regular members' meetings and seminars directed at informing members of trends and developments within the region," he says.

Regular newsletters are also distributed in which information topical to their performance as property professionals is disseminated for debate.

Crucial issues affecting members are debated and, if necessary, referred to Sapoa's executive committee should they be of national significance or debated in a members meeting or seminar if of local importance.

One of the major challenges facing the industry is providing professional property input into the negotiating process at the regional, metropolitan and local government level.

This covers areas such as taxation, planning, development and job creation and support in creating wealth and growth in a free enterprise system.

Special visits by members hosted by the larger municipalities to understand their needs, and incentives for development are also being developed.

"For the remainder of 1992, we will also be presenting members' meetings and seminars debating the Civic Spine project (in Johannesburg) and property education options available to students," Skinner says.

The committee has also interceded with municipal planning and building survey departments to improve their quality.

Lawyers 'must get involved' in property issues

MOST lawyers deal with property to some degree so if they get involved in all aspects of it, they and their clients will benefit, says Silberbauers Attorneys partner Anton Musgrave.

"Interaction with people involved in all the other aspects of property improves your awareness of what is happening in the industry, and this knowledge is always useful," he says.

Being involved, through Sapoa, in draft legislation before it is published serves two purposes. It allows members to submit comments and objections to proposals.

Knowing what is in the pipeline can be invaluable in terms of understanding and implementation.

Sapoa is also involved in land legislation.

It plays a role in ensuring that good, effective laws are put in place.

BDay 10/6/92.

Specialising

"I belong to Sapoa as I am a property development practitioner, specialising on the property development side rather than just in conveyancing.

"The firm identified the need to provide specialist services over and above conveyancing," he says.

Sapoa, through its members, is a leading developer, and needs to specialise in all areas. This allows professional people to play a part in the industry's future.

"While Sapoa is concerned with the industry as a whole, regional representatives play a major role, concentrating on local issues and liaising betweeen government, provincial authorities, members of the industry and the public.

"Its function is to smooth the feathers that might be ruffled by these bodies on particular issues," Musgrave says.

Sapoa's western Cape regional committee, of which he was recently elected chairman, has been involved in issues like facilitating proposals for road structures and assisting in the drawing up of guidelines on the disposal of state land.

The reintroduction of enhancement levies is being examined.

It is an issue Sapoa will oppose through various channels.

(58)

Strategic

Sapoa will also become involved in a number of strategic issues in the future.

Its role is to facilitate an environment that is conducive to sound property development.

"The organisation is alert to events in the general political and economic environment and has recognised that it needs to change and adapt," he says.

Proper[...] major

BDay

ONE of Sapoa's major contributions to the property industry is its advancement of property education.

It has continually sourced the market for its needs and adapted and expanded its courses to cater for this. Five courses are offered at present, says executive director Brian Kirchmann.

"The best known of the courses is the property development programme, which is now in its 17th year.

"It has released more

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GEORGE SKINNER

Silver jubilee convention continues tr

B Day 10/6/92. (58)

THE 25th annual Sapoa convention continues a long tradition of conferences held by the organisation to bring members together to examine pertinent and controversial issues.

Early in the second year of its existence, a conference was planned.

"Conference preparations proceeded and prominent speakers were arranged for two panel discussions. A paper was prepared by senior NBRI officials and the conference was opened by Planning Minister Carel de Wet," says founder chairman Andries van Riet.

The one-day conference was attended by more than 200 delegates. The total cost was R1 237.

Trebled

Membership had trebled and, after starting with a R28 000 budget, the year was ended without a deficit.

This year's conference, which opens today, is being held at Sun City.

A number of high-profile speakers will address the conference on a wide range of issues. It will be opened by DP leader Zach de Beer. Sapoa president Derek Stuart-Findlay will also address delegates.

One of the highlights of the conference will be the examination of ideology and property and the possible redistribution of land.

PAC secretary-general Benny Alexander will be part of an economic panel on this subject.

Frankel Max Pollak Vinderine economic and investment consultant Mike Brown will present an economic overview

Tax, new regional government structures, changes affecting property

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ᵓroperty education a najor contribution

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"It has released more than 1 000 participants into the industry," he says.

The programme is a joint venture between the University of Cape Town Graduate School of Business and Sapoa, and is held in Cape Town over two weeks in July and August of each year.

It caters for 64 participants and covers the principles of finance, valuation and property law, negotiations, marketing and management.

Draws

Designed for executive management, the "live-in" course draws participants from all disciplines of the property industry.

The next bi-annual property executive programme will be run in September.

The course caters for about 40 participants, drawn mainly from senior executive positions.

Matters like the local political and economic climate and the international scenario are examined.

The course is designed to encourage group participation, Kirchmann says.

As a result of investigations by the industry among school leavers and the public, a three-year property course has been devised.

Starting in January 1993 and administered by Technikon RSA, the course intends to promote vocational training.

"This is the first time that a local Technikon is presenting formal tertiary education in real estate, and we hope that the course will eventually be developed so it can be presented by any university," he says.

A new basic property programme will be launched in October.

It will be an introduction to property, covering elementary economics, law, marketing, finance and a basic understanding of the industry.

The property introductory programme was run for the second time last month. It is designed to improve participants' basic knowledge of the many aspects of the industry.

Shopping centre management and development courses, planned for August this year, will be handled by Chris Cloete from the University of Pretoria. Each course will be limited to 25 participants, will be three days in duration and an examination will be written at the end.

The shopping management centre course participants will have to carry out a spot analysis of a shopping centre.

Background research of the viability of development on a possible site will also be required.

It is planned that both courses will have to be passed before acceptance is granted for a proposed two-year course.

"One of our aims is to continue to identify the educational needs of both the industry and the general public and to find ways of catering for these.

"Our courses have been innovative, and we intend to go from strength to strength in this sphere," Kirchmann says.

Industry has had to adapt to radical technology change

B Day 10/6/92 (58) (58)

BUILDING industry hams says.

tion, Kirchmann says.

As a result of investigations by the industry among school leavers and the public, a three-year property course has been devised.

Industry has had to adapt to radical technology change

BDay 10/6/92

BUILDING industry changes during the past 57 years have been revolutionary.

A gentleman's agreement is now defunct terminology and restrictive clauses are the order of the day, says one of Durban's most senior quantity surveyors, Nathan Abrahams, who celebrates his 75th birthday this month.

"A minefield of contractual legalities has come into being because of the massive escalations in the building price index — a R20 000 project in 1935 would cost about R1,8m by today's standards," he says.

A full-time consultant for Natal's largest firm of quantity surveyors, Walters & Simpson, Abrahams says compiling tender documentation was a laborious process. Procedure had to be followed to the letter.

Today the profession is far more open to lateral thinking, and computers have oiled the wheels of progress.

By the early 1950s, modernisation of building technology came into its own, and Durban's first highrise buildings began to mushroom on the city's skyline.

"The accent in the construction industry was towards labour-saving procedures.

Affected

"This affected the number of skilled artisans," Abrahams says.

"Apprenticeships shortened and the ranks of highly skilled workmen thinned out alarmingly."

Spiralling costs within the building industry and the lack of skilled workmen led to more simply styled buildings.

In recent years the industry has been forced to adapt to many changes, including conversion to metric measurements and the introduction of VAT.

"The modern era has given rise to a host of specialists within the building industry, with airconditioning, lift technology, electrical systems, safety features and alarm systems standard features in highrise buildings," Abrahams says.

More university graduates have moved across to work with building firms in project management, and there is generally a higher level of professionalism in the industry.

Graduates

Two out of every 10 university graduates join the profession.

The balance join building firms and property development companies.

"The good fellowship that exists within the profession has been an important constant to me in my 57 years with Walters & Simpson.

"The dog-eat-dog syndrome, so rampant in today's business world, has not become a trait of our profession."

Silver jubilee convention continues tradition

B Day 10/6/92 (58)

GEORGE SKINNER

THE 25th annual Sapoa convention continues a long tradition of conferences held by the organisation to bring members together to examine pertinent and controversial issues.

Early in the second year of its existence, a conference was planned.

"Conference preparations proceeded and prominent speakers were arranged for two panel discussions. A paper was prepared by senior NBRI officials and the conference was opened by Planning Minister Carel de Wet," says founder chairman Andries van Riet.

The one-day conference was attended by more than 200 delegates. The total cost was R1 237.

Trebled

Membership had trebled and, after starting with a R28 000 budget, the year was ended without a deficit.

This year's conference, which opens today, is being held at Sun City.

A number of high-profile speakers will address the conference on a wide range of issues. It will be opened by DP leader Zach de Beer. Sapoa president Derek Stuart-Findlay will also address delegates.

One of the highlights of the conference will be the examination of ideology and property and the possible redistribution of land

PAC secretary-general Benny Alexander will be part of an economic panel on this subject.

Frankel Max Pollak Vinderine economic and investment consultant Mike Brown will present an economic overview.

Tax, new regional government structures, changes affecting property and an overview of the different markets are among the areas to be covered

A trade exhibition, at which Sapoa members can showcase their products and services, will be held during the convention

Display

Building Merit Award entries will also be on display for the duration of the convention.

A number of extra-convention activities on offer include four property tours of The Lost City, a talk on the birds of the Pilanesberg and a wine tasting A Metboard-sponsored golf tournament has also been arranged.

'ty education a contribution

10/6/92. (58)

1 000 participants into ıdustry," he says.

ɘ programme is a venture between the ɜrsity of Cape Town uate School of Busiınd Sapoa, and is held ıpe Town over two ɜ in July and August ɔh year.

ːaters for 64 partici- and covers the prin- of finance, valuation roperty law, negotia-, marketing and gement.

Draws

ɜigned for executive gement, the "live-in" e draws participants all disciplines of the rty industry.

: next bi-annual prop- ·xecutive programme ·e run in September. · course caters for t 40 participants, ı mainly from senior tive positions.

ːters like the local ːal and economic cli- and the international

Starting in January 1993 and administered by Technikon RSA, the course intends to promote vocational training.

"This is the first time that a local Technikon is presenting formal tertiary education in real estate, and we hope that the course will eventually be developed so it can be presented by any university," he says.

A new basic property programme will be launched in October.

It will be an introduction to property, covering elementary economics, law, marketing, finance and a basic understanding of the industry.

The property introductory programme was run for the second time last month. It is designed to improve participants' basic knowledge of the many aspects of the industry.

Shopping centre management and development courses, planned for August this year, will be handled by Chris Cloete from the University of Pretoria. Each course will be limited to 25 participants, will be three days in duration and an examination will be written at the end.

The shopping management centre course participants will have to carry out a spot analysis of a shopping centre.

Background research of the viability of development on a possible site will also be required.

It is planned that both courses will have to be passed before acceptance is granted for a proposed two-year course.

"One of our aims is to continue to identify the educational needs of both the industry and the general public and to find ways of catering for these.

"Our courses have been innovative, and we intend to go from strength to strength in this sphere," Kirchmann says.

Spirit of service stems from the early enthusiasm

DURING its formative years, Sapoa was faced with opportunity, demands and meetings of diverse but complementary matters, says Arthur Fair, who served as its second executive director between 1968 and 1971.

The property industry was coming into its own, and a spirit of service to the industry had to be created out of the enthusiasm.

"This happened not through the efforts of any individual but through common agreement on the necessity for a corporate structure. A number of issues had to be confronted and resolved," he says.

Rent Control and the Sale of Land on Instalments Bill were examples of this.

Three fundamental strategies required constant attention in the early days.

The first was achieving balanced membership growth while striving for committed support of the association's goals and financial stability.

Secondly, legislative, regulative, economic and policy pressures required co-ordination and persuasive approaches to achieve results for the industry.

Stimulated

Lastly, a need for education in all aspects of property development and management emerged. Latent financial and imaginative development goals were diverse and lacking in cohesion, he says.

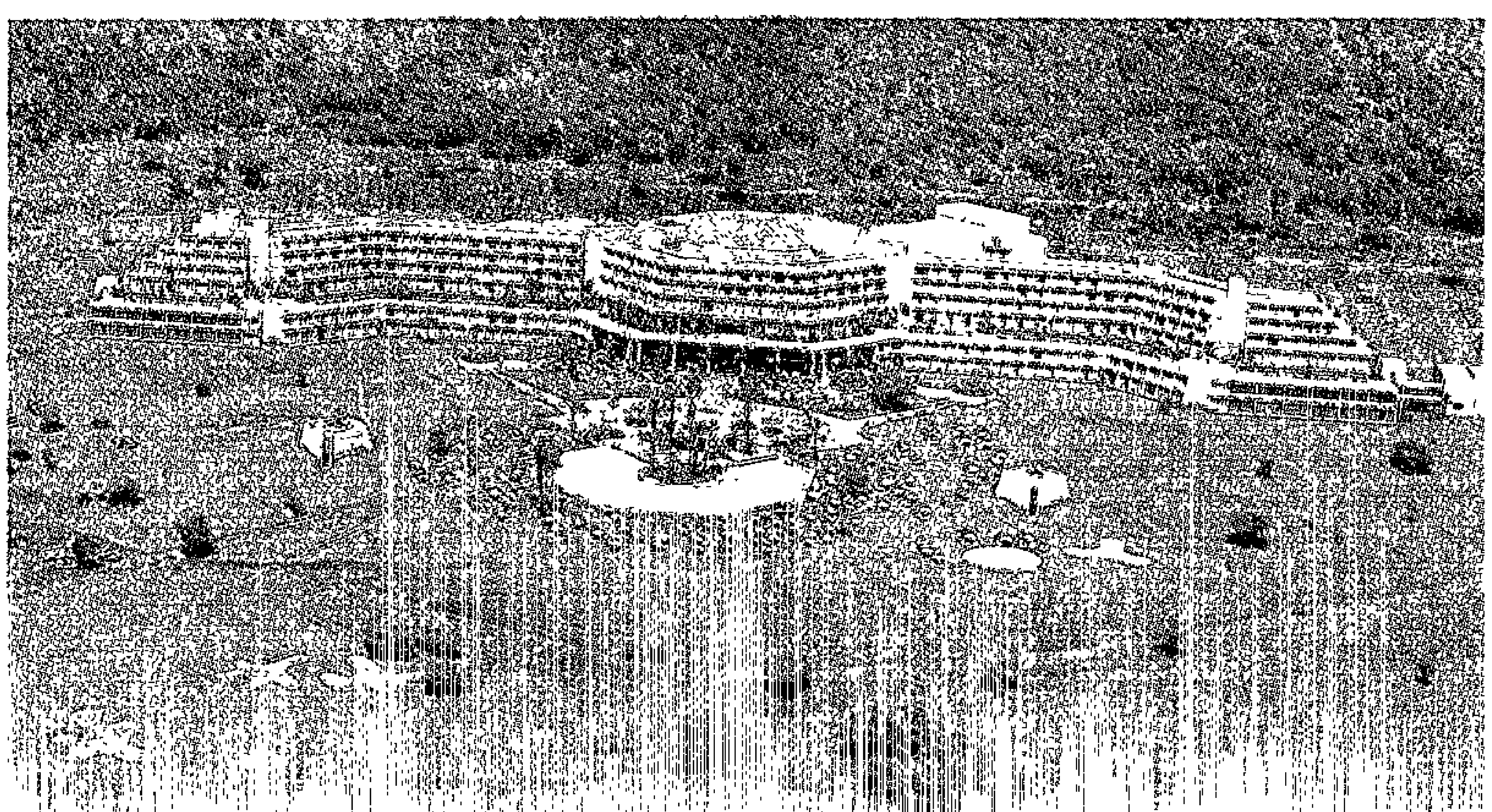
"There is little doubt that the association stimulated initiatives leading to innovations in the industry. Committee members did not remain cloistered in boardrooms.

"They, at their own expense and time, moved out to grapple with the appropriate authorities to obtain legislative and other regulative amendments and policy changes which were for the benefit of Sapoa's members," Fair says.

Education was tackled. Within weeks the Graduate School of Business of the University of Cape Town's graduate property development programme had been discussed, refined and was ready to be activated and promoted

"Sapoa has a history of importance and achievement. Sensibly translated it is a philosophy of service, but not just for the industry itself. Through its activities it has nurtured concern for the people in cities and the utilisation of property for a balanced achievement of all factors of production," he says.

ARTHUR FAIR



Improved service is the goal for next 25 years

SAPOA, which has seen its ranks swell from about 33 members 25 years ago to about 800 now, has set the provision of an improved service to members as its goal for the next 25 years.

However, its prime function has not changed. The organisation describes itself as essentially a marketing services arm to the property industry, addressing market needs and pertinent issues.

To increase its present membership to any great degree will involve appealing to all sectors of SA's commercial and industrial property industry.

Executive director Brian Kirchman says: "We see this as a challenge and believe it is the best option that we can follow."

One of the immediate goals the organisation is working towards is the establishment of meaningful dialogue and contact with other race groups to discuss their needs and to encourage them to sign up.

Sapoa is trying to set up appointments with black political groups to source their requirements and perceptions. As these groups were traditionally not property owners, there was little point in pursuing this matter previously. "However, since President F W de Klerk initiated his reforms and the group areas and other restrictive legislation was scrapped, the area of property ownership has been opened to all, and we are making every attempt to approach these new markets," Kirchmann says.

As the doors of the world open to SA, the retention and development of our foreign links is going to become all the more important, with information dissemination from abroad an important element.

It is also vital that Sapoa works to protect free market values. It needs to concentrate on directing both the industry's and Sapoa's future, Kirchman says.

Comparisons

Other goals include the improvement of existing statistical services so that comparisons and commentary on the findings can be provided. The provision of other statistics is also being considered.

Education and assistance of disadvantaged people in the industry is considered a necessity, as is the promotion of interest in the industry among school-leavers and graduates.

Sapoa has not only succeeded in gaining the industry's respect, but has also become involved with government in all aspects pertaining to the commercial and industrial property market.

The organisation lobbies with government, reacts to proposed legislation and is involved in proposing legislation.

The production of a standard lease agreement that will become the benchmark for all leases is an achievement it is proud of.

Kirchmann believes that the teamwork and dedication shown by the council, the many committees active in Sapoa's interests and its secretariat staff will ensure the future growth and service the organisation provides to its members and the public.

Institutions strengthen hold on market

WHEN Sapoa was founded 25 years ago, companies and private developers were the big names in the industry rather than the life offices, says Old Mutual property manager Martin Buss.

"While life offices did own property, they were not big players in the profit-making property market. The life offices owned their own buildings for their own operations," he says.

These tended to be large buildings in the cities and smaller buildings in the towns.

There was a large indirect interest in that the life offices and pension funds tutions had entered the market as investors in, and developers of, directly owned properties as part of their range of investment alternatives. These included government stocks and quoted and unquoted equities and mortgage loans.

Collapse

"This was not a good time for property because of the collapse of property companies, the oil price shocks, Soweto riots and rising interest rates," Buss says.

The nominal cash flows into these institutions were R400m in 1970 and will be R40bn in 1992.

increase in flow has far outstripped nominal economic growth over that period.

"These rapidly increasing cash flows had to be invested to meet the expectations of the people who entrusted their savings to the institutions.

"The investments had to be made in SA and were essentially limited to stocks, equities and property," he said.

The proportions allocated to direct investment in property have risen from 7% in 1970 to 11% in both 1980 and 1990, but the actual cash amounts have increased massively in proportion to increases in age and the privately managed pension funds became direct property owners, developers and administrators on an unprecedented scale.

Established

The predominance of the major institutions in the property industry is an established fact and is likely to be with us for some time. The institutions also buy major long-term stakes in all the property unit trusts and loan stock companies that have appeared.

"The big institutions do not exclude the smaller developer; they often pro-

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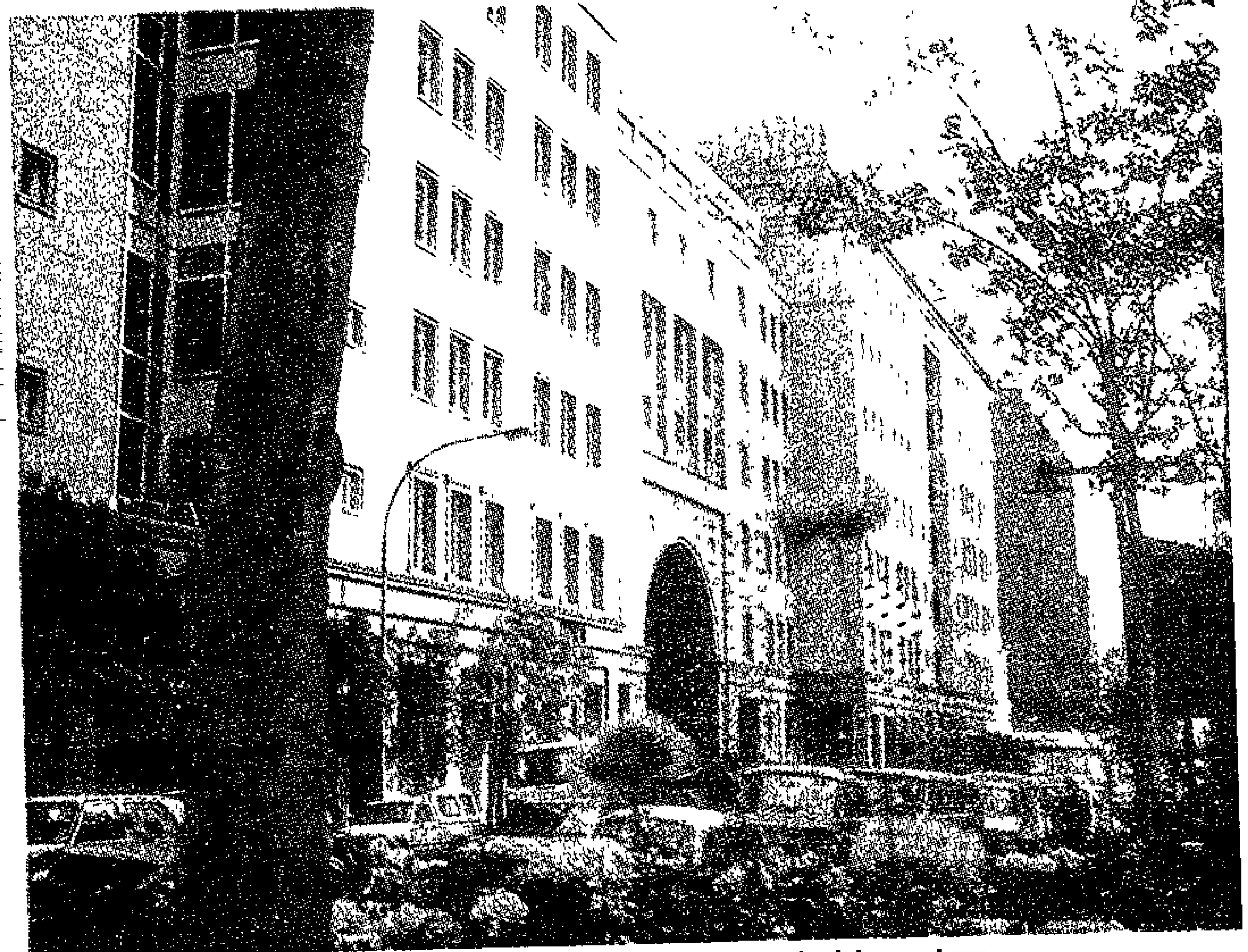
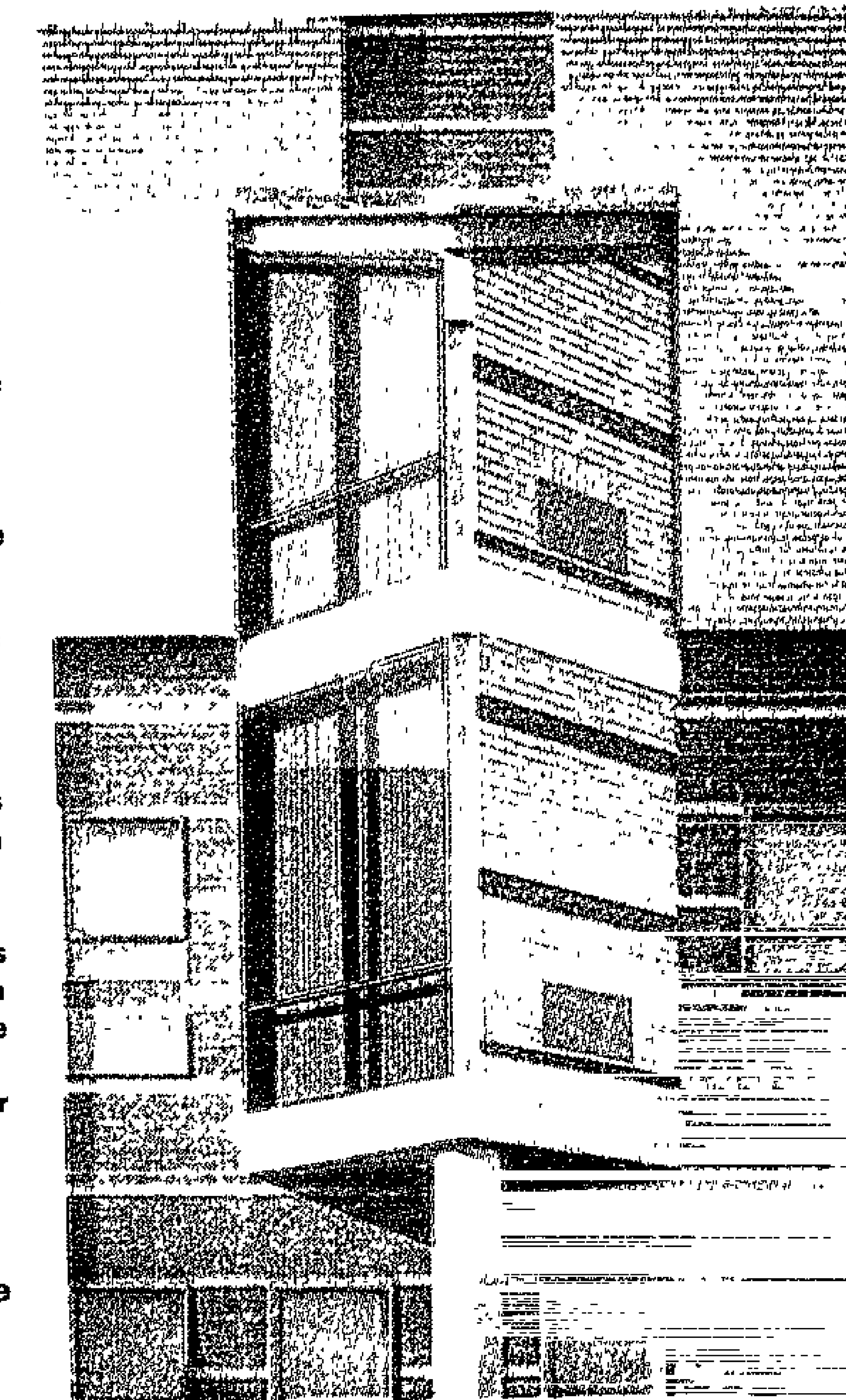
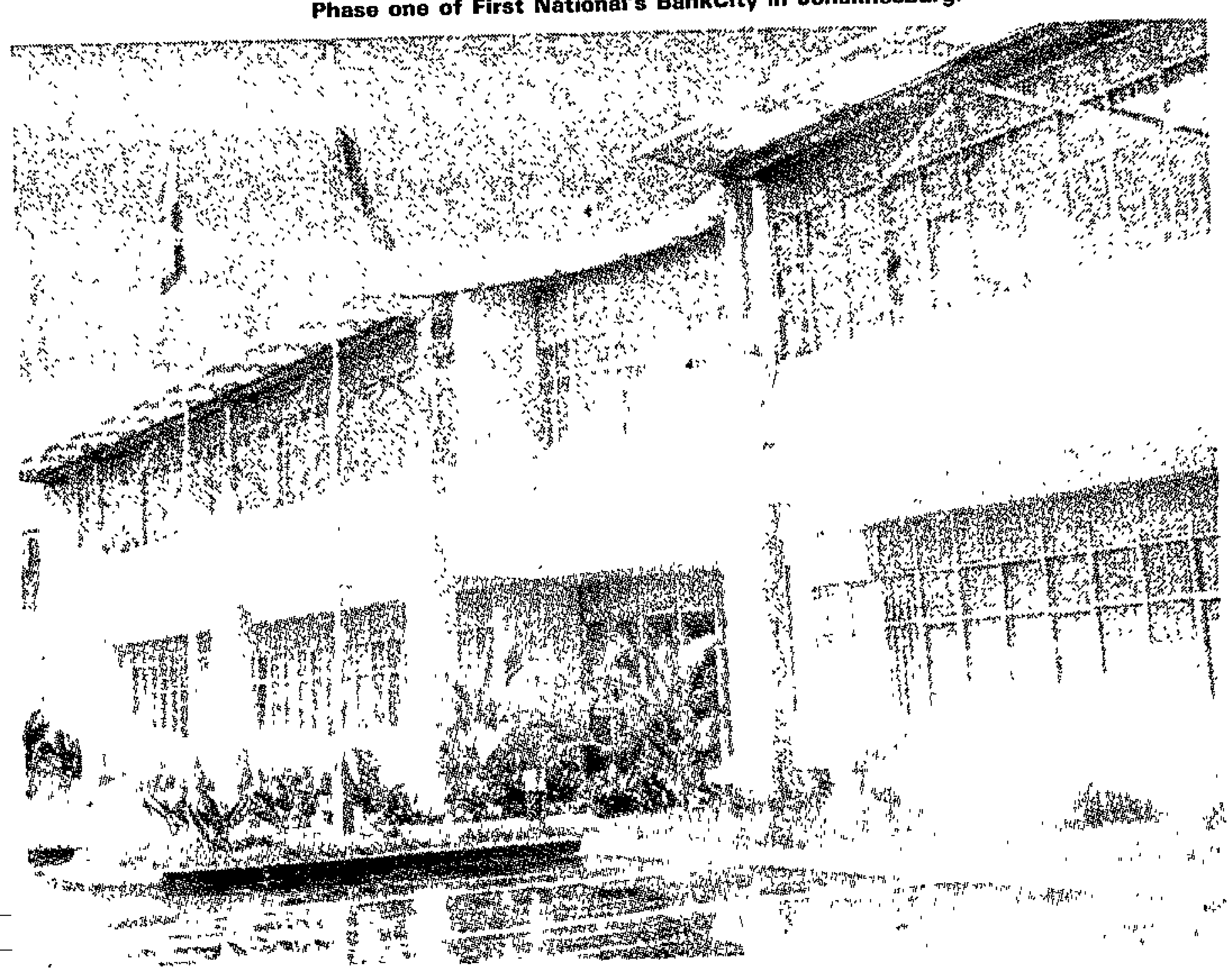


Phase one of First National's BankCity in Johannesburg.

The Sapoa Building Merit Award was instituted to recognise developments of exceptional quality. The criteria for the award include not only aesthetic appeal and social impact, but the development must make a positive contribution to the community. It must be an economically viable building which satisfies the needs of the developer/owner and the occupier/tenant. There were 21 entries for the award, which is held every three years and a random selection of four was taken and are shown here. Portfolios on the entries will be on display at Sun City for the duration of the convention and the winners will be announced at the formal banquet to be held tonight. The judges have been drawn from a cross section of the industry.



Sanlynn, an office development in Pretoria.



Toyota technical training centre at Isipingo, Natal.

Cradock Heights, an office complex in Rosebank.

Deregulation adds to body's responsibilities

WHILE congratulating Sapoa on its silver jubilee and recognising its importance in the community, Louis Karol Architects chairman Louis Karol has expressed fears and wishes for the industry as a whole.

Deregulation of the architectural industry and professional fees had "added a new dimension to Sapoa's responsibilities," he said.

Sapoa was party to the deregulation of professional fees.

Creating

It now had to look at creating new rules for its members that would result in a solution acceptable to both parties, he said.

Sapoa needed to bring out guidelines for members on how a brief should be written and how owners should take decisions in an efficient manner.

There was a real danger that architects, under pressure because of a dearth of work in difficult economic conditions, might agree to any deal and then, when faced with the reality of the situation, cut corners in the service they provided to the building community, he said.

Advise

"Sapoa has a responsibility to advise its members against such negotiations and needs to educate its members to become enlightened patrons of the built environment.

"These will be patrons who understand good building economics and who appreciate that good architecture is good business," [illegible]

Good architects responded to clients' needs, but clients had to be aware of what was reasonable.

Creating a good and profitable building was the result of a closely knit partnership between the client and the professional team, he said.

Overview

Stauch Vorster deputy chairman Derrick Garvie said one of the benefits of Sapoa membership was that all players in the industry were able to gain an overview of the industry while being kept abreast of developments in their field.

"I have been a member of Sapoa virtually since its inception and have not missed one of its annual conventions.

"In addition, I took part in its first visit as a representative body to the US in 1970," he said.

Interaction with other people in the industry, whether they were clients or investors, allowed one to determine the parameters in which one was working and to determine the community's needs.

An example of this was the office vacancy survey published by Sapoa. This allowed all players to know exactly what the others were doing.

This was pertinent to the architectural industry, as investors needed to know what they should be building and in which areas future growth lay.

"In addition, its good standing with government and other representative bodies allows its members to know what is happening now and what is to happen in the future in good time," Garvie said.

Contribute

This allowed the industry to position itself and contribute to decisions that affected its future.

The interaction with others in the industry was invaluable. An example of this was that architects needed to realise that any building had to be well designed but still cater for the needs of the client or investor.

"At the end of the day the bottom-line profit situation is the most important. Any building must be economically viable and offer a decent return to the investor," he said.

Sapoa tried to clarify issues that benefited all in the industry and bring people with common interests together to learn from each other's experiences.

"I have benefited greatly from my association with Sapoa and believe that this conference, to be held away from a city centre for the first time, will be an appropriate tribute to the organisation," he said.

LOUIS KAROL

Bureaucratic impediments have to be removed

ONE of the Sapoa Western Province regional committee's objectives for 1991 was to remove impediments in the bureaucratic process affecting property, says chairman Lori Colussi.

Other objectives are to help to preserve and enhance property values, to establish a support service for members, to further development of education in the property industry and to generally implement Sapoa national council policies in the region.

"The concern expressed over the past three years regarding the delays to the land use change procedures resulting from protracted procedures by the Provincial Roads Engineer is unfortunately still prevalent.

"This is an ongoing problem and Sapoa is trying, with difficulty, to liaise with the appropriate body so the position can be improved," he says.

Most aspects of VAT relate to property both before and after its implementation are dealt with by education seminars and by reports and opinions.

"Sapoa is represented on the board of trustees of the Cape Heritage Trust.

"Close liaison between Sapoa and the trust is maintained on all issues," Colussi said.

Research into the rates charged by Cape Town compared with other major municipalities in SA is continuing.

Once research is completed, further liaison with the city council will take place.

"Representation on the public liaison group ensures continuous contact with the city planner to iron out procedures and documentation affecting development," he says.

Procedures

Sapoa is represented on the Cape Town Waterfront Ministers' liaison committee, and has worked closely with the Waterfront Company in agreeing on procedures towards changes in land use and public acceptance.

Sapoa will maintain close contact with the V & A Company through the committee to ensure that opportunities are created for developers.

"Sapoa has also worked towards the establishment of schedules identifying vacant land for disposals by various state departments and procedures under which the disposals will be arranged."

Colussi says a strategy workshop attended by Cape Town's city council, other councils and most state departments was held to attempt to improve the procedures being implemented for proposal calls.

Workshops

This resulted in certain Sapoa recommendations, which will be followed by further discussions and workshops intended to improve the process of the disposal of state-owned land.

A number of members' meetings were also held.

At one of these, Sapoa member Mike Divaris discussed the US property market and in another, fellow member Jerry Eckert looked at economics and development strategies for SA.

Anton Musgrave has taken over as chairman of the Western Province regional committee for this year.

Magazines and newsletters keep members informed

ONE of the most important ways of keeping all members informed about developments in the property industry is through publications — an area that Sapoa has targeted and developed.

Its publications division, under managing editor Andre Viljoen, has revitalised Sapoa's magazine Sapoa News and introduced Shopping Centre Profile, a magazine catering for the shopping centre industry.

Viljoen says: "Sapoa News, which has been in existence for some time, badly needed a new image and perspective. This was one of the challenges that faced me when I formed the divsion."

It now has a distribution of about 3 000 copies on a quarterly basis and is financially profitable.

ANDRE VILJOEN

Link

At the first shopping centre conference held in May last year, the need for a publication that could link Sapoa members to other players in the industry was identified.

Meeting once a year at an annual convention was found inadequate. It was decided that a magazine could bridge the period between conventions.

The result was the formation of Shopping Centre Profile under the guidance of the Sapoa Council of Shopping Centres, chaired by George Skinner. The first issue was released earlier this year; the second will be out at the end of this month.

Shopping Centre Profile has a circulation of 4 000 and is distributed according to Sapoa's national marketing list.

Viljoen says he is trying to establish an additional database of people who would like to receive the magazine. "All Sapoa members receive the magazines free as part of their membership, but I want to grow this.

"Apart from anything else, it could provide a vehicle to expand Sapoa's membership."

A second shopping centre conference with the emphasis on hands-on training was attended by more than 400 people in March. The new magazine was well received.

Another task Viljoen faces is taking over the administration of the CBD Association newsletter. He is also producing Shopping Centre Digest, a newsletter to bridge the gap between the quarterly issues of Shopping Centre Profile.

It will appear when there is news that cannot wait. "The CBD Association newsletter has a circulation of about 500 and needs at least 3 000.

"The new initiative to revitalise the Johannesburg CBD makes the newsletter an important means of communication. Johannesburg has too much at stake to risk any breakdown of its fabric," he says.

BDay 6/10/92

Lawyers 'must get involved' in property issues

MOST lawyers deal with property to some degree so if they get involved in all aspects of it, they and their clients will benefit, says Silberbauers Attorneys partner Anton Musgrave.

"Interaction with people involved in all the other aspects of property improves your awareness of what is happening in the industry, and this knowledge is always useful," he says.

Being involved, through Sapoa, in draft legislation before it is published serves two purposes. It allows members to submit comments and objections to proposals.

Knowing what is in the pipeline can be invaluable in terms of understanding and implementation.

Sapoa is also involved in land legislation.

It plays a role in ensuring that good, effective laws are put in place.

BDay 10/6/92.

Specialising

"I belong to Sapoa as I am a property development practitioner, specialising on the property development side rather than just in conveyancing.

"The firm identified the need to provide specialist services over and above conveyancing," he says.

Sapoa, through its members, is a leading developer, and needs to specialise in all areas. This allows professional people to play a part in the industry's future.

"While Sapoa is concerned with the industry as a whole, regional representatives play a major role, concentrating on local issues and liaising betweeen government, provincial authorities, members of the industry and the public.

"Its function is to smooth the feathers that might be ruffled by these bodies on particular issues," Musgrave says.

Sapoa's western Cape regional committee, of which he was recently elected chairman, has been involved in issues like facilitating proposals for road structures and assisting in the drawing up of guidelines on the disposal of state land.

The reintroduction of enhancement levies is being examined.

It is an issue Sapoa will oppose through various channels.

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Strategic

Sapoa will also become involved in a number of strategic issues in the future.

Its role is to facilitate an environment that is conducive to sound property development.

"The organisation is alert to events in the general political and economic environment and has recognised that it needs to change and adapt," he says.

Sun City sees diamond jubilee conference

THE SA Property Owners Association (Sapoa) continually strives, on behalf of its members, to promote their interests in relation to property ownership, development, marketing and management — and has been doing so for the past 25 years.

Sapoa has existed as an official organisation for 26 years and celebrates its diamond jubilee conference at Sun City this week.

Striving

While many well-known property players have come and gone within its ranks, Sapoa's main objective of striving to assist its members in the commercial and industrial property fields in every way possible has remained the same.

Derek Stuart-Findlay is the president and Brian Kirchmann executive director. Both have committed themselves to the continued growth and advancement of the organisation for the benefit of its members and the public.

"Although Sapoa is in business to serve and protect the interests of economically directed property ownership, it supports totally the concept of individual freehold home ownership rights, which we believe are the key to the wealth creation process so crucial to our future," Stuart-Findlay says.

BRIAN KIRCHMANN

While property owners and developers form the bulk of its membership, numerous professional and technical members provide a valuable contribution to its activities.

"An area of great assistance is in the combined representations made to government, which recognises our association as the representative body of the property industry," Kirchmann says.

As the industry forum, each member is given an equal opportunity to interface with other players to access a pool of shared knowledge, skills and ideas.

Influence

It is of great value for a member to be included in this and heard at an early stage of discussion. Consequently a large degree of influence can be exerted with regard to the formation of policy.

The association is driven by its members and they are relied upon to come forward with any areas of concern in the industry that they want addressed.

"Sapoa represents a group with a substantial stake in the future of the country and offers its members the opportunity to influence the economic growth and direction of the new SA," he says.

The association operates on a widely-based committee structure and the complex and volatile environment within which the industry operates makes co-operation and co-ordination essential for survival.

Educational

Also, in order to stay abreast of current developments and trends in the industry, Sapoa offers its members a wide range of educational programmes and affords the opportunity of productive communication.

Members' meetings are held regularly in the major centres to express and exchange views and matters of mutual interest and seminars are arranged wherever necessary on current issues such as new legislation affecting property.

"The annual Sapoa Convention provides a platform for speakers to inform members of the latest trends in the economy and property market as well as allowing all to interact with colleagues from other centres," Kirchmann says.

400 members offer time and expertise

SAPOA operates on a broad-based committee structure, with about 400 members offering their time and expertise for the benefit of the industry.

Its members are the core of the structure. Moving outwards, there is the council, executive committee, management committee, secretariat, and finally, the executive director.

The committee structure has three categories: regional, specialist and ad hoc.

Committees are set up by Sapoa to study any new or proposed property legislation and to suggest amendments to the state bodies.

The success of these committees is illustrated by the results of action on legislation — including the Sectional Titles Act and Regulations, the Transvaal Townships and Town Planning Ordinance, the Share Block Control Act and the Property Timeshare Control Act and Regulations — in recent years.

There are seven regional committees: Border, Eastern Province, Natal, Northern Transvaal, Orange Free State, Southern Transvaal and Western Province.

Cover

The specialist committees deal with a cross-section of activities relating to the industry. They cover building development, building insurance, CBD, editorial, education and related activities, environment, expropriation and valuation, industrial property and membership.

Other specialist committees deal with national property education, office vacancy surveys, retirement villages, shopping centres, sectional title and group housing, state land disposal, townships and urbanisation.

Committee members are specialists in their fields. All areas relating to specific issues are dealt with, and interaction between other related parties is facilitated so that a balanced and effective overview of each area is obtained.

The ad hoc committees are involved in a number of often sensitive matters, including building office management, finance and tax and high-tech subcontracting.

Municipal rating, privatisation and deregulation, state tendering procedures and VAT are all areas of interest to the industry and the public. These committees examine the procedures and functions of the above and look at ways to improve legislation or other factors relating to them.

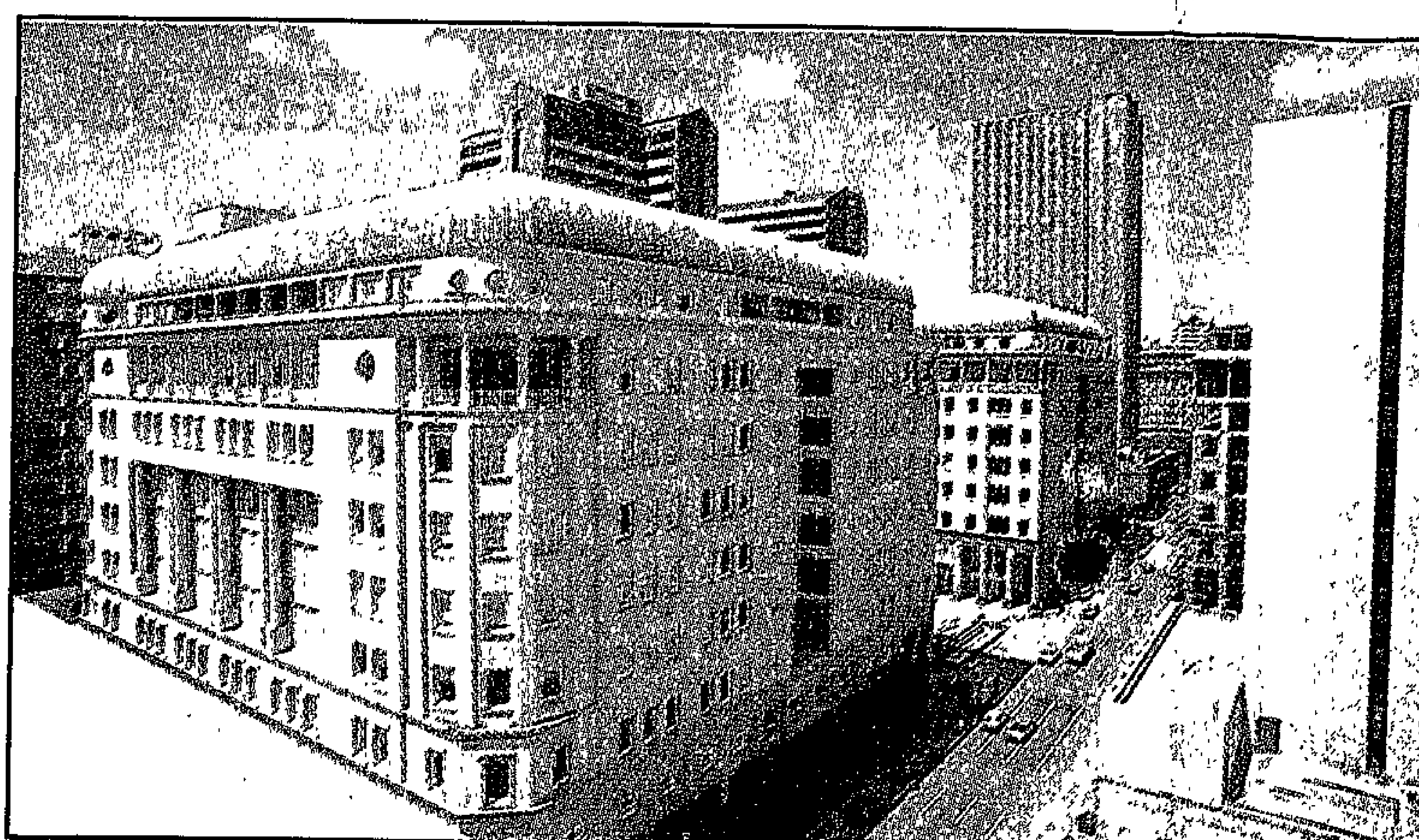
"All of these committees are designed to keep abreast of any development in the industry and to keep members well informed as to any possible developments or changes.

Informed

"They also monitor new developments and the way in which these affect the industry and the public, who are kept informed on any new developments through media releases".

Other matters in which the association is involved include building contracts, privatisation and deregulation, estate agents' fees, building defects insurance, syndications and the Sectional Titles Act.

(58) Sapoa whole



BankCity, the largest development undertaken in the Johannesburg CBD.

Building committee acts as watchdog

SAPOA's National Building Development Committee continually strives to implement representation on all major committees and councils that handle policy affecting the building industry as a whole.

Says chairman Fred Bihl: "We are often asked to serve on advisory committees relating to the industry as it is important that all players in the field communicate. We also take the initiative and approach local authorities and other bodies if we hear of anything that could be to the detriment of our members,"

Another objective of the committee is to formulate and publicise Sapoa's standpoint on issues affecting the physical aspects of property development of national importance.

The review of existing contract documentation and the initiation and implementation of new contracts is an area the committee is proud of.

"The introduction of the JBCC contract, which we believe suits the current situation in the building industry and has taken various pertinent factors into consideration, is a milestone for us," he says.

Monitors

The committee also monitors the National Building Regulations and recommends changes.

It was consulted at the promulgation stage and helped identify and address problems in this regard.

One issue addressed by the committee is revisions to the National Monuments Act.

A major issue here is that any alterations to all buildings older than 50 years have to be cleared by the National Monuments Commission before anything is allowed to be done.

"While this issue is at present on the backburner because government has other more pressing issues to deal with, we are involved in the issue," Bihl says.

A watch is also kept over the industry, and anything that could go against the Competitions Act is investigated. Both the public and Sapoa members have input in this regard, as the formation of cartels and monopolies are disadvantageous to the industry.

The revision of professional fee scales is often a highly sensitive issue. The committee is often invited to participate in these discussions. "While the public interest is a factor, our main objective is the protection of the interests of property owners and members".

In addition, city council tendering procedures and policies require close attention and representations are often made to these bodies. Sapoa's opinion is being sought more and more often by local bodies and others in these matters, he says.

Defects

An examination of insurance schemes offered against latent building defects in France was conducted, and was referred to a sub-committee. After the issue had been thoroughly investigated, recommendations would be made to members about what was available locally and how they should approach this.

One mouthpiece for the industry 'essential'

IT IS absolutely essential for the property industry to have a single, representative mouthpiece, which is the function provided by Sapoa, says Old Mutual Properties investment manager Ian Watt.

"This is particularly important when dealing with government and other associated bodies as they feel far more comfortable dealing with a single organisation that is seen by the industry as representing its needs," he says.

In addition, Sapoa has a vital role to play as a neutral body in issues like the accumulation of statistics. As it is a representative body, it cannot be seen as manipulating these for its own benefit.

The forum created whereby all associated disciplines in the industry can meet is imperative and the annual conference facilitates this. People meet and discuss relevent issues.

As Sapoa represents a cross-section of the industry, it often finds itself in a difficult position regarding what view to take on a certain issue, as there will always be both support and criticism of this.

"However, where an issue arises that brings the industry into disrepute, a stance must be taken and a statement issued. This is definitely the trend being followed at the moment," he says.

In the past, one of one of the biggest criticisms levelled at Sapoa was that the "big picture" sometimes became blurred as the industry and committees tended to focus on the smaller, more specific issues.

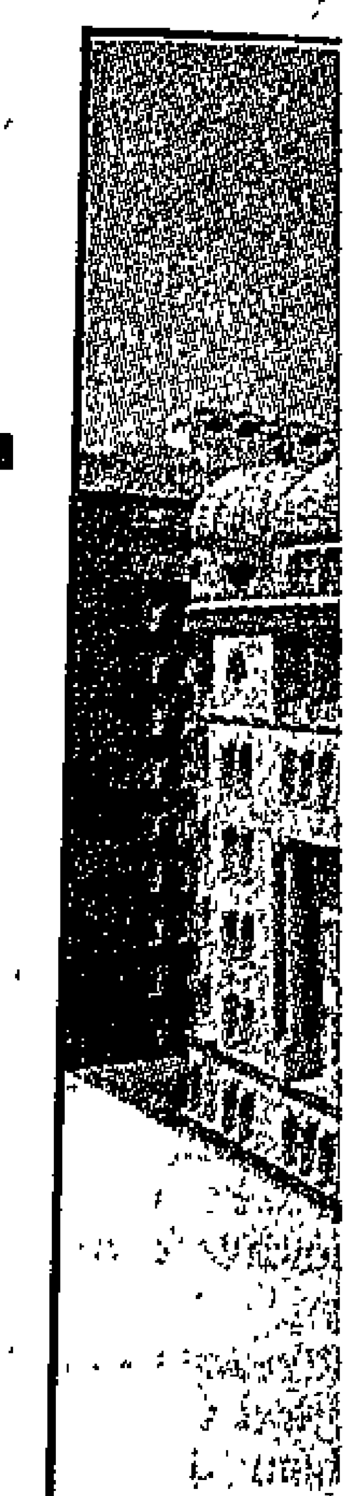
However, while this has been addressed, one needs to monitor it to ensure that at all times the focus is on the industry as a whole.

The educational benefits supplied by Sapoa are absolutely vital as there is a lack of property training in most other areas. "There are not enough other educational courses offered elsewhere specific to the industry to satisfy the demand.

"Sapoa has been a saviour in this regard and the industry looks forward to the expansion of this service," Watt says.

Business Day SURVEY

THE SA Property Owners Association (Sapoa) celebrates it 25th anniversary at Sun City this week. Sapoa not only serves and protects the interests of economically directed property ownership, it also supports the concept of individual freehold home ownership rights as being crucial to the process of wealth creation in the future. ***PETER GALLI*** *reports.*



Delegates drawn from across the continent

THE first African shopping centre conference is to be held at Sun City from August 23-25.

Planned by Sapoa through the Sapoa Council of Shopping Centres, it is intended to bring together shopping centre owners and developers from throughout Africa.

Conference chairman Pat Flanagan of RMS Syfrets says: "We are all part of Africa and it is important that we meet our colleagues in countries north of us.

Divided

"We have expertise we are able to impart and they have things they are able to teach us about shopping centres in the African context."

The two-day conference has been divided into three modules.

The first will "put world shopping centres into perspective".

Speakers from countries that have similar economic and population structures to SA's will address delegates.

Trends in the more highly sophisticated markets of Europe and the US will also be examined.

The second module will be devoted to local trends, from hawkers and spaza shops to upmarket developments.

Current development will be compared with what needs to be done in this country. A panel will discuss developers' attitudes to building centres in black areas.

Module three will examine shopping centre development in the rest of Africa.

Developers and centre owners have been invited to discuss their projects and to consider what role local developers could play in investing elsewhere in Africa and whether there are opportunities in SA for foreign investors.

"We would ultimately like to see the formation of an African council of shopping centres where we could share experiences for the benefit of all members and see similar conferences organised in other parts of Africa as well," Flanagan says.

SA retail tenants are already eyeing other African countries with great interest, and it is important to establish sound relationships from the start, he adds.

Known as Marketplace Africa, the conference is being jointly organised by the Sapoa Council of Shopping Centres and Focus Conferences.

A shopping centre exhibition will be held at the same time.

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Unified approach necessary to protect private sector rights

ONE of Sapoa's policies is to establish a unified approach on current issues to protect, within a free enterprise economy, the rights of those in the private sector.

Executive director Brian Kirchmann says: "One of our aims is to have a closer relationship with government departments, and I envisage being involved with the drawing up of amendments to legislation rather than always having to fight for our rights after government has established an amendment to legislation. Once an amendment has been established it is a mammoth task to get it changed."

Sapoa has acted on behalf of its members in numerous instances, either sending memoranda to or having meetings with government departments.

These include the Physical Planning Act, VAT Bill, Rural Development Bill, Residential Environment Bill, Less Formal Townships Establishment Bill and the Abolition of Racially Based Land Measures Bill, to name but a few.

The association sets up committees to study new or proposed property legislation, to suggest amendments to state bodies and commissions, and to provide services to members.

Once nominated by Sapoa, members serve in their personal capacities on many statutory and public councils and committees like the Building Industries Advisory Committee, the Estate Agents' Board and the Joint Liason Committee on Township Establishment.

In addition, close ties have beeen established with a number of international organisations such as the British Property Federation, the International Council of Shopping Centres USA and the Urban Land Institute USA.

Sapoa has representation on a number of outside committees. These are bodies it has been invited to join or has felt the need to join. They include the National Housing Advisory Committee, the Council for the Environmemt, the Competition Board and the Building Research Advisory Committee.

"The aim of the Secretariat is to serve both the members and the property industry as a whole," Kirchmann says.

Self-regulation to promote confidence

A RECENT meeting of leading players in the property syndication industry, called by the Financial Services Board, agreed that a new, self-regulatory body should be formed to provide uniformity in the industry and promote investor confidence in this sector.

To be known as the Public Property Syndication Association (PPSA), it will be formed as a division of Sapoa and will be a voluntary organisation for the promoters of public property syndications.

Sapoa executive director Brian Kirchmann says its initial task will be to provide a code of practice for disclosure of information to the investing public and to strengthen investor protection.

Many of the leading syndication companies already offer their investors protection and a high level of disclosure of facts regarding property investments and their expected performances.

They intend to encourage those who are not offering such comprehensive information to expand their disclosure.

"Over the past few years the industry has mushroomed.

"High standards are essential to assist investors make the correct investment choice, particularly in a competitive market," he says.

This is not the first such move undertaken by Sapoa, which played a similar role in the fledgling timeshare industry. This, unfortunately, was tainted by a few ill-conceived or under-funded schemes.

Standards

He says Sapoa lays down standards for documentation and agreements, and for setting realistic levies and marketing techniques for timeshare units through the Timeshare Institute of SA (Tisa), which represents more than 70% of the market.

Sapoa began to deal with timeshare through a committee, which developed into a division and has now been launched as a separate Institute, the Timeshare Institute of SA (Tisa).

Tisa now has no link with Sapoa.

This is because its field is not directly related to Sapoa's core field of business — the commercial and industrial property markets.

The prime objective is to give investors protection and confidence and to reduce the risk of overambitious schemes' failure. The PPSA will be working closely with the Financial Services Board and the Registrar of Companies to safeguard the interests of the public investor.

"The option of a self-regulatory body as opposed to statutory legislation is a welcome step away from an overregulated society and is in line with European trends," Kirchmann says.

Solid foundation constructed for local industry

THROUGHOUT its 25th anniversary year Sapoa has made significant progress in its drive to enhance the interests of the local commercial property market, says president Derek Stuart-Findlay.

"Sapoa plays a vital role in a very broad spectrum of property related interest areas ranging from legislative issues at a national level to municipal issues at a local authority level and across a huge range of important issues to the property industry," he says.

The assets controlled by Sapoa members are significant — well in excess of R50bn — and represent some 80% by value of the private commercial property industry.

This, in turn, represents some 20% of gross domestic fixed investment.

"What is often not appreciated is that Sapoa members controlling these assets are not a narrow sectional interest in the economy.

"A high percentage of its members' property assets are controlled by the financial institutions, largely the life offices and pension funds. These bodies in turn represent more than 5-million policyholders," he says.

Over the year, particular progress was achieved in the areas of education, urbanisation and employment generation.

Exceptional

"Sapoa's role in education in the property industry has always been very significant, but the past 12 months have seen exceptional progress, with these results becoming clear over the next few months," Stuart-Findlay says.

In May the Property Introductory Programme aimed at young managers was held and next month the two-week Property Development Programme will be run in Cape Town.

In October a Basic Property Programme is planned for new entrants into the industry and next January the three-year National Property Diploma Course to be run through technikons will begin.

"Sapoa is examining sponsorship for individuals for this diploma. For the first time, we are able to offer training courses for the full range of experience levels in the property industry," he says.

The realities of urbanisation have long been recognised by Sapoa, together with its advantages.

It believes it is vital that effective urban management systems are adopted and that property frameworks and principles are put into place in a manner that will allow urban developments to unfold in patterns, irrespective of future philosophical or ideological positions.

"Sapoa knows it has an important role to play in the urbanisation process through its members' skills and experience in property planning and development, and is making a valuable contribution to the formation of urban development policies," he says.

Only over the past year has an appreciation been developed of Sapoa's role in employment generation. Through the provision of space for the service, industrial and retail sectors, the association's members provide employment for some 4-million people in the formal economy.

DEREK STUART-FINDLAY

Stuart-Findlay says he does not expect a flood of foreign investment but has identifies two positive areas in the economy, and Sapoa is actively involved in both.

"Tourism has enormous potential and the infrastructure requires rapid development to absorb this growth. In addition, our fast growing consumer markets will attract foreign manufacturers and retail groups."

Umbrella body prevents duplication of work

THERE would be an enormous duplication of work in research and motivating interests of property owners if it were not for Sapoa, says J H Isaacs group director Peter Holling.

"Although the common interest is property, there is always competition between players in the same field, who would be unlikely to share their statistical information directly with one another.

"However, they are happy to do so to an independent body which can collate and disseminate such information to all, and Sapoa fulfils this function for the industry," he says.

As such, the organisation plays a necessary role in jointly looking after the interests of separate property owners, institutions and companies.

One of Sapoa's great achievements was successfully negotiating with other, similar international bodies who were happy to share their knowledge.

While Sapoa had followed the US BOMA method for floor measurement in the past, the need for a system that better suited local needs was identified and an updated method introduced recently.

This also introduced a system for the measurement of industrial floor space rather than just for offices and shops.

Committee on urbanisation gets more teeth

EXPECTED changes in urbanisation due to future constitutional changes saw the ad-hoc Sapoa Urbanisation Committee being given a more permanent status, says committee chairman John Rosmarin.

The new committee has been in existence for about nine months as Sapoa believes it should act as a leader in the new SA and keep abreast of all changes that will affect its members, he says.

A number of issues arose that called for renewed and more focused action on this front.

"The President's Council is investigating a revision of the White Paper on urbanisation, and Sapoa felt it was necessary to formulate and present a document that dealt with the market views on the matter," Rosmarin says.

The organisation also made a presentation to the De Loor commission, which reflected Sapoa's practical involvement in the issues affecting the industry and its members.

However, there had been some concern among committee members that Sapoa was falling behind in its understanding of the urbanisation needs of the new SA.

The committee felt Sapoa needed to become more actively involved and move away from its previous policy of being a non-pressure group.

"In this regard, proposals on how the organisation should address this policy and their practical implications have been formulated in a document that has been put to the executive committee," he says.

The committee also felt that it had a good deal of information about the Johannesburg metropolitan area, which could benefit the Metropolitan Chamber.

While government and other associated bodies and the civics were well represented here, there was a lack of private sector participation.

As a result, an application was submitted for membership, which was accepted.

"This is an indication of how Sapoa and its members can be proactive. We have also held discussions with the Van Tonder commission, which is looking at new legislation for SA.

"It is very important that laws which are acceptable and equitable to all be formulated and Sapoa has a major part to play in this."

The committee has a solid base of about eight members, with a number of others participating when necessary, and covers a broad spectrum of senior players in the industry.

Members need to become involved

THE marketplace should play a major role in all the decision-making processes that affect it, with all the players needing to mix with one another in order to achieve this.

Sapoa offers each player in the property market the opportunity to meet participants in related fields as well as the chance to become actively involved in lobbying and proposed legislation, says town planner John Rosmarin of Rosmarin and Associates.

"Sapoa has had an enormous impact on the industry over the past 25 years and has grown as a lobbying force. It has also been responsible for a shift in government thinking."

Recognised

Government has now recognised the knowledge and skills that a body like Sapoa has to offer and is approaching it about proposed legislation or amendments more frequently.

Baker Street Associates director Rodney Timm says Sapoa's contribution to education in the property field must rate as one of its greatest achievements.

"In addition, Sapoa is able to exert pressure on landlords and other players in the property field should they do something that goes against the grain of the industry," he says.

The organisation also promotes excellence in the industry, such as the awarding of the annual Building Merit Award.

Despite the fact that Sapoa specifically represents owners and not brokers, it still looks after the common interests of all in the field.

He says Sapoa's role as an umbrella body and its lobbying force with government gives it credibility with a wide range of bodies.

Shopping centre council in full swing

THE Sapoa Council of Shopping Centres was launched at its inaugural one-day conference entitled "The Customer is King" at the Carlton Centre on May 8 last year, attended by about 500 delegates.

Worldwide

"The formation of this committee, which is now recognised by the International Council of Shopping Centres in New York in the worldwide family of shopping centre associations, was the initiative of Sapoa past president Eric Field," says chairman George Skinner.

Membership of the British Council of Shopping Centres has now also been formally accorded it.

Skinner was asked in early 1990 by the Sapoa executive committee to research, motivate and launch a shopping centre committee.

This culminated in its launch last May.

"A successful shopping centre management and development conference entitled Clockwork Shopping and attended by over 400 delegates over two days followed in March this year," he said.

The council's focus is the development of professionalism through education and the sharing and dissemination of information and ideas.

The national committee meets six times a year and has 15 members.

These include representatives of the regional shopping centre committees in the western Cape, Natal, southern and northern Transvaal.

Sub-committees focus on a number of issues. These includeeducation, research and statistics, architectural and technical matters and communications and newsletters.

Illustrated

The sophistication of the local shopping centre industry is illustrated by the fact that capital investment in shopping centre real estate in SA currently exceeds R50bn.

This factor, along with consumer spending and the support of a large service industry, indicates its importance and influence in SA and its potential to assist retail development in Africa as a whole.

The council aims to advance the development of the shopping centre industry and to establish the individual shopping centre as a major institution in the community through:

- ☐ Promoting the role of shopping centres in the marketing of consumer goods and services;
- ☐ Establishing codes of fair business ethics and dealings with retailers, consumers and with government and public agencies;

Development

- ☐ Encouraging research into the architecture and design of shopping centres and into the development of improved management and maintenance methods;
- ☐ Collecting and disseminating information among members pertaining to techniques of profitable operation that can serve to improve individual shopping centres and the industry;
- ☐ Studying economic, marketing and promotional conditions affecting the industry; and
- ☐ Promoting the prestige and standing of members as reputable specialists in the field of shopping centre development and management.

Access to pool of skills and knowledge a major benefit

A MAJOR benefit of Sapoa membership is the opportunity for members to interact with other players in their fields and access a pool of knowledge, skills and ideas.

Membership currently controls commercial and industrial property valued at about R50bn and thereby represents a group with a stake in the future of the country and offers members the opportunity to influence the economic growth and direction of SA.

Strive

This is summed up in Sapoa's mission statement, which says it will "strive on behalf of our members to promote their interests in relation to property ownership, development, marketing and management".

Membership is open to all with an interest in property and falls into seven general categories — commercial, industrial and township property owners and developers, financial and banking, life assurance companies, municipalities, building societies, trust companies and pension funds and professional and technical services.

The last category includes accountants, architects, attorneys, land surveyors, quantity surveyors, construction companies and town and regional planners, to name a few.

Co-operation and co-ordinated action is essential to ensure the survival of the organisation due to the complex, high visibility and volatile environment within which the property industry operates.

Sapoa operates on a widely based committee structure, with up to 400 members offering their time and expertise freely for both the membership and the industry as a whole.

Members' meetings are held regularly in the major centres so that views on matters of topical and mutual interest can be exchanged. Whenever necessary, seminars are also arranged on current issues.

Initiated

In addition, Sapoa initiated the Building Merit Award for property developments of exceptional quality. The award is presented to a development of aesthetic appeal and social impact and which "makes a positive contribution to the community as an economically viable building in satisfying the needs of the developer/owner and the occupier/tenant".

Natal committee has a busy year

SAPOA's Natal Regional Committee had a busy 1991, particularly as it was invited to be represented at the Business Forum established by the Durban City Council.

The forum is to provide a liaison between the city's officials and councillors and the private sector on a monthly basis.

This arose as a result of the formation of a subgroup to discuss concerns about the council's procedure for the sale of land by development tender.

"An address to the management committee followed, where the difficulties of sale of land by this means were highlighted and we proposed the sale of land by public auction as a preferable means of disposal," says former Natal Regional Committee chairman Paul Nicholson.

Over the past two years, members have been co-opted from the city, Transnet and the House of Delegates onto the regional committee. This has served as an important link in keeping ties with major organisations that control large tracts of property, he says.

Plan

Representation by Sapoa on the Point steering committee was achieved last year and members attended a workshop, which enabled the steering committee to draft a broad structure plan.

"It was evident that our members had provided meaningful input into the direction of the workshop. We also made representations to the steering committee to appoint consultants to undertake a financial feasibility study on the proposed structure plan," Nicholson says.

This is now complete and will be vested with the Point Development Agency for consideration.

"Political issues are now creeping into the process and unless something positive takes place during the year, this initiative is likely to gather dust again".

The committee has ensured appropriate representation on national committees like the environmental committee, urbanisation committee, the shopping centre committee and others.

Office letting hits a low

Bday 10/6/92 (58)

PETER GALLI

THE expected improvement in the economy by the middle of this year has not materialised and the recession is expected to deepen still further, Sanland Property Trust chairman Johan Howell says in the annual report released this week.

This pressure has affected the property market, with the office letting market hitting a low. The current "tenants' market" is expected to continue until at least year-end.

"The oversupply has seen certain owners offering prospective tenants discounted rates, including generous relocation allowances. Some are also willing to offer tenants free accommodation for considerable periods," he says.

The trust's portfolio has vacancies of 6,9%, of which 6,52% is for office space and it is negotiating to let this space. It is continuing its policy of upgrading properties that do not meet set investment criteria or replacing them with buildings in metropolitan areas.

"No properties were bought or sold in the year under review. As the Trust has capital funds of R23,54m available, we are always looking to buy.

"However, available prime properties are scarce as it seems they are being kept off the market in the hope of achieving better prices once the economy has improved," he says.

Sanland Property Trust Managers was sold to Sanlam from June 1.

Sanlam also bought the units in the trust held by various portfolio clients administered by Allan Gray Investment Council at a price of 87c a unit.

"This increased Sanlam's interest to 70% from 48%, and Sanlam has made a standby offer to other unit holders," he says.

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Propnet negotiates waterfront projects

B/Day 10/6/92

PETER GALLI

WATERFRONT proposals for Propnet's East London and Port Elizabeth developments are under negotiation, with nothing yet finalised.

Propnet is still negotiating with a number of consultants on revitalising and developing part of the East London harbour dubbed Lantern Bay.

"A meeting is scheduled this week to discuss proposals and the structure plan and we will take matters from there," Propnet CE Fuzz Loubser said. The 17 000m² site is situated on the northern bank of the Buffalo River and is the only commercial SA harbour on a river.

It is envisaged that this harbour development will be far smaller than the Victoria and Alfred Waterfront in Cape Town, but will have some similar facilities.

The first phase would comprise 3 600m² and possibly include restaurants, bars and pubs. Two buildings would be renovated.

However, while the council has granted development rights, financing has not yet been finalised.

"The development will provide access for the people of East London to the waterfront and provide opportunities for entrepreneurs and local business," Loubser said.

The Port Elizabeth project was awaiting city council approval of the framework and structure plan. "A team of consultants was called in to look at what would be suitable, but this is also dependent on its economic feasibility," he said.

However, in another development, construction on Harbour Island — the R300m Gordon's Bay development — is two weeks ahead of schedule.

"The first phase consists of 58 residential units, two inland basins, a small harbour and slipway, shops, office accommodation, a mariners' wharf and holiday suites," Pam Golding Properties (Tvl) project division manager Kees Thijs says.

While work on the first phase of the Harbour Island development only started four months ago, blasting for one of the basins is complete and half finished on the second.

Country living from Ampros

LINDA ENSOR

CAPE TOWN — Anglo American Property Services (Ampros) has launched its multi-million upmarket country estate, Welgedacht, in Belville's Tygerberg Hills. B|Day 10/6/92

The landscaped estate will eventually consist of 408 residential stands priced at about R90 000 each, giving a total value to the estate of about R37m.

Each stand will average 1 100m² and houses will have to be built within prescribed size specifications. Thirty-six stands have already been serviced and went on sale last week.

Ampros director Peter Gardiner said at the launch the total area of the new estate was 134ha which would be divided into four neighbourhoods, each incorporating elevated viewpoints and water features.

Adjoining the estate is a 52ha recreational nature reserve and a 15ha area of wetlands.

"This residential development has been designed to incorporate the principles of integrated environmental management with residential estate management," Gardiner said.

New boss at Momentum

SHARON WOOD (58)

RAND Merchant Bank MD Laurie Dippenaar has been appointed chairman of Momentum Life Assurers, RMB deputy chairman G T Ferreira announced yesterday.

Dippenaar would give up his duties as MD and CEO of RMB from July 1.

BDay 10/6/97

However, he would remain a member of RMB's eight-man executive committee and chairman of the credit committee, Ferreira said.

RMB deputy MD Paul Harris would replace Dippenaar as MD and CEO of the merchant bank from July 1. Harris was one of the founder-members of Rand Consolidated Investments, which merged with RMB in 1985.

Urgent strategy necessary to limit economic damage

By Frank Jeans 56

STAR 11/6/92

SUN CITY — Interest rates could be pushed down by between two and three percentage points over the next year in a bid to limit damage in the economy and set the scene for recovery in 1993.

Mike Brown, economic consultant with stockbrokers Frankel Max Pollock Vinderine, said this at the Sapoa convention here.

In an economic preview, Mr Brown said: "Studies have pinpointed the need for the investment rate to grow from its current level of about 19 to atleast 25 percent. This should be regarded as a minimum target for any new economic strategy."

Mike Brown . . . housing expenditure needs to double.

Finally, success in raising the rate and productivity of capital investment in South Africa would depend to a significant extent on creating a climate of certainty and stability in both political and economic structures which would raise the confidence of both foreign and local investors.

On the housing issue, he said the cost of a viable programme was the subject of widely varying estimates but most seem to coincide on the likelihood that expenditure on housing in South Africa would need to double from less than three percent of GDP to around five to six percent.

"The recently published De Loor Task Group report on low-income housing targets a total expenditure of five percent of GDP on 198 000 housing units a year for the next 10 years.

Exchange controls

Urging the scrapping of exchange controls, Dr Richard Grant, Director of Research and Publications of the Free Market Foundation, said:

"Exchange controls are one of many types of government interference that have been used to achieve Third-World status.

"This is not to say that the government wants to be in the Third World, but this status comes as a by-product of its misguided actions. Whether these actions come from good intentions or from corruption does not make the consequences any less destructive. And we, in South Africa, are seeing these consequences first-hand.

"There is not one argument in favour of exchange controls that has not been demolished by logic. No serious economist will defend them — yet they persist. why?

"We know why exchange controls can't work, and experience has shown us that they don't work.

"The most often cited reason for imposing exchange controls is that they are intended to prevent capital outflows," said Dr Grant. "Not only have they failed, they have also discouraged capital creation and inflows. Exchange controls have not made things better in any way. They have made things worse.

"Those maximum limits, or "allowances", on purchases of foreign exchange for overseas travel have become minimal.

"The expctation that people won't be allowed to take their money out if things get worse, leads them to plan ahead and take out as much as possible — now.

"Making the controls stricter doesn't help. It just leads to the attitude that: If you can't take it with you, then spend it now. There's no sense saving it when you won't have full ownership rights."

Property rights 'must remain untouched'

STAR 11/6/92

By Frank Jeans 58 [redacted]

SUN CITY — The main speakers at the opening of the South African Property Owners (Sapoa) convention here stressed that property ownership was a fundamental righ[redacted]

Opening the convention, Dr Zach de Beer, leader of the Democratic Party, said: "The epicentre of the capitalist system is respect for property rights and we are entitled to insist that those rights remain untouched."

Dr de Beer, who is also Codesa management committee chairman, said that to confiscate property from its owners and give it to other people was not only morally wrong, but economically disastrous. [redacted]

At the same time, unless the mass of people could feel that within a few years their economic lot was improving and the wealth gap was narrowing, the "fledging democracy of the new South Africa is likely to be hijacked by some populist dictator with a mouthful of deceitful promises and a gun in his hand".

Chris Saunders, chairman of the Tongaat-Hulett group, commenting on the proposals by the ANC for a wealth tax, said such an idea of transferring resources — "robbing rich Peter to pay poor Paul" — was not the solution.

Urging Sapoa to play its part in urban revival, Mr Saunders said: "No nation has ever prospered who's cities have failed."

Commenting on unemployment, he said the lack of skills had left the South African workforce uncompetitive with the rest of the world.

"We must act now on the recommendations of the De Loor commission on housing and build our way out of a deepening recession."

Sol Kerzner of Sun International, making a presentation of the multi-million-rand Lost City project, told delegates: "The expected boom in tourism will bring to South Africa an additional one million visitors a year.

"This means that the hotel and leisure industries will have to provide a further 18 000 beds to meet the demand."

He was having talks with the SA Tourist Board about this, Mr Kerzner said.

Proposals for regulating financial services

B/Day 11/6/92

LINDA ENSOR

CAPE TOWN — Proposals for a super policy-making and co-ordinating body to oversee the two regulatory authorities governing the financial services sector are likely to be contained in the report of the Jacobs committee.

The committee has been investigating equal competition for funds by financial institutions.

The purpose of a superarching structure would be to ensure the regulation of grey areas in the financial services sector. The proposed body would co-ordinate the supervisory activities of the Financial Services Board which governs unit trusts, short-term and long-term insurers, the Johannesburg Stock Exchange and pension funds, and the SA Reserve Bank's bank supervision department which regulates deposit-taking institutions such as banks and building societies.

Architect of the proposal, Registrar of Deposit-Taking Institutions Hennie van Greuning, yesterday confirmed that the Jacobs committee report would contain proposals for a regulatory and legal framework to accommodate such a body.

"The report will not, however, contain a draft Financial Services Bill, as consultation with the financial services industry in this regard will most probably have to take place first," Van Greuning said. He stressed that the report had not been finalised yet and could be subject to change.

"The thrust of my proposals submitted to the Jacobs committee is that the authorities should adopt a holistic approach to the regulation of financial intermediaries." (58)

He said the existence of two separate financial regulatory authorities under current legislation had given rise to the possibility that the investing public was inadequately protected from unregulated — albeit legal — financial services.

Van Greuning stated categorically that the initial proposals for a holistic approach to financial regulation were discussed and formulated before the Masterbond group's collapse.

Former Finance Minister Barend du Plessis announced in his Budget speech that the report would also recommend a three-fund approach to the taxation of life offices.

Sage Group assets now R4bn — Shill

B/Day 11/6/92 S8

MICK ELLINGHAM

THE improved results for year-end March announced by two divisions of the Sage Group today were offset by a 27% drop in earnings by Sage Property Holdings.

Chairman Louis Shill said the group's total assets now exceeded R4,5bn.

Sage Holdings raised net earnings to R28,4m from R23,6m in the previous year, lifting earnings a share by 14,5% to 118,07c (103,06c). A final dividend of 40c, plus a special dividend of 10c, was declared, making a total of 70c (60c) for the year.

Sage Holdings' results reflect the stronger performance of the life assurance and financial service divisions, compared to the property and homebuilding division.

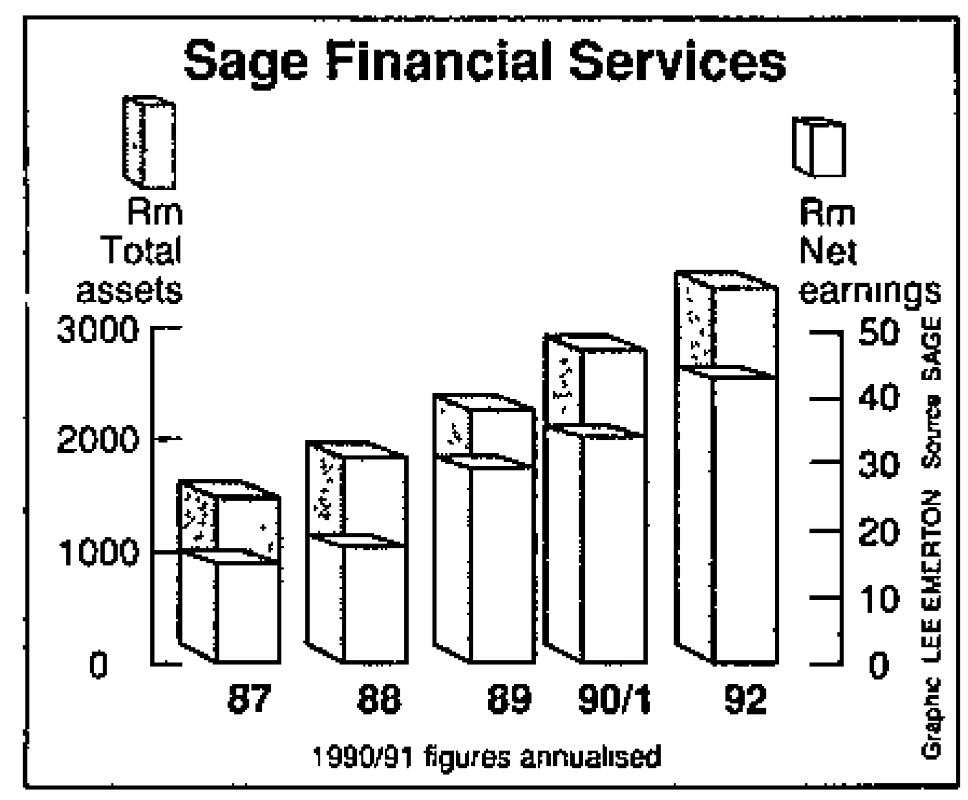
Sage Financial Services' (SFS) net earnings rose from R34,3m to R43,4m, earnings a share increasing by 21,9% to 51,2c (42,0c).

Total dividends per ordinary share have been increased from 20,8c to 25c. This includes a special dividend of 5c a share declared from accumulated reserves.

Sage Property Holdings' (Sageprop) net earnings decreased to R7,6m from R10,4m in the previous year, reducing earnings per ordinary share by 27% to 13,8c (18,9c).

Dividends for the year increased by 15% to 12c (10,4c) a share.

Major features of the group's rationalisation and restructuring programme were outlined by Shill:



- ☐ SFS — to be renamed Sage Group Limited — will become the sole listed holding in the restructured group. SHL and Sageprop will become unlisted subsidiaries of SFS and will have no minority shareholders. The shareholders of SHL and the minority shareholders of Sageprop will receive new shares in SFS in exchange for their existing shareholdings.
- ☐ The share exchange ratios are: Sage Holdings shareholders will receive 270 new SFS ordinary shares for every 100 ordinary shares held, and Sageprop shareholders will receive 55,6 new SFS ordinaries for every 100 shares held.
- ☐ The proposals do not envisage rationalisation with the interests of certain common major shareholders of Sage Holdings and Absa, or the separate listing of the combined interests in Absa.
- ☐ The proposals have been discussed with major shareholders of SHL, SFS and Sageprop, who are to support them.

Sage subsidiaries to regroup in single listing

STAR 11/6/92

(58)

By Stephen Cranston

The Sage Holdings Group will be rationalised into one listed vehicle to be called Sage Group, the chairman Louis Shill said yesterday.

The Sage Group will be structured into separate property and life assurance divisions.

Sage Group's AIH holding company has four wholly-owned subsidiaries, FPS, Sage Life, Sage Capital Managers and Investors Mutual Funds, and 26 percent of Rand Merchant Bank Holdings.

In life assurance, it has a 21 percent share of Universa which in turn holds 25 percent of Absa. It also owns Sage Computing, Fraser Street Registrars, 40 percent of Imperial Car Rental and all of the local franchise of Encyclopaedia Britannica.

Sage Property Holdings owns Sage Properties, Sage Schachat Homebuilders, Sage Land Holdings and 77 percent of SPTM.

Mr Shill also unveiled his new management team. He remains CE but he said that Kevin Daly would be deputy chairman of FPS, Theo Greeff MD of Sage Capital Managers, Bruce Ilsley MD of Sage Life and Hylton Katz remains as MD of SageSchachat.

For every 100 ordinary shares held in Sage, they are offering 270 new SFS shares and for every 100 ordinary shares in Sageprop it is offering 55,6 new SFS ordinary shares.

The results for Sage Holdings covered 15 months as there was a change in the financial year end from December to March.

EPS for the year increased by 14,5 percent compared with the annualised results for the previous period.

On an annualised basis bottom line earnings increased from R23,6 million to R28,4 million.

Dividend cover has been reduced from 1,72 to 1,69. Mr Shill said that he hoped that it would be possible to reduce the cover to 1,3 in the medium term.

Sage Life, which is listed separately, announced that new business premiums increased by 27 percent to R173,2 million, total income by 18,7 percent to R504,1 million and total assets by 21,9 percent to R2,2 billion.

Total assets exceeded R2 billion and total income passed the R500 million mark for the first time.

Sage Life's annual compound growth rate over the past five years has been 21,4 percent.

New regional policies offer a good recipe — bank review

S8

B Day 11/6/92

SHARON WOOD

STANDARD Bank's economics division believes the new regional industrial development policy (RIDP), which will be phased in over the next five years, provides a better recipe for the development of a sustainable regional economic policy in SA.

In its latest Economic Review, it says the new policy should enhance SA's longer-term growth prospects, as well as allowing a more equitable distribution of resources.

State policies should encourage economic growth and job creation, not retard them, the review says.

A difference in the two policies is that the new one emphasises development of new productive capacity outside SA's two main industrial centres, the PWV complex and Durban-Pinetown, rather than subsidisation of industrialists to persuade them to move to designated areas.

"The new RIDP will also complement other incentives designed to attract foreign investment and promote exports."

aims to sell 1-million cases by 1995.

Retief said about 78% of SA wine exports were destined for these markets, except Canada, Norway and Sweden, which still remained closed because of sanctions.

The Japanese market especially had great potential as wine was not the dominant drink and there was plenty of scope for growth as the population became Westernised. Retief said in the last three months the Japanese had ordered four times more wine than they bought throughout the whole of 1991.

Sales to western European countries such as Holland, Germany, Belgium, Switzerland, Austria, Denmark and Finland had almost trebled. Total export earnings from wine had more than doubled over the last few years and were touching R100m.

Retief said the shortage of wine was proving a constraint to exports and many foreign orders received could not be supplied. The local market, which was of greater importance than the export market, consumed 80% of the annual wine production of 10-million hectalitres. KWV handled about 70% of the annual 20% export production.

The main SA market and one which

UK grocers which all wines but th played on the shel grocers

KWV sells thre the UK — the hi dral Cellar range Mount Pearl, ranges and the Cape Country ra

Den

Retief dismisse in the UK Press t too expensive, say gories were cater

US demand for led to KWV devel range of four or fi a chardonnay, pi blanc and cabern wines were enthusi and KWV aimed to this year in the U

International d concentrate, used health products, and KWV was b grape concentrate

Retief said about grape crop was be concentrate which ceptionally high pr national market.

Syfrets outstrips market rivals

B Day 11/6/92

CAPE TOWN — Syfrets has outstripped its main rival unit trust companies in market share growth over the past five years, figures compiled by Syfrets on the basis of the Association of Unit Trusts' quarterly report to end-March show.

The research showed that Syfrets' market share more than doubled in the past year to over 10% from 5% while other unit trusts had displayed a sideways move or fall in their market share over a five-year period.

Syfrets unit trust marketing manager Keven Hinton put the growth in market share down to the expansion of the unit trust market as a whole, as well as to the fact that since its establishment in April 1987, the Syfrets Growth Fund had achieved an average annual return of 27,03%.

S8

Syfrets' market share growth was likely to be further stimulated by the launch last week of the Syfrets-managed Community Growth Fund which was estimated to have assets of R100m within its first year of operation.

VAT changes for developers

B/Day 11/6/92 (58)

BILLY PADDOCK

CAPE TOWN — The major changes contained in the new Taxation Laws Amendment Bill, to be introduced in Parliament today, are amendments to VAT levelling the playing field for developers of share blocks, sectional title and freehold title.

Most of the other amendments are re-enactments of the Government Notice of November last year, when the Finance Minister amended provisions of the VAT Act, and formalising existing practice.

The Bill amends the Marketable Securities Tax Act, the Transfer Duty Act, the Stamp Duty Act, the Self-governing Territories Constitution Act, the Regional Services Councils Act, the KwaZulu and Natal Joint Services Act and the VAT Act. The amendment to the Self-governing Territories Constitution Act relates to VAT and neutralises the effects of introducing VAT in these territories by putting the TBVC states in the same position they were in before introduction of VAT.

The main area this affects is transactions under the Customs Union, where SA pays 10% VAT on imports etc but pays the territories 13%, as was the case under GST.

According to DP Tax expert Geoff Engel, the territories would not follow SA by introducing VAT unless the prejudice they felt under the new system was neutralised.

The major new development is relief given to developers of Share Blocks which allows them the benefit of claiming VAT input credits — denied until now. Developers had to pay VAT on materials and other input costs but had no way of claiming this back when units were sold off.

The Bill alters the position in the Transfer Duty Act and the VAT Act whereby the share capital and the loan capital/obligation on first sale becomes subject to VAT and the developer can claim/deduct input credits against VAT on the sale.

This applied to Sectional Title and Freehold Title developers in the past. Only new share block developers are affected by the amendment. Other share and loan obligations were unchanged and not subject to VAT.

The other important amendment plugs a loophole used mainly by banks to avoid VAT.

Apparently banks were providing VAT-able services, but dressing these up as financial services (which are not subject to VAT).

The Bill also exempts trade unions from VAT on member's subscriptions.

The period of grace has been extended from December 1991 to June 30 1992 to correct errors in registration. Many mainly small companies and business enterprises, whose turnover did not exceed R150 000 a year, erred at the introduction of VAT and registered, puttingthemselves in a disadvantageous position.

Another amendment also eases the cash flow of more than half the vendors required to pay VAT.

TOMORROW'S SOLUTION

INTEREST RATES

Cresting a liquidity wave

FM 12/6/92

No wonder Reserve Bank Governor Chris Stals fears the effects of liquidity in the money market in the months ahead. Following a rise of R2,5bn in foreign exchange reserves in the first five months of the year, he last week announced measures to counter "a further substantial addition of liquidity to the money market from now until the end of August."

He was referring to government spending and what is bound to be a burgeoning deficit — because this spending will not be adequately offset by tax payments.

An indication of the dimensions of the problem comes in figures for April — the first month of the fiscal year — on receipts into and transfers from the State Revenue Account. Expenditure at R8,9bn was up more than 11% on the previous April. Though this is well below the inflation rate for that month it has to be measured against revenue collected:

- Inland revenue was up less than 0,1% over the previous April, at R4,646bn;
- In particular, VAT collections in April amounted to only R1bn, compared with GST collections of R1,6bn a year ago, and compared with an average monthly budgeted estimate of R1,75bn;
- Income tax receipts in April amounted to R3,3bn, compared with a budgeted monthly estimate of R4,2bn;
- Collections from Customs & Excise were up by 34% at R1,252bn, largely because of increased fuel levies, but these were dissipated by transfers amounting to R1,203bn, in Customs Union payments, producing a net R49,6m. This is down 59% from the previous April; and
- The grand total was barely changed at R4,7bn.

When amounts in transit are taken into account, the inflow into the Exchequer Account amounted to R5,3bn. It is the difference between this last figure and expenditure that has boosted market liquidity and softened interest rates.

No wonder Stals felt the need to take further action. He has decided to:

- Offer special, fully tradeable bills with a maturity of nine months to the market on tender. They will be rediscountable with the Bank only if they have a remaining outstanding maturity of 91 days or less. If not they will qualify as assets and will be accepted as collateral for overnight loans from the Bank;
- Double the balances which authorised foreign exchange dealers may hold abroad to $632bn; and
- Increase the level of cash reserves banks must hold against short-term liabilities, from 4% to 5%, by not later than July 21.

The move failed to halt the slide in rates.

Stals ... *battling liquidity*

FNB treasury head Ken Russell reports that the rate on bankers' acceptances was no higher at 14,55%, in the days following a *Business Day* report, on June 3, of a meeting at which Stals told bankers of his intentions. The rate on the RSA 12% declined from 16,17% on June 1 to 15,94% by June 4. And the rate on the Eskom 11% fell from 15,94% to 15,74%.

The outlook for the rest of the year is discouraging for Stals, who is attempting to keep interest rates above the inflation rate. He hopes that, by September, government revenue will catch up with expenditure.

However the April deficit — the difference between expenditure and revenue — is more than R4bn. Obviously this can't simply be extrapolated over the rest of the fiscal year because expenditure and revenue don't flow uniformly. But given that the budgeted deficit for 1992/1993, before capital income transfers, was R15,9bn (4,5% of estimated GDP), the figure is horrendous. It is more than 25% of the total.

Furthermore, only two months after the Budget, Minister of State Expenditure Amie Venter presented parliament with a supplementary budget of R2,8bn. "But, on his own admission, the supplementary budget is likely to be exceeded," says Nedcor chief economist Edward Osborn.

"The worrying aspect about the April revenue figures is that they point to the possibility that the budgetary revenue estimates were overoptimistic and did not take sufficient account of the depths of the recession we are going through (see p34)." He suggests the budget deficit in the fiscal year may be closer to R20bn — a huge 5,7% of GDP ■

Growthpoint income drops

MICK ELLINGHAM (58)

GROWTHPOINT Properties has reported slightly reduced net income of R8,2m for the six months ended April (1991: R8,6m). B/Day 12/6/92

However, the company's turnover was slightly up at R9,3m (R9,1m), with a dividend of 0,0325c a share (1991: 0,0339c) being declared. Debenture interest of 32,4c a unit of 10 debentures was declared (33,9c).

Directors said "tight economic conditions continue to prevail in the retail and commercial sector", necessitating a R370 000 provision for bad debts.

Vacancy levels are up to 4,29% from October 1991's level of 3,47%.

'Business commitment to inner cities needed'

BDay 12/6/92

PETER GALLI and ANDREW KRUMM

INVOLVEMENT in the revival of SA's inner cities was the responsibility of stakeholders, Propnet CE Fuzz Loubser told the Sapoa jubilee conference at Sun City yesterday.

"We have seen a decline in real property values in these areas, which has been worsened by the flight of capital to decentralised nodes," Loubser said.

Three major factors would contribute to a renewal of confidence in SA's CBD areas. These were the commitment of business, the community and city governments to inner city revival, the courage to step away from the structures of the past, and venture capital to give impetus to revitalisation. (60)

Johannesburg City Council management committee chairman Ian Davidson said Johannesburg needed to attract local and foreign investment in property development.

Provision also had to be made for the informal sector and the upgrading of the city's residential component to bring stability to the residents and the properties themselves.

Clive Lewis of UK-based Chartered Surveyors & Clive Lewis said in spite of SA having been out of the mainstream of property development, it still met international requirements.

In the next decade SA should be considering the internal environment of office buildings, the effect of that environment on the external environment, energy conservation, security, and the external appearance of buildings.

Low energy systems that eradicated the sick building syndrome as far as possible needed to be considered where natural ventilation was used, he said.

Russell Mariott & Boyd director Nick Harris said the overall vacancy in office space in Johannesburg was 9,7%.

The overall Sandton market, however, had a vacancy level of 17,8%. This was predominantly because of vacancies in the decentralised areas.

Old Mutual Property's investment manager Ian Watt said as far as the industrial market was concerned, vacancies were lower, but rental levels were still failing to show real growth. (58)

The industrial market would lead the move out of the recession, but this would not take place this year, Watt said. The market was seeing a changing focus from ownership to the renting of properties.

Banks in insider trading probe (58)

BANKING groups which attended last week's confidential briefing with Reserve Bank governor Chris Stals are being investigated for insider trading.

After the briefing, in which Stals told top bankers of a three-point plan to drain liquidity from the money market, trading among the banks' money market dealers picked up sharply. Other traders on the JSE who did not have access to this information suffered substantial losses. Now the Independent Securities Regulation Panel will investigate the deals.

W/Mail 12/6-18/6/92

CIB SEQUEL FM 12/6/92

Prima's cut

(58)

The Cape Investment Bank (CIB) saga is far from over. The *FM* has learnt that Jan Pickard's Picardi Holdings (Pichold), previously the majority shareholder in the now liquidated CIB, has a potential claim against Prima Bank Holdings of about R10m.

Pichold will claim this is the purchase price payable to it by Prima after the Reserve Bank-inspired takeover of CIB on December 18 1990

The civil action is the latest development in the liquidation of CIB, which has damaged the careers of two top civil servants, led to the resignation of a bank CEO and had far-reaching ripple effects in Cabinet. In the event of a dispute, it would also be the first CIB-related action to be heard in open court

So far, there has been a closed inquiry in terms of Section 417 of the Companies Act, a secret arbitration hearing chaired by re-

FM 12/6/92 (58)

tired Chief Justice Pierre Rabie, and another secret investigation by a retired banker and stockbroker — instructed by Transport Minister Piet Welgemoed — whose report eventually landed in Cabinet.

After Rabie's arbitration hearing, two senior civil servants, Rail Commuter Corp chairman Bart Grové and MD Kobus Nel, were demoted by Welgemoed without being charged deparmentally or given any hearing. Both men were held accountable for the corporation's R249m investment loss in CIB.

Pichold and other major shareholders sold 49% of the issued shares in CIB to Prima Bank, in exchange for preference shares for an undisclosed sum, which would have been determined on December 31 1991.

However, before the purchase price was determined, Jan Pickard jr, then CIB chairman, wrote a memorandum to Reserve Bank Governor Chris Stals in a last-minute attempt to cancel the Prima Bank takeover. "In order to preserve and protect the bank (CIB), in the interest of its clients and depositors (public interest) as well as its shareholders, it is imperative to terminate the transaction," wrote Pickard. The takeover had, in fact, already been suspended.

"Furthermore, there were suspicions by Pichold and other minorities that the manner in which the transaction was being implemented by Prima Bank is contrived to result in a reduction of the net asset value of CIB This would directly increase the NAV of Prima Bank.

"This would come about by the cessation of business by CIB through the closure of the banking division and the transfer of the other profitable areas of the bank to Prima Bank . . . The board of Pichold, furthermore, considered that the actions of Prima Bank . . . may give rise to justified criticism of its part in the transaction. It has become clear in recent days that the Prima management may not be conducting the business of the bank (CIB) in its best interests, thereby prejudicing the value of its assets and creating no new value for the amalgamated organisation."

It was later alleged that Prima Bank attempted to fund CIB through the issue of bankers' acceptances based on fictitious deals by clients of CIB. In sworn statements, former CIB CEO Andy Schwartz and the bank's GM (treasury), Freddie Marais, attested to this.

In his statement, Marais said that on December 17 1990, Prima Bank's Johan Bellingan instructed him "to draw bankers' acceptance bills totalling an approximate amount of R75m." Marais said the bills were to be drawn on various medium-to-long-term lending clients of CIB.

Marais added that Bellingan had told him that he had an arrangement with the Reserve Bank in terms of which the bills would be discounted by the Bank. "I was very concerned about the legality of this proposal. I accordingly told Mr Bellingan that the underlying transactions would be fictitious and consequently the drawing of the documents and the discounting thereof would be

cont →

FM 12/6/92

illegal . . because the letters of credit referred to on these bills did not exist, the transactions were fictitious and the bills did not qualify as liquid bankers' acceptances as was stated."

Marais said that Bellingan had told him to proceed to draw up the documents.

Details at a meeting

In his memorandum to Stals, Pickard further wrote that representatives of the CIB minorities had indicated that the formulation and implementation of the transaction required ministerial investigation. "After due consideration . . the board of Pichold decided that it cannot allow the transaction to continue, since the transaction had now turned out to be against the interest of depositors, its own shareholders, the general public and the shareholders of CIB."

Details of the memorandum were later discussed during a meeting between Stals and both Pickards in Pretoria. The meeting was also attended by Registrar of Banks Hennie van Greuning, on whose initial instructions the takeover of CIB had taken place in exchange for a R300m Reserve Bank deposit into the Bank's account at CIB — at 1% interest — on December 4 1990.

In a letter dated December 10 to Pickard jr, Van Greuning wrote that the R300m from the Reserve Bank would be deposited with CIB in effect from December 4 on

(58)

condition that CIB "must merge with another bank (of CIB's choice) . . . within 60 days." Van Greuning wrote that the choice of the new bank's CE had to be acceptable to the Bank and that CIB had to cease all its trading activities.

"After the purchase agreement has been finalised, the SA Reserve Bank will lend its support to the purchasing bank (*die oornemende bank*) with regards to bad debts which exceed the capital and reserves of your bank," wrote Van Greuning.

However, Stals and Van Greuning refused to cancel the deal. Accordingly, a new purchase contract between Pichold and Prima Bank Holdings was then drawn up, specifically providing for a negative net asset value. □ Jan Pickard jr was not available for comment.

Eddie Botha

MARSHALLS (58) FM 12/6/92

Well-judged switch

Activities: *Owns income-producing commercial and industrial properties and garages, and is also an import financing group.*
Control: *Marshall Controlling Investments 68,3%.*
Chairman & MD: *D C Marshall.*
Capital structure: *8,5m ords. Market capitalisation: R28m.*
Share market: *Price: 325c. Yields: 6,5% on dividend; 9,8% on earnings; p:e ratio, 10; cover, 1,5. 12-month high, 330c; low, 300c. Trading volume last quarter, 100 000 shares.*

Year to Dec	'88	'89	'90	'91
ST debt (Rm)	0,5	1,8	0,8	1,1
LT debt (Rm)	5,6	5,4	7,7	7,5
Debt:equity ratio	0,03	0,14	0,13	0,12
Shareholders' interest	0,79	0,9	0,89	0,9
Int & leasing cover	6,5	—	10,8	6,1
Return on cap (%)	7,9	6,1	6,1	7,7
Turnover (Rm)	27,7	33,5	26,1	22,7
Pre-int profit (Rm)	4,2	5,0	5,5	6,7
Pre-int margin (%)	16,1	14,9	21,2	29,7
Earnings (c)	21,8	22,6	24,8	32
Dividends (c)	15	17	19	21
Net worth (c)	498	618	759	833

Pretty consistent, if boring, summarises performance in recent years. Trading profits and EPS have risen steadily since 1987, largely on the back of property investments in Durban and Cape Town.

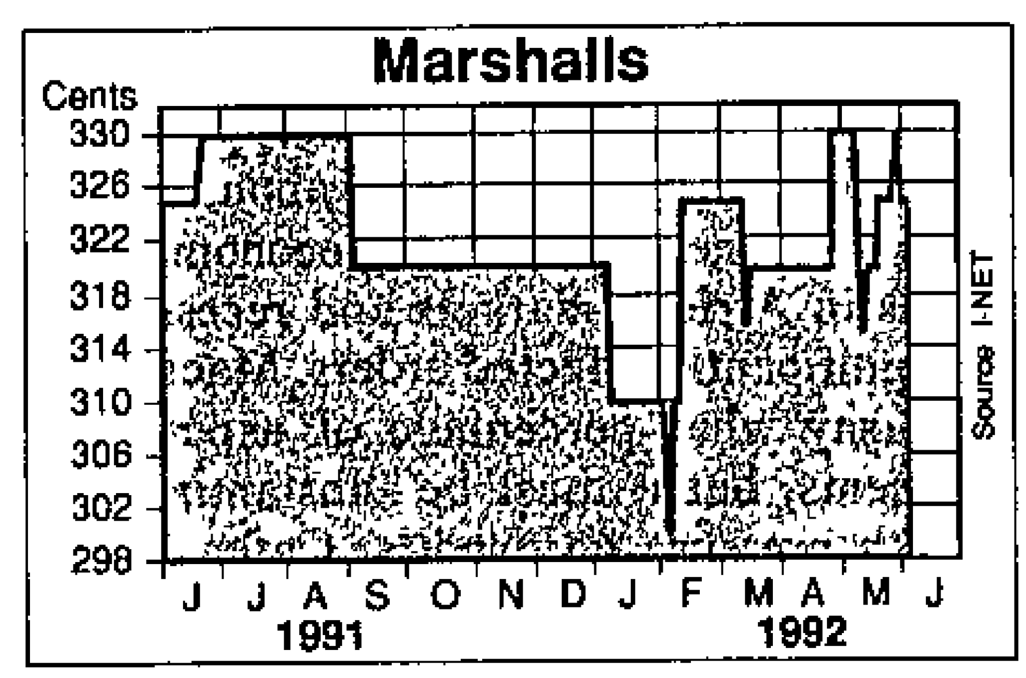
Chairman David Marshall notes that the group sold or closed motor and agricultural distribution operations over this period, replacing them with trade finance company

FM 12/6/92 (58)

Marshalls Confirming. He rationalises the switch by saying trade finance is high-margin business where the assets (working capital) do not inflate. This complements the low-yielding, inflating property assets.

Agriculture formed the main part of the distribution operations. Considering the plunge in tractor sales from 20 000 units in 1980 to 2 000, with prospects bleak, the switch cannot be criticised.

Property, accounting for 80% of pre-tax profit, remains the cornerstone, but the trade finance arm has grown well. Its contribution last year rose R400 000 to R1,2m. But Marshall warns its growth will be restricted in the short term, despite higher trade resulting from the lifting of sanctions. "We have to be cautious as the creditworthiness of many potential clients is doubtful, given the parlous state of the economy."



Replacing low-margin businesses with trade finance explains the rise in trading profit on the back of a drop in turnover, itself the result of the distribution disposals.

At a 61% discount to NAV, the market prices Marshalls on cash flow yields rather than potential gains through an asset strip (probably correct, with control firmly entrenched in Durban's Marshall family).

This said, a 9,8% earnings yield is below the 11,8% property sector average, though respective dividend yields of 6,5% and 6,3% are in line. Diversification into trade finance may warrant a higher rating. *William Gilfillan*

RETIREMENT FM 12/6/92 (58)

ANC deals with Sanlam

A decision to invest the provident funds of ANC staff through Sanlam caused some surprise but it is a measure of the extent to

FM 12/6/92 (58) [redacted]

which the Bellville assurer has managed to change its image from a mutual set-up for Afrikaner savings.

"It was a very democratic decision," says an ANC official, adding that several presentations were received and then voted on. Derek Hanekom, of the ANC economics unit, says Sanlam made the best all-round presentation from "an investment point of view."

What is not clear is whether Sanlam will be requested by the trustees to put any of the money into the Community Growth Fund, the unit trust announced last month that will invest only in "socially responsible" companies.

It makes sense that the ANC would want to join trade unions sending money to the CGF. So far, apparently, that issue has not been discussed. Hanekom suggests it is possible to separate ANC policies, to some extent, from the wishes of the 600-plus staff who ultimately control the fund. But the question was raised, when Sanlam presented, to what extent the sensitivities of fund members would be taken into account when the portfolio was compiled. Hanekom says satisfactory assurances on this issue was one of the factors in Sanlam's favour.

Sanlam says it will under no circumstances divulge details of a client's investment policies and directions but adds that clients' wishes are always taken into account. ■

METROPOLITAN LIFE FM 12/6/92

Looking lively (58)

The impressive 63% hike in Metropolitan Life (Metlife)'s share price over the past 10 months shows what better tradeability can do. In August, Metlife issued 22m shares in a R186m rights issue, sparking a trading spree which saw the price climb from 950c to 1 650c in May. The share is now R1 off this high, but still holding the upward trend line.

Of course, MD Marius Smith, while acknowledging that "tradeability helped a lot", says the gains also have a lot to do with Metlife's good track record.

Recurring premiums in the half-year to March are up a healthy 25% to R375m, offset slightly by a 38% drop in single premiums which, as they are less than 10% of total business, still sees net premiums up 21%.

The whopping 85% rise in disclosed surplus to R19,9m is a result of capital from the rights issue, which was available for the full period and earned substantial income. Smith says the R186m has been deployed in the investment portfolio.

An increase of 14% in investment income does not look inspiring, but Smith says this is due to a shift into longer-term investments.

Metlife was sitting with about 30% of its portfolio in cash. "Short-term interest rates in the money market came down and equities have been averaging returns of about 3%. We believe we were correct to change the composition of our portfolio."

He won't disclose the total yield on investments, but says it is in excess of the inflation rate. Expenses are also not disclosed at the interim, but Smith says the increase was

INCOME BOOST

Six months to	Mar 31 '91	Sep 30 '91	Mar 31 '92
Net premium inc (Rm) .	323,0	380,0	390,1
Investment inc (Rm) .	155,7	161,4	177,1
Earnings (c)	25,0	45,0	30,5
Dividends (c)	16,5	16,5	20

FM 12/6/92 (58)

kept below the increase in recurring premiums, so the company must have the resources to meet new business strain.

For Metlife that could be considerable, with its largely black client profile. The company has concentrated on professional people and State employees, a market which is both relatively stable and offers good potential.

On a p:e of 20,5 and dividend yield of 3,1%, Metlife looks fully priced — as the life sector usually does. But as a long-term investment, with the considerable potential offered by its niche market, Metlife is worth a look.

Shaun Harris

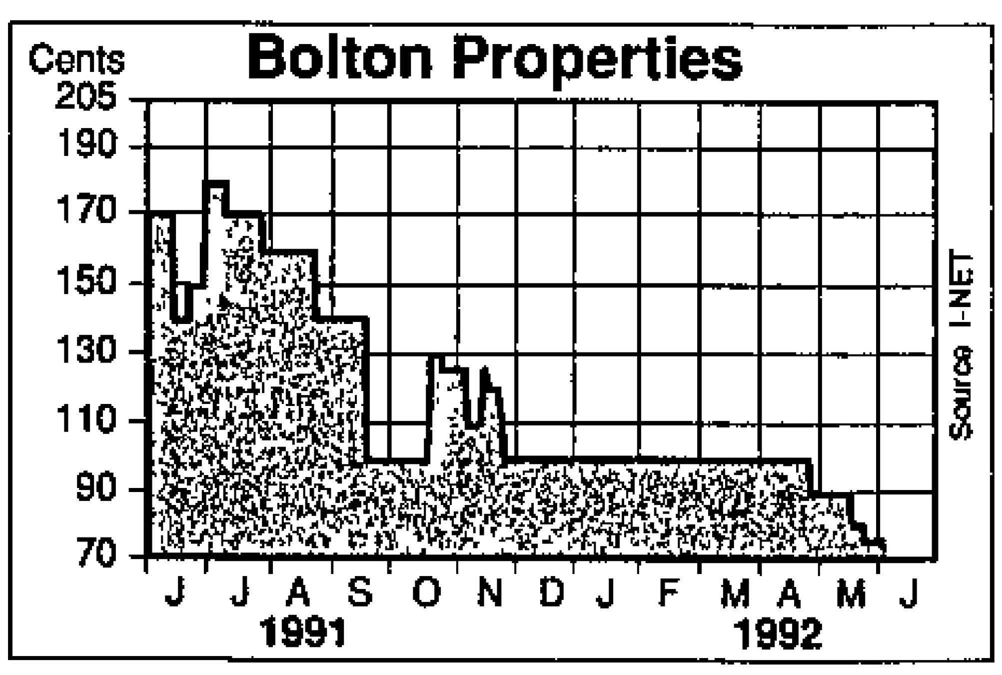
BOLTON PROPERTIES (58)

Diminishing assets

Cash distribution of 40c a share reduced share premium by R2m and cut cash resources to a four-year low of R588 000 (1991: R2,2m). Rentals plummeted from R857 000 to R369 000, contributing to falls of 69% in turnover and 56% in pre-tax profit.

Property in Great Brak River, between George and Mossel Bay, was sold and fixed assets slid by R600 000. Chairman Gerald Stein says some sales required subdivisions and so were not brought into the report.

Stein warns it is not likely that the book value of remaining properties in Great Brak River will be realised; R1,4m has been retained in a capital reserve for possible losses, though precise losses will only be known



Activities: *Owns and lets land and buildings.*
Control: *Cargo Carriers Holdings 65%.*
Chairman: *G H Stein; MD: S G Chilvers.*
Capital structure: *5,2m ords. Market capitalisation: R3,9m.*
Share market: *Price: 75c. Yields: 6,7% on dividend; 7,1% on earnings; p:e ratio, 14,2; cover, 1,1. 12-month high, 200c; low, 75c. Trading volume last quarter, 88 000 shares.*

Year to Feb 28	'89	'90	'91	'92
LT debt (Rm)	—	0,8	0,5	0,5
Shareholders' interest	1,0	0,5	0,9	0,9
Int & leasing cover	87,2	203,7	176,7	—
Return on cap (%)	6,6	13,5	8,9	4,7
Turnover (Rm)	2,5	5,4	1,2	0,4
Pre-int profit (Rm)	1,7	4,3	1,2	0,5
Pre-int margin (%)	68	79	104	146
Earnings (c)	16,9	39,1	11,7	5,3
Dividends (c)	14	15	15	5
Net worth (c)	486	303	244	205

when all the properties are sold.

MD Stanley Chilvers confirms that notice has been received from an associate company (presumably a fellow-subsidiary of Cargo Carriers) that about half of the leases on properties let to it will not be renewed when they expire on August 31. The properties will be put up for sale.

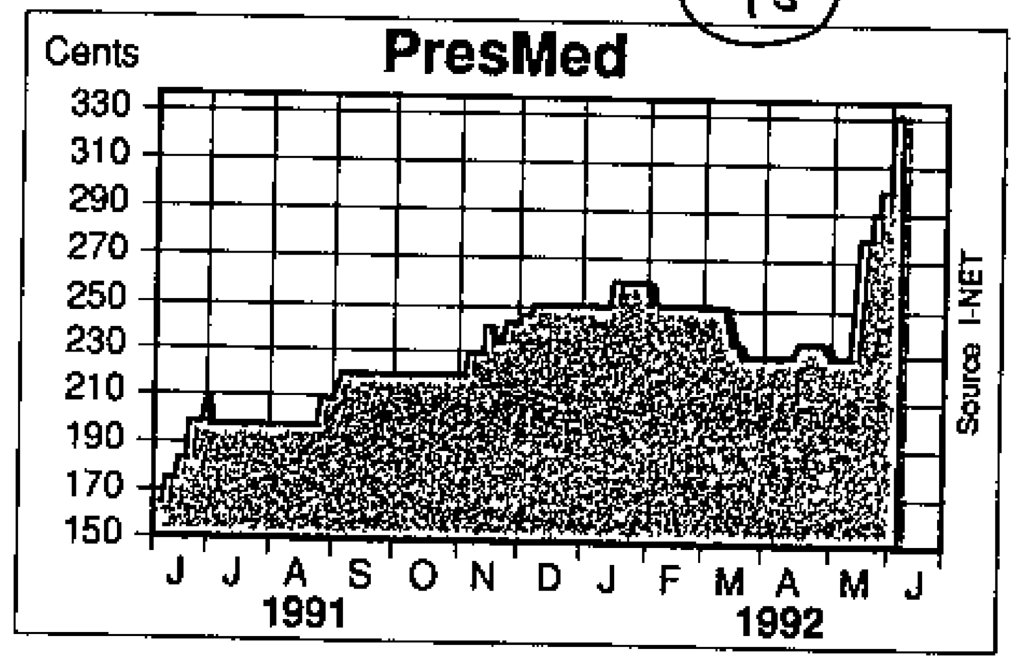
Chilvers admits it is not a good time to be selling property. He says Bolton Properties is "not a trading concern but a realisation company and it may take time to realise the properties."

Management doubts that further capital repayments will be made this year and reminds shareholders that the reduction in assets will inevitably affect earnings. Capital repayments will be made over time as more properties are sold.

Stein forecasts EPS (and dividends) this year of 3c — almost half of last year's and a quarter of 1990's. As it is difficult for an outsider to guess the likely proceeds and time scale of future property disposals, the share is speculative. *Kate Rushton*

FM 12/6/92

(98)



PRESMED FM 12/6/92

Healthy success

(98)

Activities: *Operates private hospitals and day clinics.*

Control: *PresMed holdings 62,5%.*

Chairman: *P H N Bremer; MD: C A Grillenberger.*

Capital structure: *11,5m ords. Market capitalisation: R38m.*

Share market: *Price: 330c. Yields: 2,0% on dividend; 9,4% on earnings; p:e ratio, 10,7; cover, 4,6. 12-month high, 330c; low, 165c. Trading volume last quarter, 15 000 shares.*

Year to Feb 28	'89	'90	'91	'92
ST debt (Rm)	1,1	0,7	0,07	0,5
LT debt (Rm)	3,9	3,8	3,6	3,2
Debt:equity ratio	0,99	0,67	0,16	—
Shareholders' interest	0,30	0,30	0,37	0,35
Int & leasing cover	2,6	4,6	6,0	9,2
Return on cap (%)	16,4	30,7	36,1	39,0
Turnover (Rm)	22,1	38,8	51,3	74,3
Pre-int profit (Rm)	2,4	5,8	8,0	11,6
Pre-int margin (%)	10,9	15,0	15,5	15,6
Earnings (c)	8,1	15,4	22,3	30,9
Dividends (c)	2,7	4	5	6,7
Net worth (c)	16	30	40	50

One of the DCM's few success stories, President Medical Investments (PresMed) has lifted earnings fivefold since its 1986 listing and was promoted to the main board pharmaceutical sector in 1989. It has featured four years out of five in the *FM Top Companies Survey's* top 10 list for return on equity.

PresMed has outperformed other private hospitals in EPS. The latest 38% gain compares with 24% at Clinic Holdings and only 10% at Rembrandt-controlled Medi-Clinic.

PresMed added two hospitals (Bedford Gardens and Peglarae, in Rustenburg) and two clinics (Zandfontein and Kempton Park — still being built) to its existing three hospitals and seven day clinics last year.

Chairman Naude Bremer maintains day clinics will play an increasing role in the health-care industry as technology improves. He bases this on US statistics where, thanks to technological advances, half of all operations can be done in day clinics. He says: "Government should stimulate the growth of day clinics because this would contribute directly towards reduced medical costs".

He adds that PresMed has achieved growth mainly through becoming SA's most cost-effective hospital group, while maintaining high quality patient care.

Bremer says the "days of the traditional fee-for-service system are numbered." This is evident in the PresMed group; all its hospital and day clinics charge medical aid rates.

The share has been thinly traded but management wants to change this. It is evaluating a proposal to consolidate and subdivide the shares to increase the number in issue.

The company is highly liquid since a rights issue of unsecured compulsorily convertible debentures raised R7,5m, boosting cash resources to R11m (1991: R2,3m).

PresMed has forecast 20% annual EPS growth for the five years to 1996 and dividend growth of at least 25%. These appear feasible targets, but the high dividend cover, which holds down the yield, may put some investors off an otherwise attractive share.

Kate Rushton

MORTGAGE RATES

FM 12/6/92.

More cuts to come?

58

The likelihood of more bond rate cuts in 1992 is strong. Absa economists believe Reserve Bank Governor Chris Stals will cut Bank rate by 2% or perhaps 3% during the course of the interest rate cycle which should turn in the second half of 1993. That could mean two cuts of 1% each in 1992, which could see banks in turn lowering their mortgage rates by an equivalent amount.

These further cuts would come on top of the 1% Bank rate cut in March. Mortgage rates have been lowered on two occasions already in 1992 — the first in early February and the second at the beginning of May (to take effect in July) — to bring the bond rate to 18% from July.

But last week's announcement by Stals that he would tackle high liquidity in the money market by raising banks' cash reserve requirements from 4% to 5%, is a sign to some that he will not rush to lower Bank rates.

The move also reduces the likelihood that banks will precipitate these cuts by lowering their mortgage rates beforehand, according to Absa economist Dominick Sutton.

Should the falls come about, the implications for the property industry are enormous, especially for the residential market which seems poised for an upturn. Views differ, however, as to how sharply house prices will rise and in what category.

Real Estate Surveys MD Erwin Rode says an increase has been noted in the volume of property transactions and the trend is expected to continue. He forecasts the greatest movement in house prices will occur in the lower end of the market because of pressure from new entrants previously caught in the Group Areas Act.

He says prices are not expected to rise much in the middle market and will continue to decline in the upper end. These markets have a high incidence of subsidies and are therefore not so sensitive to interest rate movements.

Former Finance Minister Barend du Plessis estimated in 1991 that 70% of homeowners were subsidised and Rode believes most of them fall into the middle and upper market categories.

Absa, in its latest *Quarterly Housing Review*, predicts that house prices will rise by only 2% in real terms this year — nominally 16% or 2% plus inflation — the current inflation rate of 15,6% is expected to decline to average 14% for 1992.

In his January 1992 *Property Economist* report, Neville Berkowitz forecast an interest rate drop of 2%-3% during 1992. He is less optimistic than some about house price increases, which, he says, are more sensitive to changes in confidence levels than to interest rates.

He says that even with the 9% mortgage rate in the late Seventies, there was negative real growth in house prices due to the 1976 Soweto riots and the aftermath.

But Berkowitz believes the timing could not be better for home buyers and investors — at least for the medium term. With inflation expected to rise in the new SA, he says investing in property is better than letting money erode in the bank.

Ampros MD Gerald Leissner also believes interest rates will fall further this year. He reasons that the inflation rate — CPI in particular — seems to be unusually high and most economists say it will come down. "More than that, I think the economy needs a shot in the arm. One way to do that is to drop rates, even if only in the short term. Farmers are in trouble, retailers are hurting badly and consumption is down. Government needs to do something.

"Such a move, I think, will help the retail sector — though not necessarily the oversupplied office market. On the residential side, prices will rise because the lowering of bond rates will push up demand for existing housing stock — which is expected to come under increasing pressure from new entrants in the market.

"Demand for sectional title and rented flats should also receive a boost — if the question of bonds is resolved. Judging from the work we're doing at the Central Johannesburg Partnership, especially in areas such as Hillbrow, such a resolution is possible."

Bureau for Economic Research director Ockie Stuart supports others' views that the emphasis on lowering the inflation rate will result in more Bank rate cuts, though the BER believes there may be only a further 1% cut in the last quarter of 1992.

"Mortgage rates usually follow the cuts. This time round, they actually preempted the Bank rate cut. So, whatever one says for rates applies to mortgage rates. At the end of the year, we should be looking at a prime overdraft rate of 17% and a mortgage rate, at best, of 16%," predicts Stuart. ■

FANCOURT

What to do?

There is no doubt that the Fancourt hotel and country club estate in George is a quality development. Its timing was good in view of the expected tourist boom. Foreigners have accounted for 68% of the hotel's guests over the past six months and 48% of its R42m sales — with total sales potential to 1996 put at R380m.

A further R20m is waiting in the wings for buyers of corporate and executive lodges. The scheme allows for 292 lodges, with 69 corporate ones already sold, and 207 permanent homes

There is also a rumour that a German company is considering buying R250m worth of lodges in another stage of the scheme.

The problem is: how long can the scheme's debenture holders wait for interest from the R90m they have committed to the scheme? Fancourt is striving to raise more capital to complete infrastructure, release proceeds from sales and start paying interest as soon as possible.

ANOTHER ONE BITES THE DUST

It appears that another big UK property developer has come a cropper. Sapa recently reported that Mountleigh Group Plc has been put into receivership.

Accounting firm KPMG Peat Marwick has been appointed by the Mountleigh board to manage the group's assets, estimated at £400m. This compares with its debts of roughly £500m.

Mountleigh's problems have been widely anticipated following recent losses and news last month that the planned £125m sale of its Merry Hill shopping centre in the west Midlands had fallen through. The disposal was seen as a key element in the group's fight to surmount its debt problems.

Earlier, Mountleigh's Spanish department store, Galerias Preciados SA — the second-largest retailer in Spain — said Mountleigh was considering an offer from unspecified "outside investors" for 100% of the business.

A statement released by the department store said it considered a management buyout a possible alternative to an acquisition by outsiders. A spokesman for Galerias said he was unable to provide any details on the offer for the company or say whether the potential buyers were Spanish or British.

Other assets include the Camberley shopping centre and a 50% share of the Criterion in London's Piccadilly.

FM 12/6/92

REPOSSESSIONS (58)

Banking on property

The law may well prevent bank officials from buying any immovable property owned by, or mortgaged to, their institution, except at a duly advertised public auction; but it doesn't stop the bank from doing so. The question arises out of press reports alleging that banks are repossessing bonded properties, selling them at a profit and still claiming the outstanding bond repayments.

The Deposit-Taking Institutions Act of 1990 prohibits directors and employees of a bank from buying bonded property sold by the bank or liquidator of an insolvent estate. The prohibition extends to directors and officers of the bank's controlling company or any other company in which officials have a direct interest.

First National Bank, which, through a wholly owned subsidiary, recently bought a repossessed property for R10 and sold it for R80 000, did not break the law because the interpretation of the term "direct interest" does not apply. However, in the wake of the publicity the case generated, FNB has announced that, in future, net proceeds on sales will be set off against customers' indebtedness.

Essentially, the law recognises two separate transactions; the first is a secured loan that has become a bad debt, and for which the bank is entitled to look to its security. The law prescribes a method by which the secured property can pass into the bank's possession: by purchasing it at a duly advertised public auction. If a third party buys it, the proceeds on sale are set off against the borrower's loan.

The second transaction comes about if the bank sells the property. Whatever profit or loss is made on the sale is for the bank's own account. The two transactions are, at law, unconnected.

In the FNB case, the borrowers — Maria and Zofia Szfranski — protested because their house, which the bank had repossessed, fetched R80 000. This, they felt, was enough to set off against their loan and release them from further obligation. FNB, however, had obtained a judgment for the full outstanding balance before the subsequent sale took place.

FNB senior GM Norman Axten says FNB agreed — before the first press report appeared — to set the proceeds off against the loan account and demand only the reduced balance. This represented a change in policy, which the bank would follow in future.

Nallie Bosman, managing executive of Allied and United Banks, says that his banks do not buy repossessed properties through subsidiaries.

"But don't be misled by amounts like R10," he cautions. "There are heavy legal costs involved and banks land up paying more than R10 for repossessed properties. What we try to do is sell the property for its market value as soon as possible but, because repossessions generally happen in recessionary times, this can be difficult. We also try to put a tenant into the property — often properties are vandalised and this results in additional costs."

But what if the property is disposed of at a profit? "In all my years, it has never happened," says Bosman. He adds that if any foreclosed properties were to bring in more than the original borrower owed — after all costs are taken into account — "then legal action against the borrower would be suspended."

A more pressing question is: if houses are being auctioned for less than the stamp duty on a residential rental agreement, how is it possible that the only bidders at these auctions are banks (and then only the bank concerned)? Does it not seem that anyone who has the time to peruse the legal notices in the press — and a few hundred rands to spare — could become a property baron overnight?

"Absolutely not," says NBS assistant GM Trevor Olivier. "If outside bidders are present, the bank bids the price to market value. Don't forget the only security the bank has for its bad debt is the property — which it cannot afford to let go for R10. The only time that properties are sold for nominal amounts is when the bank is the sole interested party. It buys the property in at the lowest possible price to protect itself and to keep legal costs and transfer duties to a minimum. This benefits the original borrower because he would have to bear the costs."

Axten says that the publicity has been detrimental. To counter any accusations, the bank released an independent auditor's report stating that the bank "has not realised any profit on the repossession and sale of the property in question." The exact figures remain a secret because the Szfranskis have refused to allow Axten to release them. No doubt their account reflects charges (such as interest and legal costs) that could have absorbed any amounts they may have thought should be owing to them after the set off.

The auditors' certificate stated that their review reveals no information to indicate that any of the charges are "incorrect."

Nevertheless, the Szfanskis are not satisfied and are continuing with their legal action against the bank.

Meanwhile, FNB's internal auditors are investigating past cases in which properties were bought at nominal value and then resold. Axten reports: "Since 1989 there have been 380 of these transactions with total indebtedness amounting to R37m. Even if set-off had been allowed, in only one case was a profit made — of R3 700. Obviously, we are going to refund that money" ■

NONRESIDENT INTEREST FM 12/6/92

Reason prevails

Government's recent decision to reverse its policy on the taxation of nonresident interest may be a move towards a more coherent and investment-orientated tax policy. When Revenue reminded investors, in February, that some categories of interest earned on foreign investment were subject to income tax, the finrand took a plunge as investors rushed out even more quickly than they had rushed in, lured by high rates obtainable on finrand-denominated interest-bearing accounts (*Economy* February 20). The move was criticised by the *FM* at the time as damaging to confidence.

Unfortunately a reversal of the decision has not had a symmetrical influence on the finrand. Confidence is easy to damage, difficult to restore, especially as the fortunes of the Codesa negotiations fluctuate. A re-

GDM Finance bucks adversity and lifts both earnings and dividend

(58)

Trade finance group GDM Finance lifted earnings and dividends in the year to April.

Attributable earnings increased 12,6 percent to R9,721 million (38c a share — previously 33,7c).

The higher final dividend of 10,25c a share brings the total to 15,5c (13,5c).

GDM Finance has produced a return of at least 30 percent on average shareholders' equity for the fifth year in a row.

Pre-tax profit slipped marginally from R11,985 million a year ago to R11,514 million.

MD John Cowper says pre-tax profit and tax payable were reduced by the need to write off bad debts incurred during the year.

GDM Finance's investment in clearing and forwarding continued to be rewarding.

African Shipping, in which it has a 64 percent interest, achieved taxed profit of R2,4 million, a 67,8 percent improvement on the previous figure.

Mr Cowper says that while he is hopeful the general economic and political position will begin to improve in the second half of this year, GDM Finance expected difficult trading conditions to continue. — Sapa.

A bad time to pick up the reins at Saambou

S1 Times (Buss) 14/6/92.

SAAMBOU chief executive of 16 months Johan Myburgh would not have chosen to start his career at the banking group at the point he did

He faced bad news by the bucketful — losses, write-offs, nightmarish systems technology. In short, every single department needed some attention when he signed on. Mr Myburgh told the Investment Analysts Society in Johannesburg this week: "The group was losing money at a rate of R2-million a month when I joined.

"Management did not know it because the management information system was so bad."

Results for the year to March 1992 showed a R9-million profit, but abnormal items of R75-million on top of a R25-million provision against advances were taken on the chin.

Mr Myburgh broke the abnormal items down into gilt losses of R25,5-million, losses arising from revaluation of property development advances and inventory to a realisable value of R43,3-million and another R6,3-million in rationalisation costs.

Saambou is not alone in losing on property development

JOHAN MYBURGH. Skeletons out of the coffins Picture: ANDY KATZ

Mr Myburgh says the scrapping of the Group Areas Act last year had a devastating effect on property earmarked for up-market houses for blacks

Saambou tried to cut the size of the stands to encourage sales, but this led to protests from neighbours about squatter camps on their doorsteps

Mr Myburgh used this as an example of why the group's audited and signed 1991 accounts noted property revalued by plus-R28-million when only six months later R44-million had to be written down.

Saambou also stopped capitalising interest on property developments.

Now the knock has been taken, property can be sold and any return treated as bonsella. The disastrous gilts operation has been closed.

Saambou will aim to provide affordable banking services to salary earners and pensioners in order to raise living standards.

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Saambou meets the current 5% capital to assets requirement, a fact good enough for Mr Myburgh, but one which he knows alarms investors

"It is close to the wind, but why should we need a lot when capital is most costly? We need to earn 40% on it before tax when we can borrow at 14%."

Saambou has tackled its liabilites by introducing two savings accounts which have attracted large deposits. The technology has been farmed out to software house SPL, which Mr Myburgh says is the most cost-effective solution

The branch network is being trimmed in rural areas where there are more financial institutions than there are house sales.

Mr Myburgh, a former head of Santambank, has recruited a team of men he hopes will return Saambou to prosperity He promises moves to full financial disclosure — "something the biggest bank in the country can't claim"

The intention is to improve non-interest income and reduce operating costs.

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Income increases could come from improved broking commissions, Saambou's life company, service fees and perhaps some profit from property development.

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Mr Myburgh expects Saambou to improve from now and to thrive by 1995. He hopes dividends will be restored this year, possibly as scrip.

The intended improvements in financial performance from Saambou looked a bit too ambitious for the JSE The shares were offered at 83c the day after the results were reported

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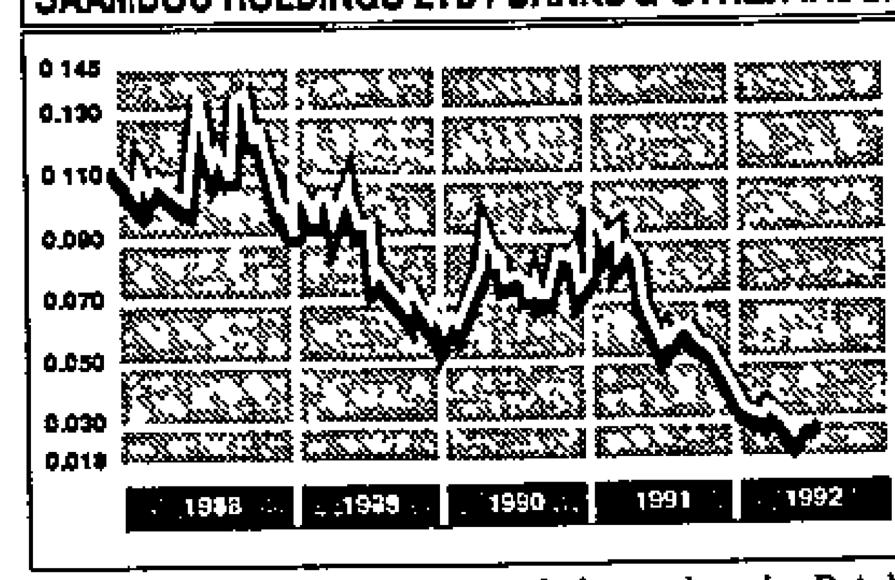
DIAGONAL STREET by Julie Walker

SAAMBOU HOLDINGS LTD / BANKS & OTHER INDEX



Four-legged dogs and those with three

S1 Times (Buss) 14/6/92

THE Axeman Cometh. That headline on an Investors Chronicle article about financial services in Britain could have been written about South Africa

The article says. "It's not just banks. Britain has too many building society branches, too many unit trusts, too many life assurance companies. everybody wants to be the rationaliser, nobody wants to be rationalised."

If Britain's 60-million people, many of them affluent, are faced with an embarrassment of financial services, can the same be said for South Africa, given its current banking and insurance activities?

Fedlife's Morris Bernstein touched on the issue in his speech to the Insurance Institute of SA conference.

Investors Chronicle airs the view of insurance guru and ex-South African Sir Mark Weinberg that in 10 years' time in Britain, banks and building societies will dominate with 70% of the financial services market.

The balance will be filled by niche players, whose customers will be a minority loath to be dictated to by banks.

Dr Bernstein outlines his view of the respective roles of banks-building societies and of life offices in SA.

He gives an up-market version of the dog-in-the-manger routine: SA's insurers are four-legged dogs, banks have three. Instead of fourth, they would prefer to see the insurance dog lose one.

The banks' grouse is that life assurers have had a great tax advantage. Historically, they were taxed on 30% of their investment income, a figure which roughly equated to profit.

"Originally, when company tax was 40%, life offices were taxed at 40% of the 30% The resultant 12% figure led to a quantum leap into controversial territory, but it is based on an error in logic," says Dr Bernstein

Tax on approved business (pensions and retirement annuities) is deferred until payment The fiscus still gets its tax, but down the road.

Life office tax has increased in recent years. The life offices are now taxed at company rates on the full investment income in respect of taxable business.

Yet life offices are alone in still being taxed on two-thirds of dividend income and can offset only 55% of their expenses against tax, spread over five years.

The level playing fields matter is under review and there is likely to be a three-fund approach which is already extending to four

Dr Bernstein says. "Most life officers seem to be in favour of the separation of their business into taxed policyholders' funds, untaxed funds, shareholders' funds and company-owned policy funds.

"It is supposed to be theoretically perfect, but I think more homework is necessary It could be skewed in favour of the big life companies and will discriminate against companies doing a lot of pensions business.

"It's possible the government won't collect as much tax as it does currently."

Dr Bernstein says insurers now work so closely with banks that their coexistence will thrive. He puts the success of life assurance in the past 20 years down to marketing skills, whereas the banks maintain it is because of favourable tax treatment.

"In SA, one can say thank goodness for the life assurance industry, without whose capital injections two of the big five banks might no longer be around"

He outlines the ties — Mutual-Nedcor, Sanlam-Absa, Liberty-Standard, Southern-First National, Fedsure-Investec-Saambou and Norwich-NBS.

Bank brokers account for 60% of all broker business, which is in turn about 35% of total business.

SA's banks are consumer driven, whereas the insurers are distribution driven.

Dr Bernstein expects financial harmony to continue in SA Banks will still earn profits from commissions and their equity holdings in life assurers, the brokerages will continue to expand and help to cultivate their customer bases.

He believes captive life offices of banks and building societies will flourish, but not stray from their niche.

If SA avoids the unhappy changes made to the British financial services laws, independent brokers will also thrive

Banks will move into life

MORRIS BERNSTEIN: Financial harmony

business, but only into the commodity type.

"A bank employee can be a successful life assurance salesman, but will do it directly and join our ranks and not through the basis of a salary plus bonus from a bank."

Dr Bernstein believes that the domain of banks shoulc be short-term money up t five years, whereas life of fices are 10 years and more

If the sixth schedule i scrapped, life offices coul become five years and longe money havens.

"Investments of under fiv years should be about capita security, but 10 years an longer is about protectio against inflation. Equity an property investments mad through the life offices hav done that."

He says the oligopoly o SA's few, but strong, assur ers, is a healthy one.

One of the most compe ling reasons not to promot one-stop financial super markets in SA is the simp truth that one should no have all one's eggs in th same basket.

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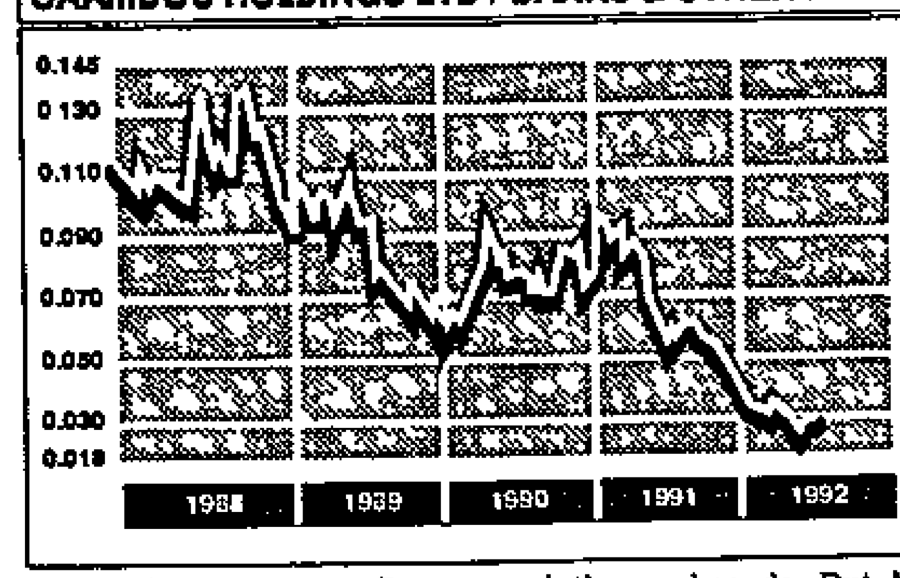

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Bank brokers account for 60% of all broker business, which is in turn about 35% of total business.

SA's banks are consumer driven, whereas the insurers are distribution driven.

Dr Bernstein expects financial harmony to continue in SA. Banks will still earn profits from commissions and their equity holdings in life assurers, the brokerages will continue to expand and help to cultivate their customer bases.

He believes captive life offices of banks and building societies will flourish, but not stray from their niche.

If SA avoids the unhappy changes made to the British financial services laws, independent brokers will also thrive.

Banks will move into life


MORRIS BERNSTEIN: Financial harmony

business, but only into the commodity type.

"A bank employee can be a successful life assurance salesman, but will do it directly and join our ranks and not through the basis of a salary plus bonus from a bank."

Dr Bernstein believes that the domain of banks should be short-term money up to five years, whereas life offices are 10 years and more.

If the sixth schedule is scrapped, life offices coulc become five years and longer money havens.

"Investments of under fiv years should be about capita security, but 10 years anc longer is about protectio against inflation. Equity an property investments made through the life offices have done that."

He says the oligopoly o SA's few, but strong, assur ers, is a healthy one.

One of the most compel ling reasons not to promot one-stop financial super markets in SA is the simpl truth that one should no have all one's eggs in th same basket.

Zimbabwe labour turmoil

ZIMBABWEAN labour relations have been plunged into crisis once again because of new government legislation and the worsening impact of the drought.

In the face of protests from trade unions and employers, the government has pushed a new set of amendments to the Labour Relations Act through Parliament. Both the Zimbabwe Congress of Trade Unions (ZCTU) and Employers' Confederation of Zimbabwe (EMCOZ) are accusing the Zanu administration of bad faith.

The ZCTU says the latest measures mark renewed efforts by the State at union-bashing.

Undermine

Included in the regulations which were ratified by Parliament on May 21 are new provisions allowing for shopfloor "workers' councils" with greater say in the collective bargaining process. At the same time the provisions undermine the negotiating capacity of individual workers' councils.

Free collective bargaining is a relatively new feature of industrial labour relations in Zimbabwe, having been introduced in 1991 as part of the government's moves to liberalise the economy. Between the adoption of the Labour Relations Act in 1985 and 1991, minimum and maximum wage scales, along with codes of conduct and retrenchment agreements, were supervised and heavily regulated by the labour ministry.

In 1991 the government withdrew and set up a process whereby employers and employees would negotiate terms of employment and wages through industry-wide employment councils and company-specific workers' councils.

At the same time the government introduced Statutory Instruments 379 and 404, giving workers' councils a greater input into the drawing up of codes of conduct and retrenchment regulations for specific companies.

Clpress 14/6/92.

This alteration removed the likelihood of industry-wide standards of employment being maintained and opened the possibility of the fragmentation of collective worker action within and across industries.

That possibility of intra-union splintering has now increased in the wake of the 1992 amendments.

The new laws accord workers' councils preference over employment councils in the negotiation of terms of employment. Decisions reached by employment councils will no longer be binding over those reached at shopfloor.

Now industry-wide codes of conduct may be ignored by workers' councils and retrenchment disputes may be administered with equal authority by either workers' councils or employment councils.

While EMCOZ argues these new regulations mark the start of "real shopfloor democracy", further provisions contained in the amendments indicate otherwise.

A key feature of the new law is the designation of some workers as "managerial employees", who will henceforth be excluded from participation in worker councils activity.

The ZCTU argues this definition includes all low-level management workers – such as foremen, gang-leaders and supervisors – and notes these are precisely the types of workers who regularly represent employees on workers' councils. Furthermore, the ZCTU claims those lesser-ranked, usually less-experienced and more poorly educated workers who will be eligible for workers' councils will have less capacity to engage employers in fair and equal bargaining over a range of labour issues.

The amendments come at a time when relations between the government and the trade unions are growing increasingly hostile, in the wake of Zanu's structural adjustment programme (Esap) and the impact of the deepening recession on the employment sector. According to the ZCTU and EMCOZ, the free and fair collective bargaining which the government promised last year in keeping with Esap – and which both sides saw as an important factor in the rationalisation of industrial relations – has not materialised.

A mockery

While the ZCTU protests that the retention of a range of arbitrary powers by the labour ministry and the failure to introduce new measures to protect workers (from maternity leave benefits to controls over child labour) makes a mockery of the collective bargaining process, EMCOZ is chastising the government for souring the business investment climate. Both sides blame the government for failing to radically alter the status quo of labour relations, which in the past have been dominated by the State.

The new dispensation will soon be put to the test under conditions which are rapidly deteriorating. As unions across the country prepare for annual rounds of collective bargaining, reports by industrial experts are indicating drought-induced slowdowns and labour retrenchments in coming months.

Insurance: blacks forced to use elbows

Clpress 14/6/92

Black entrepreneurs entering the insurance market wield enormous power. They may not have the capital resources or managerial expertise of the main players, but they command the buying power of the masses.

This situation is similar to that which prevailed when Afrikaner business began emerging in the 1930s. Jan Erasmus chairman of one of SA's leading independently owned broking firms told his company's 20th anniversary recently. He reminded guests that black business will for a long time remember the arrogance with which the white corporate world often treated them. The large insurers thought they were accommodating the black market by creating niche companies targeting black consumers. Blacks, however, pointed out Erasmus, saw this as an insult. They call such companies "commercial bantustans". The managing director of a black-run insurance company KHEHLA MTHEMBU (right) responds.

58

THE economic disparity that exists in our country does not augur well for a stable economic co-existence of the different communities.

The white-dominated system has ensured that only white people control all meaningful economic and business activities. The insurance sphere is a glaring example of this.

In spite of black people contributing substantially to the insurance industry through their policies, provident/pension fund premiums, stokvels and other general insurance contributions, they have almost no say in the industry.

As things stand now, we have no single entirely black-controlled insurance company in South Africa. I need to stress that this picture existed in the whole African continent before independence. Indigeneous people were effectively prevented from forming insurance companies.

But after independence we witnessed the mushrooming of such companies. I do not think that in South Africa people will have to wait for *uhuru* before we embark on mission insurance.

Perhaps I need to stress the need for an insurance industry, especially in a developing country. The industry, by virtue of it being involved in the business of long term contractual savings, lends itself as a development agent.

The well-documented story of how the Afrikaners used institutions like Sanlam to improve themselves and uplift their poor, their old and disadvantaged, stands out as a shining example of what the industry can do.

In Britain, post-industrial revolution economic planners leaned on insurance and pension funds for development capital.

About two years ago I spent some time in the United States attached to one of the minority insurance companies. I was motivated to see how that company used its communities.

I was totally astounded to observe urban residential renewal programmes being carried out by the insurance industry. My admiration for the commitment that underlay the programmes was re-enforced by the reciprocation I observed from the beneficiaries.

This mutual appreciation led to savings from advertising budgets that got re-routed to the company funds to the benefit of all involved.

Examples of such partnerships are widespread in most democratic societies. The challenge is upon us in South Africa to emulate such shining examples.

In our country there is no black insurance industry – black people are being shortchanged in benefits of insurance and pension developments.

The senior managers of companies are white and they tend to view development in their jaundiced way.

It is not surprising that in a society like ours where homelessness, unemployment and all the other economic-related ills co-exist alongside obvious white opulance, there is the justifiable belief that wealth is being misdirected to develop the developed – the whites mainly.

About five years ago a group of us got together with an aim of establishing an insurance company specifically geared at black economic empowerment.

We would use insurance and incorporate professionals in accounting, insurance, marketing, law and general business.

Our first approach was to the Registrar of Insurance Companies (now renamed the Financial Services Board).

We were warmly received and given the licensing requirements which were basically

■ Paid share capital of R10 000 000 – note that not a cent of this money was to be loan.

■ A local insurer – or insurers – had to be your partner/s to ensure technical support

We found – and still find – these requirements fair. It was in trying to find that source capital that we hit the wall.

After knocking in vain on most doors in the industry, I am now convinced that an insurance company for black people must be run and controlled by black people.

As a result of my experience I am also convinced that the short-sighted mentality of the white insurance industry will always prevent such an initiative.

For example when I approached several companies some of them could not understand my "arrogance" – was that impudence? – for daring to be involved in the "white man's world".

In their annoying and patronising way they reckoned blacks were only good to run institutions like stokvels and other informal institutions.

Many believed that they were in the black market already and could not see the value of backing the new all-black venture.

I could now understand why some people described these "black market" companies as economic bantustans.

My views might draw slicky-worded protests from white insurance chiefs, but they are drawn from my frustrating experience of knocking on most of their doors, and my practical experience at Afsure Insurance Group.

In conclusion I want to challenge all our people to focus on this project as it has the capacity to enhance our gains in the struggle and also contribute to the general development of our nation.

Much of our debates are on the sharing and re-distribution of wealth: now we have the chance to create it for ourselves.

Dorbyl takes on foreign partners in export drive

S/Times (BUSS) 14/6/92

By CIARAN RYAN

DORBYL is going for the export market, signing up joint-venture deals with a string of foreign investors.

It has also inaugurated the second phase of Univel Transmissions, which makes CV joints for the motor industry

Its 40% partner in the project is GKN of the UK Three other factories with Taiwanese partners are at various stages of commission, producing mirrors, fully trimmed seats and steering wheels, for the domestic and export markets

Dorbyl is also looking at off-shore joint ventures

Capital expenditure of more than R50-million in the automotive products division this year will boost annual sales by R70-million a year.

Exports account for 15% of Dorbyl's turnover — bolstered by orders for three R100-million containerised ships from Germany and Phase VI of the local content programme which encourages the export of cars and automotive parts

Chief executive Dawie Mostert says the plan is to increase the export figure to 30%

Dorbyl is close to signing additional ship orders and has set up a London sales office to boost European exports.

Mr Mostert says "We have been successful in attracting foreign partners on a small scale By forming strategic alliances with foreign partners we gain access to their technology and new export markets"

Mr Mostert accompanied Minister of Finance and of Trade and Industry, Derek Keys, on an export promotion trip to the Far East He says he will consider opening a plant in China, but the priority is to get the domestic market moving

"China has low-cost labour and a good work ethic which makes it suitable for labour-intensive industries. In SA, it is generally only the capital-intensive industries that can compete in a free trade environment"

Capital expenditure in the current year will be about R150-million It will be spent on modernising the Tosa Seamless Tubes plant, which had to be redesigned, new factories in the automotive products division, a ship outfitting quay and a foundry moulding system

Related

A new buzz-word in manufacturing is "focused factories", a concept Mr Mostert picked up at Harvard three years ago Focused factories are a radical departure from the old concept of diverse production where a range of goods was produced under one roof

The focused factory concentrates on one, or a few, related products and differs from diverse production in that less work is sub-contracted out.

By switching from mass production to focused factories, productivity improved by 70% in certain areas, says Dorbyl automotive products chairman Mike Smithyman Quality is checked at each stage of the production cycle so that faulty goods are corrected as they occur rather than at the end of the cycle This slashes the cost of repair. Stock levels are reduced to a minimum through the just-in-time order system, and production is driven by orders rather than by the need to replenish stock

Earnings a share dropped to 133c from 160c in the six months to March 1992, but Mr Mostert expects them to improve as the export drive gets under way

LOUIS SHILL New look

Sage clears the decks

S/Times (BUSS) 14/6/92

By JULIE WALKER

SAGE's first general press conference since it listed 23 years ago was held to announce the merger of its three quoted vehicles in a move to unlock the group's worth

Chairman Louis Shill says that after the merger, the consortium shareholders will control 63% of the new Sage Group The balance will be widely held and should contribute to improved tradeability

Members of holding company Sage Holdings will receive 270 Sage Financial Services (SFS) shares for every 100 Holders of 100 Sage Property will be offered 55,6 SFS shares

The group will still have two arms, property and life assurance-financial services Life assurance and financial breaks down into core and other interests The other is chiefly Absa

Mr Shill promises that the new Sage will be virtually free of borrowings because some of the R400-million portfolio of non-core assets will be sold Its holding in Absa (21% of Universa, which owns a quarter of Absa) will also be reduced in time because Sage's dependence on equity-accounted earnings will be cut

Referring to the previous poor showing by the group's American investments, Mr Shill says that an option to repurchase half of the asset sold two years ago has been secured

It took seven years to build up turnover of \$3,5-million a month, but in the past two years since Sage sold its controlling interest and wrote off a contingent liability of R50-million, turnover increased to \$60-million a month

Prospects

"Now we have a contingent asset, if there is such a thing," says Mr Shill

Sage aims to expand in financial services and prospects are being investigated

Mr Shill does not foresee any room for manoeuvre with Momentum, now 80%-owned by Rand Merchant Bank Holdings, in which Sage has a quarter stake

The restructuring will be completed by mid-September.

Rescue bid for NCI

TROUBLED NCI chairman Mike Clarke has until June 24 to submit written motivation to the JSE about why the company's listing should continue

Mr Clarke is convening an informal shareholders' meeting at Bryanston High School at 9 30 am on Saturday to submit his rescue proposal If the shareholders are interested enough, he will put it to the JSE committee

New job selection guidelines on way

S/Times (BUSS) 14/6/92.

By ADRIAN HERSCH

EMPLOYEE recruitment and selection procedures in SA will be transformed in the next few years — and are likely to be similar to those of the US and Namibia

That is the view of Charles Tustin, who served on the SA Society for Industrial Psychology task group that has set up employee "selection guidelines"

The guidelines will be released in September.

In the US and Namibia if a certain percentage of a designated group who apply for positions are not selected, it may be considered discriminatory — depending on circumstances.

If an employer does not conform with national "selection guidelines" it is discriminatory

Dr Tustin, of the University of SA, says that in many countries the criteria for selection tend to be far more job-related than in SA

"The primary concern is that the performance in a test — or other basis for decision — is related to performance on the job or other measures of work success," says Dr Tustin

The task group, commissioned in July 1991, was chaired by Hennie Kriek of the industrial psychology department of Unisa

Dr Tustin says that although the guidelines will not necessarily be the final word, employers would do well to implement them

OM chief defends status quo

STAR 15/6/92 ([redacted]

By Derek Tommey (58)

Mike Levett, chairman of Old Mutual, refutes claims that SA companies are too big and need to be split up.

Nor do they deserve to be criticised for "owning" so much of the country's business interests, he says, blaming exchange control for much of the direction in which companies have grown.

Businesses cannot think of themselves purely in an African context, he says in "Barlows '92", the house journal of the Barlow Rand group of which he is a director.

Barlows has been subject to considerable criticism because it is one of SA's biggest industrial conglomerates.

Mr Levett says businessmen must think of themselves in a world context. In this setting, Barlows is not that big a business, nor even that diversified in comparison with some US or Japanese groups.

What is important in South Africa is that skilled people are a scarce resource and must be used in the best way.

That is why a group like Barlows reassesses its businesses from time to time to ensure that they can compete on a world scale.

He says that exchange control regulations have forced SA companies to look within their own country for opportunities to grow and diversify.

"Were it not for this I am sure that one would have seen totally different behaviour among local companies, including Barlows."

Without the financial constraints of exchange control, Barlows would probably have been less diversified locally and more of an international company.

Referring to the size of the Old Mutual, he says its bigness does not bother him.

"We are just doing our job — and if were were allowed to operate on the world stage, we would do our job even more."

The Old Mutual has a nine percent stake ine th JSE, but does not see this as being a concentration of power.

"We are not prepared to be out telling businesses what to do and we actually do the opposite by letting the boards and managements of the various companies we invest in get on with directing their own businesses."

Mr Levett is critical of suggestions that a future government should be able to force the life assurance industry to redirect its funds into socially desirable projects.

He says that when the Old Mutual puts its policyholders' money into a business, it supports job creation.

The same happens when it puts money into government and semi- or quasi-government areas.

The Old Mutual has to operate within the law.

"However, we have a right to say that a certain direction is not in the interests of our policyholders or that we think that funds are being mis-allocated.

"The reality of the situation is that if people are not nappy with the returns they are getting from their life assurance investments, they will stop investing in a system that has been built upon the trust that we deliver value," says Mr Levett.

R1bn Treasury bill issue on the cards

BDay 15/6/92 (49) (58)

TIM MARSLAND

THE Reserve Bank is likely to issue R1bn in special nine-month Treasury bills over the next week, dealers said on Friday. The issue is expected to be well bid.

One dealer said the Bank was unlikely to issue the entire amount at once, but rather over a few days.

The issue would be in line with the three-point plan recently announced by Reserve Bank Governor Chris Stals who indicated that an issue of this size would be made to mop up liquidity.

Money market rates hardened on the expectation of the issue. Overnight call rates for borrowing traded around 14,00% from their recent steady 13,75%.

The Finance Department, meanwhile, said on Friday it would soon issue two zero-coupon stocks. It expected one would be a R300m (nominal value) with a five year tenure to maturity. The other, also for R300m (nominal value), would have a seven-year tenure to maturity.

The Bank will market the bonds and full details will be announced on the day of the tender. The date has not yet been divulged.

The department first announced its intention to issue two zero-coupon bonds in late March when it said an official announcement was on hold pending formal approval of the scheme by the parliamentary committee on public accounts.

Zero-coupon bonds had been found to be popular among foreign investors. These bonds carry no interest payments but are issued at a substantial discount to their face value.

The returns are attractive in an environment of volatile interest movements because the holder can calculate the effective yield at the time of purchase.

In addition, as the redemption date draws closer, the bond price usually rises towards its nominal face value, assuring the holder a profit.

At the time of the first announcement sources said there was unlikely to be a cost advantage to the department from issuing the new debt instrument. The objective of the issues was expected to improve government debt marketability.

'Interest policy has benefits'

CAPE TOWN — Continued underperformance of the SA economy increasingly disguised the medium-term advantages of the current interest rate policy, Boland Bank said in its June economic review. (58)

The bank expects the prime lending rate to fluctuate between 16% and 19% until the mid-'90s.

"The disadvantages associated with these interest rate prospects are mainly contained in the inability of many debtors to service their debts, and in the delayed upswing in the economy," the report said. B/Day 15/6/92

But this policy established significant medium-term advantages. "The productivity of capital, which is currently approximately 37% lower than 20 years ago, is systematically being forced upwards." — Sapa.

Foreign banks apply for licences

SHARON WOOD

A NUMBER of foreign banks had applied to the Reserve Bank for banking licences or to set up representative offices in SA, a Bank spokesman said on Friday. (58)

He would not name the banks, but said "a handful" of foreign banks had approached the Bank. B/Day 15/6/92

When asked how many banks had applied for full banking licences, he said the route foreign banks normally took was to open representative offices and then, if the business warranted it, apply for licences.

Good management and the ability to capitalise a local branch were the most important considerations when granting a licence to offshore banks, he said.

Bank of Taiwan and Future Bank are the only two foreign banks to have been granted banking licences in the past year.

A Deutsche Bank spokesman said he knew of a number of UK merchant banks that were considering opening subsidiaries. However, he said a lot depended on the economic and political order.

Standard Bank international GM Rocco Roussouw said he was aware of rumours that some overseas banks were interested.

"We can expect foreign bank involvement in SA on the corporate side, derivative markets and perhaps even in in project finance. SA has become the flavour of the day. We have seen hordes of foreign bankers passing through the country and they have known to be trooping through the Reserve Bank," he said.

FNB communications GM Norman Axten said: "I don't see any foreign banks coming in in a big way . . . they will probably come in and take the cream off the top of the corporate market with small one- or two-man operations." An ABSA spokesman agreed that foreign banks would concentrate on the corporate market.

Fedvolks sells two operations

(58)

STAR 15/6/92

Federale Volksbeleggings said at the weekend it had disposed of two of its operations in separate deals.

In one deal, management of the Tableware division led by Klaus Zirker has purchased the continental china operations from Fedvolks.

In the other deal, Fedvolks has disposed of its base mineral division (Serina).

It was purchased by a Johannesburg-based investment group, Partnership Acceptances.

This division includes the controversial Noordhoek Kaolin mine in Cape Town.

According to the company, the new owners have undertaken to develop the mine in strict accordance with measures stipulated by the authorities for environmental protection.

The disposal of the two operations is in accordance with the group's refocusing and restructuring announced in October 1991.— Sapa.

Reserve Bank indemnifies Prima Bank

(58)

STAR 15/6/92

By Derek Tommey

The Reserve Bank has undertaken to indemnify a bank and its depositors against a legal action.

The bank involved is Prima Bank Holdings. Picardi Holdings, one of the companies in the group built up by Western Cape rugby boss, Jan Pickard, is believed to be considering suing Prima Bank for R10 million.

The Reserve Bank says that legal opinion obtained by Prima Bank, in co-operation with the Reserve Bank, indicates that the potential claim by Picardi Holdings is unfounded and unlikely to succeed.

But to the extent that Prima is subjected to a risk of damage in connection with the claim, the Reserve Bank, in the interests of Prima depositors, will indemnify it against that risk.

Giving some of the background to the decision to indemnify Prima, the Reserve Bank says that Prima Bank Holdings and Picardi Holdings entered into an agreement in January 1991, with the knowledge and approval of the Reserve Bank, for the purchase of shares in Cape Investment Bank.

That approval was afforded as part of the Reserve Bank's attempt, in the circumstances surrounding Cape Investment Bank at that time, to promote the stability of the banking system.

This led the Reserve Bank, when the straitened financial position of Cape Investment Bank become known after the acquisition of that shareholding, to extend to Prima Bank the assurance that the latter would not, as a result of its involvement in the agreement, suffer any damage.

The Cape Investment Bank was declared bankrupt in 1991, owing R249 million to R270 million to SA Rail Commuting Corporation.

It was announced ealier this month that negotiations by a consortium of businessmen for a majority stake in the Pickard Group had been terminated.

Property feels economic pinch

PETER GALLI (58)

PROPERTY brokers and developers are feeling the pinch of the protracted economic recession as market conditions worsen and competition borders on cut-throat.

The SA Property Owners' Association silver jubilee convention at Sun City last week brought these issues to the fore. The threat of land seizure or devaluation was the focus of several addresses. BDay 15/6/92

Anglo American Property Services (Ampros) director Peter Gardiner said land devaluation had threatened most major land owners near the city through the possible or actual invasion of squatters.

"A Land Court should be formed to prove undue prejudice and for landowners to receive adequate compensation. However, home owners must be prepared for a more democratic government to look to vacant land near established infrastructures."

DP leader Zach de Beer said the confiscation of land was immoral and would be economically disastrous.

While the affordable housing market remained in the doldrums and was still a highly emotive issue, solutions had to be found, said Gardiner.

The private sector wanted to participate in this market, even at reduced profit margins and with a degree of cross-subsidisation from more lucrative market segments.

Arthur Andersen senior tax partner Pierre du Toit said the imposition of a land tax was "almost inevitable".

MONEY MARKETS by Hilary Gush

Dealers flummoxed as market shortage exceeds expectations

BI Day 15/6/92

ALTHOUGH special Treasury bills (TBs) of R1,5bn which matured last week were not rolled over, the market shortage was well above that expected by dealers.

The shortage, the extent to which the Reserve Bank — at a price — helps to fund the market, defied market logic by rising to R1,883bn on Friday from the previous week's R1,012bn. Dealers were at a loss to explain why, in a seemingly liquid market, the amount of Bank accommodation at the discount window was so high.

Market players think the shortage level targeted unofficially by the Bank seems to be around R1,5bn. The Bank's three-point plan unveiled last week to tackle high liquidity provides for the introduction of new tradeable nine-month bills. The market predicts these will be issued relatively soon, possibly within the week. Dealers forecast that the Bank will have no difficulty in selling these which, they say, are attractive in the short term.

In a week of rather flat trading the average rate on the three-month TB was marginally higher at 14,02% from 13,99% the previous week. The rate on the six-month TB was slightly lower at 13,60% compared with 13,58%.

The BA rate continued its slow decline and traded at 14,10% late on Friday. This was down on the preceding week's 14,40%-14,55% trading range, continuing to indicate an expected easing of money market conditions.

58

Call rates remained relatively stable at 13,75%, but some banks where accepting rates of up to 14,75%, dealers said.

Capital market rates were largely unchanged at the close of trade last week. The yield on the Eskom 168 was at an estimated 15,79% on Friday after trading in a very narrow 15,74%-15,79% band during the week.

Government's R150 followed a similar trend, trading at approximately 15,94% throughout the week and bouncing to a 16,01% high on Friday morning. By the close the stock was trading at 15,995% compared to its closing 15,95% the previous week.

Dealers attributed the yield's upward blip to the activities of jobbers in the market who were reportedly taking a punt on the uncertainties in the short-term political situation. Looking ahead over the longer term, analysts said sentiment on the capital market was expected to regain its former bullish outlook.

COMPANIES

Syfrets bank service for the rich

CAPE TOWN — Syfrets is to launch Private Banking, a division of Syfrets Bank, which will be aimed at providing a top quality, comprehensive financial service to the ultra-wealthy. B/D any

Only those with net assets of more than R5m or a minimum annual investment income of R350 000 will be eligible as clients of SA's first fully fledged private banking service. 16/6/92

Private Banking executive David Cloete said less than 1% of the population would qualify for the service. The long-term aim would be to raise the limit so that only those with a net worth, for example, of more than R20m would qualify.

Initially, Private Banking would be tapping Syfrets' client base which included about 80 suitable people. Later the high net worth clients of affiliated Nedbank and UAL would be approached.

LINDA ENSOR 58

Private Banking would focus on total asset management services including trusts, wills, life assurance, estate planning, international investment, tax, property, shares and cash. Where necessary outside consultants would be included in the private banking team.

Full current account and credit card facilities would be offered through Nedbank and Private Banking would also offer loan finance. Cloete said the needs of passive and active investors would be met.

"The key issue in Private Banking is not the product line but the quality of the relationship between the client and the private banking executive who will be available at all times as a consultant, a facilitator and indeed an ally," said Private Banking senior GM Simon Steward.

Investec goes banking

Finance Staff 58

STAR 16/6/92.

Investec is entering the corporate banking market with the launch of the Investec Corporate Bank.

The bank will provide medium- and long-term finance to the corporate market and will focus on the financing of joint finance companies, capital equipment, property and motor vehicles.

Investec has for a number of years been spreading its wings into the broader financial services industry.

It hopes to increase market share by offering a comprehensive one-stop financial package to its corporate clients.

Policy offered for SA firms abroad

BDay 16/6/92

SHARON WOOD

CREDIT Guarantee Insurance Company will insure SA-based businesses investing in foreign countries against political risk.

"Credit Guarantee will consider applications involving all countries in the world and will consider applications on their individual merits.

"The premium is usually 1% but if it is a high risk country, we will have to increase the premium," a spokesman said yesterday.

Protection would be provided against the host government's political actions, including nationalisation, loss or damage due to war, rebellion and insurrection.

In addition the investor would be protected against loss due to prevention, restriction or control for at least one year of the capital, dividends, interest and loan guarantees from the host countries.

Qualifying businesses would have to acquire at least a 25% share in the equity of a new or existing business and the investment would have to carry a minimum value of R100 000.

They would also have to have the approval of the host government and Reserve Bank, the investment must be made with the object of earning income for the investor and it would have to promote SA's export trade or economic development of the host country.

The spokesman said foreign companies setting up businesses in SA would also qualify outside SA.

Development Bank seeks Japanese credit

SHARON WOOD

THE Development Bank of Southern Africa has applied for a $300m to $400m credit line from Japan's Export-Import Bank for projects in SA, Zambia, Zimbabwe and Botswana.

Finance Department and Japanese Embassy spokesmen confirmed that discussions about the loan had taken place earlier this month in SA between members of the department, the Development Bank, the ANC and the Export-Import Bank.

"A delegation from the Export-Import Bank did meet Trade and Industry and Finance Minister Derek Keys earlier this month but nothing was concluded," a Finance Department spokesman said.

A Japanese Embassy spokesman said the Export-Import Bank had not decided on whether it would extend the loan.

The Export-Import Bank traditionally provides assistance in two forms; either through export-import credit or soft loans.

It is understood that the Finance Department identified the Development Bank as a candidate for loans from the Japanese bank. The Industrial Development Corporation could also be a beneficiary, a source said.

AP-DJ reported yesterday that private Japanese investors would base their SA plans largely on the bank's decision.

Property owners may face bitter pill in future SA's new forms of taxation

STAR 17/6/92

58

The property industry has been left with little doubt about its future in the South Africa of tomorrow, certainly in regard to the effect of proposed taxes on wealth, land and capital gain.

A black-dominated government might also be expected enforce an unprecedented system of equity sharing of business and State ownership.

These were the key topics to emerge from the recent South African Property Owners Association (Sapoa) convention at Sun City.

While main speakers were adamant that it was vital to maintain a "hands-off-property" policy, new forms of taxation could well turn out to be a bitter pill for owners.

Dr Zach de Beer, leader of the Democratic Party, certainly gave a strong reminder to a future black government, when he told delegates: "To confiscate property from its owners and give it to other people is not ony morally wrong but economically disastrous."

The tax spectre, however,

Pierre du Toit . . . variety of wealth taxes.

kept looming over the convention, particularly when Pierre du Toit, a partner of Arthur Anderson and Company, foresaw a variety of wealth taxes ahead.

He said: "The income tax rates of 70 percent and over of the heyday of Afrikaner socialism will not return.

"There will be capital gains andtransfer tax, land tax and death duties, but these will be more perceputal than seriously revenue producing.

"Other sources like prescribed investments will be revisited but in moderation."

However, Mr du Toit also cautioned the tax planners of the future that the ultimate test for the success of a restructured tax system would be found in adherence to the rule of law.

Benny Alexander, secretary general of the Pan Africanist Congress (PAC), on the other hand, punched home a few truths about black corporate share ownership and envisaged businesses and possibly some existing State enterprises being asked to create a fund to promote and support such a system.

"This could be done by issuing new shares or by reducing shareholdings of existing shareholders," said Mr Alexander.

"The redistributed shares must have voting rights and workers will structure themselves in appropriate form to enable their block stock ownership and stock effective representation in management and decision-making structures."

He also saw businesses, being required, "in liaison with employees", to submit to the State or appropriate agency, human resources development and training programmes to ensure black advancement to senior positions.

Peter Gardiner, a director of Anglo American Property Services (Ampros), commenting on what he termed "the vulnerability of homeowners" amid the backdrop of the Bloubosrand squatter debacle, said:

"Land devaluation has threatened most major landowners near the cities through the threat of, or actual invasion of squatters, linked to total disrespect for private property rights."

He proposed the formation of a Land Court to prove "undue prejudice" and for landowners to receive adequate compensation.

Mr Gardiner also noted that

Peter Gardiner . . . homeowners vulnerable.

for the first time, the impact of the reform process was being felt in the home environment and that homeowners must be prepared for a more democratic government "to look to vacant land near established infrastructures".

Nick Harris, an executive director of Russell Marriott & Boyd Trust at the convention, predicted that office rents could come under pressure next year.

He said: "While we might think that rentals are keeping pace with inflation, nothing could be further from the truth.

"I expect rents to rise slightly in the popular locations which have low vacancies such as Rosebank, Parktown and Randburg but in other areas they will do well to remain steady and one may see a further drop of up to five percent.

"Should major property owners decide to cut their losses and try to attract tenants, even greater falls could be experienced."

Mr Harris also said it was time the industry appreciated that we could not keep on developing the veld and that we had to look to maximise the return on our existing resources and preserve urban and rural environments.

Ultimately, market forces could well turn off the seemingly endless supply of unlet office developments.

Nedcor chief defines new role for banks

STAR 17/6/92

By Leigh Hassall (58)

"Banks have a steep learning curve in the future," says Richard Laubscher, chief executive of Nedcor.

They must change their product range and find more cost-effective solutions.

To be sustainable they must be both profitable and independent, he says.

In an address the the SA-German Chamber of Commerce yesterday, Mr Laubscher highlighted the issues facing the banking industry in the new SA.

Mr Laubscher said the key issue facing the industry was the changing profile of bank customers and the need to stay profitable in the face of increased competition, both locally and abroad.

Urbanisation

"With the process of inward urbanisation, banks need to have a structural adjustment programme," he said.

"Product ranges need to be changed to cater for the different demands and risks of the new urbanised population.

"The banking system will have to go off-line to cater for the rural areas, as opposed to the sophisticated on-line computerised requirements of the urban areas.

"Banks must accept and cater for lower deposit, lower average withdrawal (current average withdrawal is in the region of R300 to R400) and a higher level of customer education," Mr Laubscher said.

He suggested that at the lower end of the market, a payment mechanism which was effective and safe needed to be found to cover the cash-driven informal sector.

In addition to the changing face of the individual customer account, existing lending practises to the corporate market would have to be improved.

Historically, banks would lend to the eight conglomerate companies, to the government sector or the housing market.

Lending to any companies associated with the Big Eight would automatically reduce the risk of the loan.

With the unbundling of the conglomerates, the risk profile of the corporate loans would increase, he said.

Further, loans to the higher-risk small business sector must be increased.

Loans to the government sector should also now be regarded with more caution, Mr Laubscher added.

Turning to housing loans, he said that the blurring of demographic trends made mortgage loans a riskier area.

"The issue of providing housing to the bottom end of the market must become the role of the state," he said.

The banks would also be facing increased competition.

"We have to compete through cost containment. In the US banking industry there is a current merger mania in an effort to reduce costs through rationalisation.

"Whether there are economies of scale in the SA financial services industry remains to be seen."

Sage eyes Absa stake in Sage Life — analyst

B Day 17/6/92

MICK ELLINGHAM

THE Sage Group may be negotiating with Absa to buy the banking conglomerate's 49% stake in Sage Life, an analyst says.

The analyst said Absa was looking to minimise its insurance holdings, making its large stake in Sage Life "pointless".

Sage was restructuring — with increased focus on life insurance — and would probably be eager to gain 100% of Sage Life, he said.

However, Absa officials declined to comment.

Sage spokesman Bernie Nackan could also not comment on speculation of future changes in Absa-Sage shareholdings.

Other details of Sage's restructuring — which will concentrate all interests into one listed entity — have been received favourably by analysts.

Edey Rogers & Co analyst David Southey said the group's previously "untidy" structure had been in need of streamlining.

Southey said: "The restructuring will probably facilitate the disposal of a substantial portion of Sage's non-core assets."

Davis Borkum Hare analyst Graham Baillie said the changes would improve the marketability of Sage Group's shares by combining the minority interests in the various listed entities into one more broadly based listed company.

Major features of the group's rationalisation and restructuring programme were outlined by chairman Louis Shill this week. They included:

- SFS — to be renamed Sage Group Limited — will become the sole listed holdings in the restructured group. SHL and Sageprop will become unlisted subsidiaries of SFS and will have no minority shareholders. The shareholders of SHL and the minority shareholders of Sageprop will receive new shares in SFS in exchange for their existing shareholdings;
- The share exchange ratios are as follows — Sage Holdings shareholders will receive 270 new SFS ordinary shares for every 100 ordinary shares held and Sageprop shareholders will receive 55,6 new SFS ordinaries for every 100 shares held;
- The proposals do not envisage rationalisation with the interests of certain common major shareholders of Sage Holdings and Absa or the separate listing of the combined interests in Absa; and
- The proposals have been discussed with the major shareholders of SHL, SFS and Sageprop who have agreed to support them.

Shill said SFS would be utilised as the listed vehicle for the restructuring as it currently held the Sage Group's major operating interests.

...stake in DHL

COMPANIES

Good demand for Treasury bills

HILARY GUSH

THE Reserve Bank's nine-month Treasury bill (TB) tender offer yesterday reflected good demand for quality assets, dealers said. The issue was well subscribed with the total received reaching R1,426bn for the R500m on offer, at an average rate of 13,11%. BDay 17/6/92

The format of the weekly TB tender was altered in the first week of June with only three- and six-month and no nine-month paper being issued. (58)

The three-point plan recently announced by Reserve Bank Governor Chris Stals indicated an issue of R1bn would be made to mop up liquidity.

Analysts were, however, uncertain about when the next bond issue of R500m would take place. Some dealers expected it at the beginning of July before substantial maturities of R116 stocks towards mid-month, while others speculated the TBs would be issued either today or tomorrow. One dealer said the timing would depend on money market liquidity and cash inflows to the Reserve Bank, which were hard to gauge as foreign exchange payments were not made public.

The implementation of the commercial banks' new 5% reserve requirement (up from 4%) scheduled for July 21 would drain the market further, dealers said.

Market participants said the 13,11% rate was slightly lower than expected, but more or less on par with standard nine-month TB rates which measured 13,10% when last issued on June 5.

Owners 'must face up to inner-city investment'

BDay 17/6/92 (58) (80) (RGJ)

Reports by
PETER GALLI

INVOLVEMENT in the revival of inner city areas is not a choice that property owners have, it is a vital necessity, Propnet CE Fuzz Loubser said at the Sapoa convention at Sun City last week.

Inner-city property owners needed to show commitment to forging relationships with other stakeholders, they needed to have courage to move away from traditional structures and experiences and to realise that it would probably cost them both financial and human resources, he said.

"Most of all, we need to become actively involved in the search for solutions that will increase investor confidence," he said.

Anglo American Property Services (Ampros) director Peter Gardiner said land devaluation had threatened most major landowners near the cities through the threat of or actual invasion by squatters.

"As a result of the Bloubosrand squatter relocation dispute, Gough Cooper was criticised for having apparently threatened to sue the TPA and Schachat-Cullum for announcing the cancellation of housing projects in the area. Some homeowners had claimed a loss in value of 40% if relocation had to occur," he said.

Loubser agreed, saying the increased pressure on the inner city areas and constraints on management and financial resources were leading to declining standards of maintenance and cleanliness.

"In many areas there has been a decline, in real terms, in property values which has been exacerbated by the flight of development capital to suburban nodes," he said.

Priority areas that needed to be addressed were the issues of distrust, political representation and the legitimacy of existing political structures, establishing relevant procedures, building relationships between the various stakeholders and rekindling confidence in the inner city.

Commitment, courage and capital were some of the factors needed to increase confidence in the inner city.

The capital could come from a number of sources, namely the business sector, local government and even provincial and national government.

"Property developments that in the past have been regarded as falling outside the traditional investment areas of institutions and the activities of developments must be undertaken," Loubser said.

"Most of our CBDs do not need any more offices at the moment, and we must address the investment in facilities that will be relevant in the changing SA environment.".

Propnet was involved in a number of development projects that could have an impact on inner city revival. The development of its transport nodes served to integrate the various modes of transport while developing a commercial component aimed at the commuting community.

The development of airspace over railway lines is expected to stimulate the upgrading of the surrounding area and provide valuable experience for future airspace projects.

Japanese credit could boost liquidity

BI Day 17/6/92

SHARON WOOD

MONEY market liquidity could surge if the Development Bank of Southern Africa's application for a $300m to $400m (about R1bn) credit line from Japan's Export-Import Bank was successful, money market analysts said yesterday.

The size of the loan was huge for a market already flush with liquidity, and the Reserve Bank definitely would act to drain the market.

"If the loan is brand new, Reserve Bank Governor Chris Stals will have a problem reducing the liquidity it will create in local money markets.

"If there was no Bank action, the market would get the wrong message and bring the money market rates down again ... but the Bank could neutralise the effect, and I believe it will do so," one analyst said.

He predicted that the loan would bring the money market shortage down to about R300m or R400m, a level the Bank would not be happy with. The money market shortage has ranged between R1bn and R1,8bn during the past week. The Bank would have to resort to dollar swaps and issue more short-dated Treasury bills to reduce market liquidity.

One analyst said the effect on the money market would depend on whether the Development Bank was already borrowing in the local market. If so, the bank could use the offshore credit line to pay off domestic loans, which would increase domestic liquidity levels and soften interest rates.

Development Bank head Andre Le Grange refused to comment yesterday on the credit application.

cial statistics indicated yesterday.

Manufactured output rose by 0,2% in April, having risen by the same amount in March.

Retail sales rose by 0,3% in May, after rising 0,8% in April.

This year, not next

BUSINESS Day incorrectly reported yesterday that Simpson McKie economist Graham Boyd said positive economic factors would only impact on the economy in the fourth quarter next year, when in fact he said the fourth quarter this year. Business Day regrets the error.

REPORTS Sapa-AFP, Business Day Reporters

R250m Woodmead office development

BDay 18/6/92

ANDREW KRUMM (58)

THE Newport Property Fund would go ahead with the R13m first phase of its R250m office park in Woodmead, Sandton, in spite of an oversupplied office market, RMS Syfrets director Mike Deacon said yesterday.

Deacon said RMS Syfrets — the development's leasing agents and project co-ordinators — were aiming at a niche market and capitalising on a trend towards low-density, environment-friendly business surroundings.

The Harrowdene development, situated near the recently upgraded Woodmead/Buccleuch interchange, would offer 55 000m² lettable space.

RMS Syfrets had already had large space inquiries at the R25/m² net rental, but no contracts had been signed.

Newport Property Fund MD John Peters said the first phase, of three buildings with 4 500m² lettable space, would cost R13m by completion in early 1993. The fund would risk developing the first phase without pre-let tenants, but subsequent development depended on leases being entered into with major tenants. An analyst it could be vacant for months if completed before an upswing. (58)

Privatisation can attract investors — bank

SIMON BARBER

BDay 18/6/92

WASHINGTON — By convincing investors that a government is committed to genuine market reform, the privatisation of state-owned industries can be a major stimulant to foreign investment, says a new World Bank study.

The study cites the experience of Mexico, whose privatisation policies have attracted $15bn in new foreign investment over the past two years.

The study, Welfare Consequences of Selling Public Enterprises, considers three sell-offs in each of four countries, Mexico, Chile, Malaysia and Britain.

The study included airlines, telecoms, electricity utilities, a road haulage concern, a state lottery and a container port, most of which were sold between 1984 and 1988.

On average, the 12 privatisations produced annual net gains of about 26% of the companies' turnover in the year before privatisation.

Only the airline Mexicana showed a loss, while Chile Telecom was able to double its capacity in four years and posted an annual 155% advance on turnover. Malaysia's Kelang container facility increased 53%.

The ability to raise prices to realistic levels benefited most of the firms, especially Telmex, the Mexican telephone system, British Telecom, Malaysian Airline System and the Chilean electricity supplier Enersis.

Consumers gained from four privatisations and were net losers in five. In Britain, the cost of long distance calls fell. However, British Airways, which was permitted to purchase its sole domestic competitor, British Caledonian, charged higher fares than would have been permitted had its stayed in state hands.

In many cases, the companies increased productivity by cutting previously protected workforces.

Nonetheless, workers often gained. Employees of Enersis, Telmex and National Freight profited hugely from receiving company shares.

Sacked employees of Aeromexico, a second privatised Mexican airline, all received a year's redundancy pay.

In several instances, foreign investors were big winners and reaped the lion's share of the gains, 90% of them in the case of Telmex.

Such gains were more than offset by the investor confidence the privatisation policies generated in and of themselves.

Nietgedacht residents yesterday protested against the resettlement of Zevenfontein squatter families in the area. Picture ROBERT BOTHA

Bond issue criticised

BDay 18/6/92

HILARY GUSH

THE Public Investment Commissioners (PIC) was sharply criticised yesterday after the results of the Reserve Bank's zero-coupon bond issue.

There had been market speculation that the PIC, a government body in charge of investing public service pensions, had taken up the majority of issues

One dealer accused the PIC of being a "dumping ground" for uncompetitive government stock issues. "This indicates a wast of public pension fund money."

PIC secretary Badie Badenhorst said the rates were favourable in current money market conditions. "If we obtained the major portion of the tender it has nothing to do with anyone else."

Of the R300m in five-year stocks on issue, the Bank received tenders of R305m and allotted R50m, while R80m of the R320m offers collected for R300m in seven-year bonds was accepted by the Bank.

Traders believed the yields were too low and the minimum prices acceptable to the Bank too high. One dealer felt the majority of tenders were at prices below the Bank's quoted minimums, hence the relatively small allotment of R130m out of the R600m in bonds.

The yield on the five-year stock was calculated by market players to be an effective 14%, while they felt the rate needed to attract investors was at least 14,7%.

Putting Syfrets through a workout

FM 19/6/92.

(58)

There was little hint of the troubled waters navigated by the previously Masterbond-linked Health & Racquet group (H&R) last month when the company opened an R8m health and fitness centre at La Lucia, north of Durban.

Champagne and orange juice flowed while leggy aerobics dancers marked the opening of the R100m-a-year company's first centre in Natal. The celebration undoubtedly shifted attention away from a narrowly averted crisis.

But the ghosts linger. Though it has been profitable, there was always a risk that Cape Town-based H&R could be sunk when the plug was pulled on Masterbond last year. The timely intervention of Syfrets threw the seven-year-old company a vital lifeline.

Masterbond Investment Trust held 40% of H&R's equity, threatening the company's stability. Then late last year, Syfrets, which held bonds on some of H&R's properties, negotiated an agreement with the curators to buy Masterbond's stake.

At the time, Syfrets GM Derek Johnston stressed that his organisation would restrict itself to essentially a supportive role in H&R. The emphasis was on leaving a specialised business to be run by specialists.

But things have changed. Syfrets now clearly wants to infuse some of its own business culture into H&R. To do this, it has appointed retiring Cape Town-based Syfrets executive Brian Button as H&R's new MD. He will work with the incumbent H&R executive directors to consolidate and expand the company's dominant position in SA's health and leisure market.

Button, with considerable experience in guiding companies through troubled waters, admits that Syfrets' high profile is a function more of necessity than desire. "We were more or less forced into it by persistent sniping from outside, particularly from Masterbond investors concerned about their stakes. Some people believe Syfrets is using H&R as a vehicle to secure its money invested in Masterbond."

Now that Syfrets has taken over, it faces the challenge of improving the management without stifling the entrepreneurial vigour and flair of executive directors Peter Gardiner, Rod Mitchell and Mike Christie, who started and developed H&R.

Button points out that H&R evolved from a business managed by people whose expertise is in health and fitness "We need to introduce the skills of marketing, financial and operations management. That doesn't mean such structures don't exist; they just don't fit as snugly as Syfrets would like."

Every bit of that management expertise is likely to be needed. The health and fitness market is littered with the corpses of clubs that succeeded briefly before going under.

Button accepts that H&R's product is not the usual widget, but stresses that the business fundamentals for success are the same in every industry. "Our intention is to meet the customers' requirements on time, every time. I believe that, after touring the US, our product is correct."

Members' welfare must be managed to their satisfaction so that they continue to pay

Controlling costs . . . *and the bottom line*

the membership fees which provide the cash flow to run the centres. Along with this, the selective sale of debentures will provide for certain capital development costs.

He says cash control is critical: "Manage the cash and you control the business."

Whereas long-term memberships used to be sold, memberships will now be confined to one, two and three years. "In terms of our projections, that should ensure fairly consistent cash flows. Within that, costs must be controlled as a percentage of income while we apply all the other fundamentally good business practices "

Button says there is no significant threat from increased competition because the cost of entry is high and potential competitors would have to use the same demographic data as H&R in locating centres. Any competitor would have to be convinced that a location would support two centres before embarking on the capital investment. Furthermore, H&R's flanks are protected through its associate companies — The Sports Connection and The Gamesman.

Because of this, he believes the brakes can be applied gently to H&R's expansion policy. "We will probably start consolidating to some extent in SA because the company is positioned in all the main centres. In addition, our facility at Old Edwardians in Johannesburg opens on June 26 and we're bidding to operate the Chamber of Mines Club at Milner Park in Johannesburg." H&R now has 11 centres — six in the Cape, four in the Transvaal and the one in Natal.

"However, there are certainly development opportunities in Britain and Europe and we intend to exploit those."

H&R has already opened one centre in St Albans, north of London. "It is proving to be an outstanding success. The British market lags SA but is potentially much bigger. We want a slice of it rather than to dominate it. A difference in our offshore operations is that we will only manage the centres. Development will be left to outside partners.

"At a guess, we could have another six clubs in Britain in two or three years. We also expect to sign a deal in Amsterdam next month and we are considering a facility at Brussels as the hub of the EC."

That leaves the vexed question of Masterbond. Button says the only remaining link with Masterbond is that some Masterbond investors bought relatively short-term debentures in H&R centres when Masterbond held H&R equity A hump still to be faced is the capital payment needed to redeem these debentures, which fall due this year and next. Though the redemption is the curator's responsibility, Syfrets is trying to devise a financial vehicle "Success would settle the final account with the Masterbond investors and cut the umbilical chord."

CGIC FM 19/6/92

Investment guarantee

In reponse to inquiries, Credit Guarantee Insurance Corporation (CGIC) is promoting political risk cover for SA investors in foreign countries. (58)

The policy has been available for some years, but investment — if it was allowed by the host country — was usually restricted to certain European countries where stability does not warrant political cover.

With investment opportunities opening in eastern Europe and parts of Africa, CGIC began to receive an increasing number of inquiries not only from prospective exporters but also from investors.

Essentially, the policy protects against nationalisation, expropriation and loss of assets or income as a result of war, civil war, rebellion or insurrection.

Certain conditions apply. The local investor must own at least 25% of the equity of an existing or new business in the foreign country, the investment must have the approval of the SA Reserve Bank and the foreign government, and the investment must be for no less than R100 000. The investor must also aim to earn income and promote either SA's export trade or the host country's economic development or both.

The premium is calculated at about 1% of the insured amount (more in what CGIC terms "high-risk" countries). A 20% discount will be given if the host government owns at least 50% of the enterprise.

The policy does not cover commercial risk. ■

CIB

FM 19/6/92 (58)

Reserve Bank may face R20m claim

Cape Investment Bank (CIB) shareholders, and former chairman Jan Pickard's Picardi Holdings (Pichold), will hold the Reserve Bank responsible for more than R20m — the purchase price of CIB, which was taken over by Prima in 1990. Sources say that the potential claim could be as high as R32m — based on a second purchase contract between Pichold and Prima Bank Holdings.

The *FM* has a copy of the second agreement between Pichold and Prima Bank dated January 22 1991. And it is referred to in a letter from Deloitte Pim Goldby (the auditors who were asked to conduct a special audit to determine the consolidated tangible net asset value of CIB as at December 17 1990), to Registrar of Deposit-Taking Institutions Hennie van Greuning. The letter dated March 19 1991, says the second contract "makes provision for the seller (Pichold) to be entitled to at least 20% of the tax losses of the CIB Group, up to December 17 1990, and 20% of his share in the value of all provisions for doubtful debts in respect of the lending book."

The relevant clauses of the purchase agreement signed between Pichold and Prima Bank reads: "An amount equal to 20% of the tax losses of the group up to the effective date, whether assessed or as yet unassessed at that date," and "in the event of CIB not having a net asset value the consideration shall be limited to the aggregate of R1 plus 20% of the tax losses at the December 31 1991 contemplated . . . whether assessed or unassessed (which give rise to the negative net asset value)".

The *FM* understands that tax losses are calculated at R60m and, according to Prima Bank MD Johan Bellingan in an interview with *Beeld* on June 12, CIB's negative net asset value was at least R100m.

According to the initial contract, Pichold and other major shareholders sold 49% of the issued shares in CIB to Prima Bank, in exchange for preference shares in Prima Bank Holdings for a sum to be determined on December 31 1991. However, before the purchase price was determined, Pickard contacted Reserve Bank Governor Chris Stals in a last-minute attempt to cancel the takeover In a memorandum to Stals — the details of which he (Pickard) later reiterated when he met Stals and Van Greuning — Pickard complained: "The manner in which the transaction was being implemented by Prima Bank is contrived to result in a reduction of the net asset value of CIB."

After Stals refused to cancel the deal — which had initially been suggested by Van Greuning in a letter to Pickard dated December 10 1990 — a new contract between the two parties was drawn up, specifically providing for a negative net asset value.

Van Greuning, in his December 10 1990 letter, urged Pickard to agree to a merger with another bank (it later turned out to be Prima). "After the purchase agreement has been finalised the SA Reserve Bank will lend its support to the purchasing bank (*die oornemende bank*) with regard to bad debts which exceed the capital and reserves of your bank."

And, according to correspondence between Deputy Registrar Christo Wiese and the joint auditors of CIB, on December 10 1990, the Bank had decided to provide CIB with financial assistance "to ensure the stability of the financial markets." Wiese wrote that "a loan at an interest rate of 1% pa, for an amount of R300m, will be made available to CIB, who in turn will deposit the same amount at 17,12% pa at the SA Reserve Bank with effect from December 4 1990, up to and including March 30 1991." This resulted in a profit of R15,37m over 116 days.

CIB and Reserve Bank deposit statements show that three deposits of R99m and one of R3m were made on December 4 to the Reserve Bank account with CIB. The four cheques, however, were administratively cleared only on December 20, two days after the Prima Bank takeover of CIB.

After the *FM* reported Pickard's intention to claim from Prima Bank Holdings (*Current Affairs* June 12), the central bank issued a statement which said: "When the straitened financial position of CIB became known (the Reserve Bank) gave an assurance to Prima Bank that it (Prima) would not, as a result of the agreement, suffer any damage. To the extent that Prima Bank is subjected to a risk of damage in connection with the alleged claim, the Reserve Bank, in the interests of Prima Bank's depositors, indemnifies Prima Bank against that risk."

However, in an interview in *Business Day* on January 3 1991, Van Greuning denied that Prima Bank had been financially induced to take over CIB. "The Reserve Bank is not in the business of propping up ailing banks nor does it give people money to take over other banks," he said.

The Bank says, however, "in accordance with legal opinion obtained by Prima Bank, in co-operation with the Reserve Bank, it has been established that the alleged claim by Picardi Holdings is unfounded and thus not likely to succeed."

Prima Bank's Clive Ferreira this week strongly denied that Pichold has any claim against his bank.

Ferreira told the *FM* this week that Pichold's holding of Prima Bank preference shares had "no value." This dispute over the value of the preference shares, if unresolved, will in all likelihood be the subject of a Supreme Court action by Pichold.

Ferreira confirmed a January 15 financial statement for the period ending December 31 1991, which said that during this time

continue →

(58)
FM 19/6/92

preference shares to the value of R3m had been issued. However, according to clause 5 of the second purchase agreement between Prima Bank and Pichold, "no further shares in the capital of the company, ranking in priority to or *pari passu* with the preference shares, shall be created without the prior written consent of the holders of at least three-quarters of the preference shares."

The *FM* understands that Pichold has given no written consent for further preference shares to be issued.

Pickard jr would not comment this week.

Eddie Botha

FM 19/6/92 (58)

LIFE ASSURERS FM 19/6/92

Soiled funding

(58)

Directors and executives of life assurers will be exposed to criminal proceedings if they accept assurance premiums which have been obtained illegally — for example, the product of drug trafficking.

That is the interpretation placed by the Life Offices Association (LOA) on a draft Drugs and Drug Trafficking Bill, now under discussion by parliament's Joint Committee on Justice. The LOA has suggested some changes and last week went, in company with the General Bankers' Association and the JSE, to point out their problems to the committee.

LOA deputy director Jurie Wessels says: "The Bill as it now stands places the onus on the life office to prove that it has taken reasonable steps to ensure that invested funds are uncontaminated."

The assurers would like to see that reversed, so that the burden is on the State to prove that the life office has not taken suitable precautions. Wessels points out that a single premium investment of, perhaps, R1m is likely to arrive through an intermediary, so there is a chain through which controls are necessary.

Also, he asks, if the intermediary's cheque arrives a week or so after the cover has been arranged and meanwhile there has been a change at board or management level, which officers of the insurance company would be accountable?

Wessels says, in the US there are mechanisms to screen contraband money, involving specific questions about the origin of the cash and its ownership. There is a similar control in the UK.

He says comparable systems could be introduced in SA, but notice of the draft Bill was given only two weeks ago.

When the changes are in place, they will impose an onerous task on brokers. They could create an incentive for brokers to place business with life assurers with less than thorough controls — and that would be to the detriment of the more thorough offices and defeat the object of the Bill. So Wessels is arguing for conformity among all offices in their control measures.

And he argues further that, once the systems are in place, the onus should be placed upon the State to prove the checks have not been adequate. ■

Afsure takes care of blacks

58 Sowetan 19/6/92.

KHEHLA MTHEMBU ... company has started a bursary fund.

By JOSHUA RABOROKO

BLACK-owned Afsure Insurance Brokers have launched two major projects seen as vital moves towards black economic advancement.

It has started a bursary fund to send black students to university and has decided to expand its life insurance and financial services by acquiring a broker contract with Norwich Life.

Managing director Mr Khehla Mthembu said that the two projects were a major breakthrough and a progressive step towards black economic empowerment.

He said there was a critical shortage of qualified black staff in the insurance industry, and more specifically in the middle and top management positions.

In an attempt to rectify that situation, a group of concerned black insurance brokers decided to start a bursary fund to send black students to university.

The University of the Witwatersrand has a chair in insurance under Professor Vivian. The intention is for the student to do a B Com insurance degree.

The cost for a student is about R13 000 a year.

About 17 insurance companies have contributed to the fund and they also announced that this year's student was Mr Alexis Nthethe Matholoane.

The deal with Norwich Life was clinched with Unity-Afsure, the largest Life Insurance Broking House in South Africa formed in 1991 as a sister to Afsure in order to provide professional personal financial services to the community.

Unity-Afsure managing director Mr Gaby Majuba said that the deal would enable them to offer a far wider range of life insurance products to the South African market.

Annual premium in the first year exceeded R5 million.

HITTING THE PANIC BUTTON

(58)

FM 19/6/92

Predictably, a mini-panic has arisen in the wake of the Department of Transport's recently released feasibility study on a light rail transport system to connect Alexandra with Johannesburg CBD. The city council's metropolitan planning department says it has been inundated with calls from worried property owners in Orange Grove.

And some estate agents — waving a map purporting to show the agreed rail route — appear to be bullying owners into selling their homes.

Russell Marriott & Boyd Trust's Stan Arenson says he has received calls from homeowners alleging that some agents have attempted to persuade them to sell "on the basis of false information."

The planning department recently sent an open letter to all propertyowners in Orange Grove, particularly directed at those who live along Louis Botha Ave, Eighth Ave and Second St — the area most affected by the DoT's proposals. The letter confirmed that residents had expressed "their concern and anguish most vociferously" at a public meeting.

Transportation Committee chairman Paul Asherson says the problem lies squarely with the DoT report with its "routing suggestions, devised at the department's own volition . . . which deviate from the line of the main arterial connection (Louis Botha Ave). We certainly haven't accepted these proposals."

In fact, it is unlikely that council will ever accept the proposals. Asherson is blunt: "They do not conform with the widely accepted principle that new transport systems must adhere as closely as possible to existing main arteries — and not go wandering around the suburbs."

Asherson confirms a string of reports about unscrupulous estate agents attempting to trigger panic selling. However, he adds that a number of callers have expressed rather more interest in when they can expect expropriations to begin — and when expropriation payments will be made.

The metropolitan planning department's circular urges residents and homeowners "not to be scared into crisis by selling below market rates, or relocating to other areas by the actions and advice of estate agents operating in the area."

The Estate Agents Board has a different story. Assistant manager Clive Ashpol confirms that he has heard reports about the alleged miscreants — but "we have received no formal complaints from any genuinely aggrieved consumers. Until we do, we can't take any action." He believes it is possible homeowners are unaware that they are entitled to seek redress from the board.

Asherson remains in combative mood. "We haven't even agreed to the implementation of a light rail system as yet, let alone the route it is to follow," he says. However, "a decision will clearly have to be made soon because the situation which could arise five years hence could be frightening if we don't address the problem now."

Asherson says the council is under no obligation to accept all or indeed any part of the DoT's Masstran's feasibility proposals — nor will it do so until the matter has been properly aired and canvassed. The benefits of a mass transport system such as that proposed — which some observers describe as dubious — will need careful scrutiny. A public participation exercise is due to start next month and "everyone interested will be given an opportunity to state his opinion."

Asherson says the council's decision is unlikely to be made before February.

Referring to the DoT's recommendations that a second mass transit line should be established between Hyde Park in Sandton and Johannesburg CBD, Asherson says this is a pipe dream without economic foundation. For a light rail system to be effective anywhere, it must carry large numbers of people, and "those numbers simply aren't available from that area," he argues.

Property owners along the proposed route are best advised to bide their time. Such projects cost a great deal of money — and even the spendthrift Johannesburg City Council is likely to find the Masstrans system way beyond its reach.

FM 19/6/92 (58)

SA HOUSING TRUST (58)

De Ridder resigns

FM 19/6/92

Another top official is leaving the SA Housing Trust. GM Johan de Ridder has resigned to further his career in property development. His imminent departure follows close on the resignation of marketing divisional head Johan Raubenheimer who left under a cloud following revelations in the *FM* that he had falsely claimed to have a doctorate from the University of Pretoria's Business School (*Current Affairs* June 15).

Housing Trust MD Wallie Conradie stresses that there is no cloud over De Ridder: "In fact it is with regret that we accept his resignation. He's made a big contribution to the trust since joining us four years ago from the Development Bank."

De Ridder points out that he submitted his resignation at the beginning of May and will leave the trust at the end of this month. "However, I expect to continue to be associated with the organisation for some time. There is no question of friction, disillusion or bad blood between myself and the trust," he stresses.

De Ridder worked in the trust's long-term lending arm and was responsible for establishing an effective delivery network before moving to the development arm He became GM during a reorganisation of the trust in 1990.

Conradie says a successor hasn't been named and De Ridder's responsibilities will be handled by Francois van den Bergh.

De Ridder's new post involves establishing a property development facilitation company as a joint venture between the Rail Commuter Corp and the private sector. ■

3rd party 'disaster': Fraud, bungling

(58) ARG 19/6/92

MICHAEL MORRIS
Political Correspondent

A FRESH chronicle of inefficiency, irregularities and fraud lays bare the "disastrous" financial state of South Africa's third party insurance fund.

The Melamet Commission report into the Multilateral Motor Vehicle Accident Fund (MMF), tabled in parliament yesterday, highlights inefficiency and inadequate control by officials, laxity by insurance companies appointed as agents and abuses by attorneys, doctors, assessors and claimants.

It contains details of profitable practices at various levels in the motor vehicle accident insurance business, and wide-ranging irregularities, including touting and fraud.

"It is felt that only a few irregularities have been brought to the attention of the commission and that they constitute the tip of the iceberg.

"It is clear that only the surface has been scratched and it would be an impossible task to go back and examine all the files for the past three years or longer," said Mr Justice D Melamet.

"Touting is apparently thriving and leads to fraudulent claims and irregularities."

Describing the financial situation of the MMF — with an accumulated deficit of R2,1-billion — as "disastrous", he noted that "this is not something that has happened just recently. It is beyond question that the accumulated deficit has been building up for many years."

"It may be noted that the Commission expects that the MMF is likely to run out of funds in the near future ...."

Mr Justice Melamet, who was instructed by President De Klerk in November last year to investigate the MMF after auditing revealed serious problems, recommends far-reaching changes to impose stricter controls on the fund, to improve its financial stability and to gear it for greater public convenience.

Highlighting the absence of control over the 12 insurance companies which have acted as agents for the 25 000 claims made to the fund annually since 1989, Mr Justice Melamet found the MMF had "failed lamentably".

Supervision and inspection was selective and random and the MMF's excuse that it did not have suitably qualified staff "savours very much of 'Nero fiddling whilst Rome burns'."

Mr Justice Melamet said the handling of investments was "indicative of a lack of financial acumen, experience and ability".

CU Fund grows

B/Day 19/6/92

MICK ELLINGHAM

COMMERCIAL Union (CU) Growth Fund's value has grown to R26,4m for the year ended December 1991 from R9,7m at the beginning of July 1991. (58)

Income distribution from the fund was 2,85c a unit.

For the eight months CU has managed the fund, an annualised return of 27,35% was recorded.

CU Growth Fund chairman Dru Gnodde said the fund would be raising its fees to 0,75% a year (0,5%).

New financial institutions can benefit future SA

BDay 19/6/92

JAAP MEIJER (58)

THE ANC, at its national policy conference last month, adopted various policy guidelines for financial institutions in a democratic SA.

The guidelines propose that:

☐ The state will ensure that financial institutions in both the public and the private sector participate fully in the proposed new path of growth and development. In particular, their activities should help transform social power relationships and build institutional capacity in the historically oppressed communities to break the cycle of dependency;

☐ The state will introduce mechanisms to encourage private sector financial institutions to channel resources into productive investment, the development of the basic-needs sector, and to end discrimination in lending against blacks, women, and the informal sector or very small-scale producers; and

☐ Relationships with international institutions such as the World Bank and the IMF will be conducted in such a way as to protect the integrity of domestic policy formulation.

We must pursue policies that enhance national self-sufficiency and enable us to reduce dependence on international financial institutions.

The general non-specific phrasing of these statements is to be noted.

At the same time, there are forces at work, whose nature argues against the possibility of any truly revolutionary and potentially disruptive overhaul of our present monetary and financial system.

Those forces also argue for that system's gradual adjustment, adaptation and supplementation in the direction of stepped-up usefulness and user-friendliness towards those elements in our population who are, as yet, sorely lacking in financial substance and creditworthiness.

On the one hand, our monetary and financial system can be made to operate in an otherwise "caring" society.

Effective non-monetary, non-inflationary measures for combating absolute poverty, for making good backlogs, and for raising the general quality of life of the poor and the less well-to-do, will weaken the inducements for ill-advised attempts at using monetary policy, or state direction of the activities of the banks and other financial intermediaries, for redistributive purposes or for "populist" ends.

On the other hand, there are several ways in which the non-First World elements of our population are already learning to use the system, to avail themselves of it, and to "join" it where no rational arguments can exist for "beating" it.

New approaches and infrastructural features can be added to the system that will help to turn it to less well-to-do people's benefit and gain.

The authorities have been more than willing to assist in the relevant "think-tanking".

They will undoubtedly also prove sympathetic in seeking to accommodate any relevant proposed new structures or procedures in their systems of financial supervision, and to do so in a helpful and constructive way.

As matters stand, we have been seeing evidence of:

☐ A growing number of decision-makers, still essentially in the informal section, who are nevertheless gaining access to, or are being drawn into, the First World environment of First World payments, savings, financial investment and borrowing habits and facilities, on a personal and individual basis;

☐ Preponderantly "non-Euro-South African" interest groups who are learning to make profitable use of First World financial institutions, instruments and techniques — as in the case of labour unions investing their members' pension and provident-fund contributions in unit trusts which, in turn, intend to build up a portfolio of shares in "socially responsible" companies;

☐ New initiatives in acknowledging and strengthening the traditional "stokvels", and in assisting the evolutionary development of the "mutual-banking" notion beyond the realm of the humble stokvels to those of credit unions, co-operative banks and the newly proposed national community bank — with a view to the mobilisation of savings and the provision in credit needs on a community-orientated basis; and

☐ MEIJER

☐ Proposed combinations of some of these, as where the proposed community banking institution may make use of a so-called special purpose vehicle for the securing of its mortgage-loan portfolio.

To this, I should like to add my suggestion for a community development corporation, to mobilise the savings of communities with longer-term availabilities for financing both housing and infrastructural facilities of a more expressly longer-term and capital nature.

Nothing in these arrangements would, of course, prevent any kind of help from outside sources in the form of, for example, grants, donations or concessional loans.

Well-run organisations of these types could be of material assistance in "retailing" such help among the interest groups concerned.

The next 12 months may be exhilarating in opening up new opportunities, and in revealing new vistas of what the new SA can be like.

New buoyancy engendered by these initiatives may yet help to strengthen confidence and, in so doing, also serve to revitalise the SA economy.

A reinvigorated economy, in turn, will help to create hope and prospects for a new SA which not only should grow more prosperous than its predecessor has ever been, but become a country in which all of us will feel at home, of which all of us can feel proud, and in which all of us will feel we have a stake.

☐ These are edited excerpts from an address in London yesterday by Reserve Bank Deputy Governor Meijer to a conference arranged jointly by The Royal Institute of International Affairs and The SA Institute of International Affairs.

Barend set for top Development Bank post

B/Day 19/6/92. (58)

ALAN FINE

FORMER Finance Minister Barend du Plessis is set to be appointed president of the council of governors of the Development Bank of Southern Africa at the council's next meeting on June 26.

Du Plessis' nomination for the post was confirmed last night by his wife Antoinette. She said the appointment could not be considered final until it became official, but agreed it was "highly likely".

She said Du Plessis "would love" holding the position. His international contacts, especially within the IMF and World Bank, would be of benefit to the bank.

Du Plessis' appointment — a Cabinet decision — could be controversial. It is understood that the ANC proposed former Perm MD Bob Tucker for the post as a politically neutral appointment.

Du Plessis, who is on a hunting trip in Namibia, would succeed another former Finance Minister Owen Horwood, who has held the position for nine annual terms.

The council is also expected to appoint Prof Wiseman Nkuhlu as chairman of the bank's board. Horwood has held that post temporarily since the death of incumbent Simon Brand. Brand was board chairman and CE, but the post would be split.

Neither the council president nor the board chairman are fulltime posts.

The governors are effectively the bank's shareholders and consist largely of cabinet ministers of SA and TBVC states. Members of the board, on which Nkuhlu already sits, are mostly economists and development experts. Nkuhlu, a former Transkei University principal, has a senior position in the Independent Development Trust.

Acting CE André le Grange — whose appointment as CE is expected to be confirmed — yesterday said that the council would meet on June 26 for the first time since Brand's death. He said a whole new board would be constituted, but declined to comment on the council's agenda.

...efits of the acquisitions

Premier's Wrighton . . . *a false perception*

food's underperforming operations contributed equally to this.

All operations in the food division increased their contributions. On an annualised basis, milling and baking lifted trading profits to R138m (R122m), edible oils to R35m (R26m), while fishing raised its contribution 7% to R16m. Pelagic fishing was tough in the first half of the 1992 year as quotas were cut once again, though recently they have been increased. Wrighton says investment in new plant at edible oils has paid off, indicated by the 35% hike in trading profit.

Referring to possible joint ventures with global operators, Wrighton believes it unlikely anyone will move into the local market before an interim government is in place. State legislation now penalises US companies from setting up ventures in SA ahead of an interim government.

Metro's earnings are expected to surge this year. And, as they will be included in Premier's results for the full year, analysts predict real EPS growth despite the drought and political uncertainties. On the other hand, both basic foods and pharmaceuticals are politically sensitive areas, possibly restricting longer-term margin growth.

The rerating of the share since the restructuring in 1989 has been striking. At R42, the p:e is 16,95 and the yield 2%. That compares with Tiger's p:e of 20,18 and 1,7% yield, so the latter still trades at a premium, but the gap could continue to narrow. *William Gilfillan*

SAGE GROUP FM 19/6/92

Clearing the decks (58)

The reconstruction of the Sage group has been a while in coming — having been held up by the formation of Absa — but, if all

FM 19/6/92 (58)

goes as planned, it will solve the structural problems and improve the value of the listed vehicle.

That vehicle would be Sage Financial Services (SFS) rather than Sage Holdings. SFS currently holds the major operating interests and the directors say it is most closely identified with the core activities in the life assurance and related fields.

Chairman Louis Shill cites several other reasons for using SFS as a single listed vehicle. It has a strong capital base; there is an "interesting" convertible preference share structure; the gap between the intrinsic value and the market value is the lowest among the group's companies. And using Sage Holdings would probably have been impractical due to its gearing.

Sage Holdings and Sage Property are to become unlisted subsidiaries of SFS, which will be renamed Sage Group. Making SFS the central company was probably logical, considering the nature of the problems to be addressed (*FM* August 16 1991). The restructuring is expected to make it easier to dispose of much of the estimated R400m portfolio of noncore investments.

Proceeds are to be used to substantially reduce or eliminate gearing. The benefit would be felt in reduced financing costs and in that charges would no longer have to be carried by a holding company that relies largely on dividend receipts for its cash.

For the group, high investment holding costs would be avoided and cash flow would improve. The present structure is financially inefficient. In the 1991 financial year, for example, Sage Holdings paid R17,2m in ordinary dividends, far more than the R4,9m earned that year at the company level — even though earnings of R29,5m were posted in the consolidated accounts.

That illustrates how financial stringency was restraining cash at lower levels. Borrowings in the top company absorbed what came up because most of the debt is in Sage Holdings, not in underlying operations.

As a more liberal dividend policy will become possible, the 1992 results include an additional special dividend of 10c declared from accumulated reserves. The total payout was increased 16,7% to 70c — up by 14,5% on undiluted EPS. The R56m provision made earlier against the exposure in the US has been written off in full.

Decks have thus been cleared. Assets due to be sold have not been named but it seems that everything that does not fall into the core areas of life assurance and property could go.

Heading noncore interests is the R300m-plus stake in Absa. Shill says any changes here will not necessarily mean the end of

cont →

FOX FM 19/6/92 (58)

contractual marketing arrangements between the two groups.

Sage's stake — held through Universa and part of the original control structure of Absa — has been diluted by Absa's acquisition of Bankorp. In his 1991 SFS review, Shill said Universa's owners were committed not only to listing it in due course but also to using it to "rationalise the interests of common major shareholders in Sage and Absa."

It now seems unlikely that Sage will remain involved in Absa. Similarly, analysts see no reason for Rembrandt to keep its stake in Sage, especially as the restructured group will have an assurance bias. If Rembrandt had ambitions in assurance, it presumably would have kept its stake in Momentum Life.

Shill is cagey regarding Absa's 49% interest in various Sage interests, including Sage Life. Absa CE Piet Badenhorst tends to dislike passive investments, as reflected in the sale of Absa's stake in Momentum. So Absa might also sell its 49% stake when (and if) Sage disposes of its Absa holding.

If Sage's noncore interests go, life assurance will dominate activity. These will consist of Sage Life and, possibly, the passive holding in Rand Merchant Bank Holdings. Management will then have to deal with the question of how to position — and fund — Sage Life in the long term.

Shill points out that the group will have a strong balance sheet for further expansion in assurance Such expansion may be essential. At present, analysts say, Sage Life is too large to be a niche operator, yet not large enough to afford the expensive infrastructures of big operators — in that sense, neither fish nor fowl. *William Gilfillan*

SAPOA'S 25TH CONVENTION FM 19/6/92 (58)

The messengers or the message?

Except for the news that future office tenants will be able to open their windows and breathe fresh air, the tone of the SA Property Owners Association's 25th annual convention at Sun City was anything but optimistic.

The fresh air will come thanks to a new design trend noted abroad.

Even the most inspiring address — that by tax expert Pierre du Toit — managed to deliver bad news — the probability of a land tax under a new government.

Warnings by Codesa management committee chairman Zach de Beer and Professor Mike Hough of what might happen if black expectations are not met were discouraging.

Yet none of the speakers addressing political issues mentioned that white expectations might also be unrealistic.

Ways and means of redistributing the country's wealth were addressed by economic consultant to Frankel Max Pollak Vinderine, Mike Brown and Pan-Africanist Congress of Azania secretary-general Benny Alexander. Brown advocated a programme of economic reconstruction, largely through the Budget, saying the benefits would outweigh those of kick-start strategies. Alexander believed redistribution should take place by increasing wages.

Brown ... *economic reconstruction programme needed*

Brown said wage differentials in SA appeared to be skills-based. So narrowing the wage gap would depend largely on the pace of skills enhancement.

Economic prospects for 1992 and 1993, according to Brown, do not seem propitious. However, considering that 1993 will see some benefits accruing to the economy from the movement towards a new deal in SA, a more positive scenario is possible.

This depends on a rise of at least 10% in export volumes and a rise in gross domestic fixed investment from 17% of GDP in 1992 to 21% of GDP in 1993 — the main contribution coming from government ensuring that its Budget deficit (5% of GDP) goes entirely into capital investment. This compares with only 2% of GDP, or less than half of the 1991/1992 Budget deficit, being channelled into fixed investments.

The other assumption is that foreign capital inflows account for 1% of GDP and income redistribution takes place through a higher percentage of the Budget (42%) and the Budget deficit (75%) going towards social investment.

This scenario produces startling results, pushing the potential real GDP growth rate up to 5,5%. This would, if it came about, achieve the two overriding objectives of any future economic strategy: firstly, to promote faster economic growth, expanding capacity and employment while removing the vicious cycle of income erosion, urban unemployment and violence; secondly, to look at sustainable measures to enhance what the ANC calls "systematic redistribution" to the disadvantaged.

Property experts offered little scope for enthusiasm. Russell Marriott & Boyd Trust director Nick Harris raised the spectre of higher municipal rates and charges. He based this prognosis on the probability of black areas being integrated into the larger municipalities and the upgrading of areas with a low rates base taking priority.

He advised landlords to structure leases so that they can recover municipal rates increases separately from tenants, instead of including them in the basket of operating costs escalating at a fixed percentage.

Because housing and job-creation are likely to be the priorities of those who will have a say in the new SA, Harris says major pressures will be brought to bear on the financial resources of local authorities — perhaps even of institutional investors — to provide these, as opposed to more offices and retail investments.

He called on local and provincial authorities to resist further proliferation of commercial nodes.

He said nodes simply entailed additional expenses on services, roads and infrastructure.

"Instead," he said, "authorities should create realistic planning schemes that ensure existing nodes are fully and viably used.

"This can be reinforced by applying realistic or actual costs of providing bulk and other services and roads while calling for independent environmental impact studies at the expense of those seeking rezoning."

Overall, the mood was sedate. ■

PROPERTY INDICES FM 19/6/92

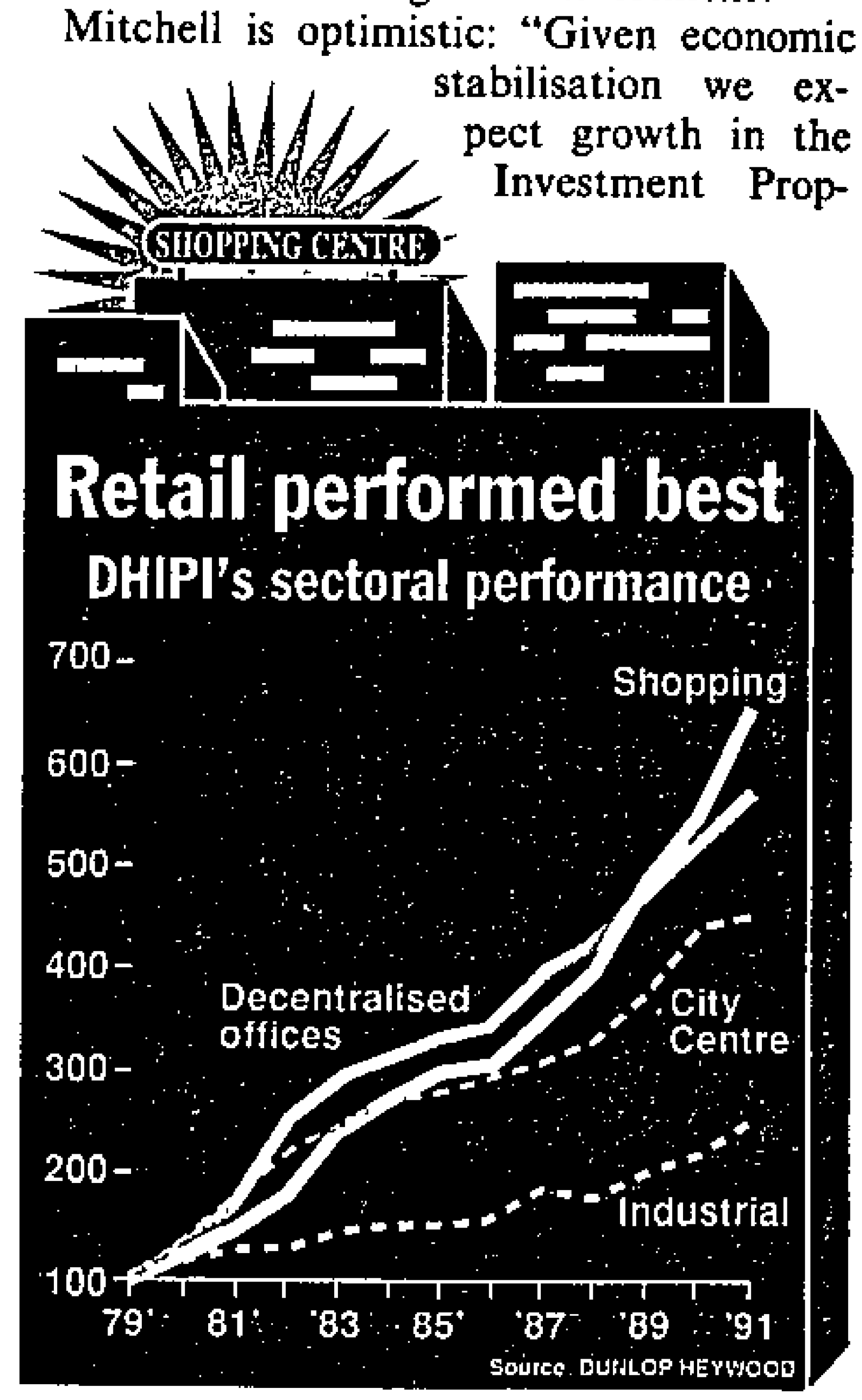
Not beating inflation

Investment property continues to outshine equity on the long haul — though equities are keeping a nose in front in the sprint. At least for the present. This emerges from the latest research by the valuations division of the Dunlop Heywood property group.

In terms of total return (capital growth and income return), a basket of investment properties has outperformed the JSE Overall Share index over 11 years. But the total average return on shares in 1990-1991 was 30,6%, which is 9% higher than property at 21,6%. Nevertheless, Dunlop Heywood director Ian Mitchell — who compiles the organisation's authoritative Dunlop Heywood Investment Property Index — predicts that international nervousness over equity could precipitate a stock market correction to bring property investment back into favour, perhaps even before year-end.

If so, the value of property as a long-term hedge is underlined. But is this the right time to consider such long-term investment?

Mitchell is optimistic: "Given economic stabilisation we expect growth in the Investment Prop-



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PROPERTY INDICES
FM 19/6/92

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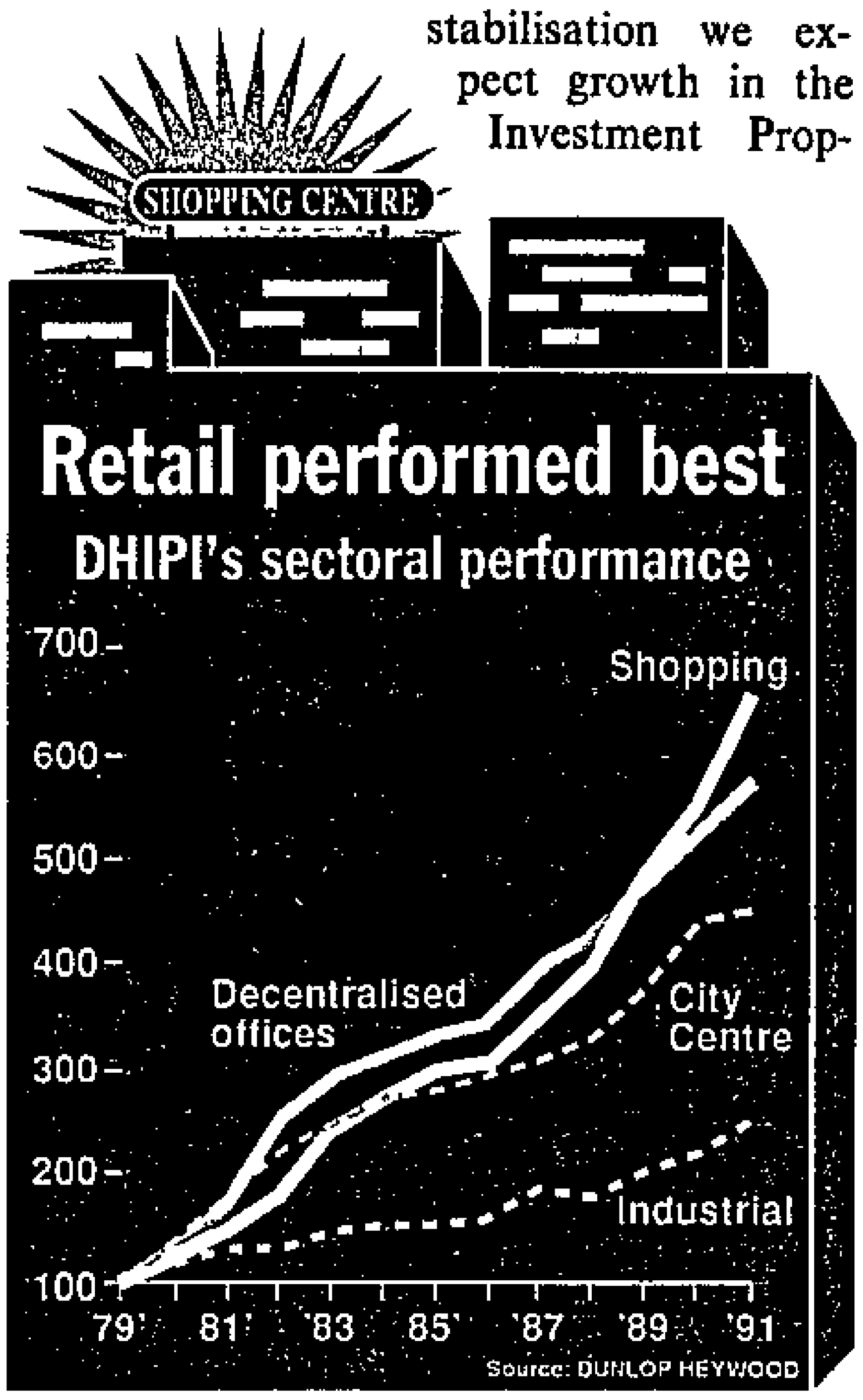

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PROPERTY FM 19/6/92 (58)

erty index this year, largely because of in-built escalations in most modern leases and a bullish view of economic growth and the stimulatory affect that will have on demand for all types of space."

If he is right there will have to be a dramatic turnaround on recent performances. The index — which measures a portfolio of 260 properties with a combined market value exceeding R7bn, representing about 33% of total direct investment in property by pension funds — shows that investment property capital values are not keeping pace with inflation. They climbed 13% compared with inflation of 15,3% in 1990-1991.

Frankel Max Pollak Vinderine property specialist John Rayner agrees with Mitchell but points out that there is a two-tier property investment market. In the one, capitalisation rates are falling and property prices rising because they are desirable investments being chased by institutions positioning themselves for an expected upturn next year.

"The other comprises billions of rands worth of property that nobody wants, such as old CBD offices," he adds.

One consequence is too many institutions chasing too few properties — and some may have to lower their sights and perhaps look at smaller industrial investments.

Another is that institutions are continuing to develop offices in desirable areas like Johannesburg's decentralised zones despite the office glut. "Here they still believe returns will be positive, even after factoring in vacancies of, for example, a year into calculations. This is because they anticipate sharp rental increases in an upturn."

The index breaks down the relative capital value growth of the various sectors as follows: city central properties rose only 4,15%; next lowest was industrial at 5,25%; decentralised offices did relatively well at 10,96%; and shopping centres were at 19,37%.

The Transvaal homemaker

A zippy little sportscar — no matter how well engineered or comfortably appointed — somehow never seems to achieve the cachet of its bigger, more obvious cousins. Size, not performance, seems to be the deciding factor in the motor vehicle status stakes and very often these little purveyors of panache are overlooked.

Mention banking and a similar phenomenon exists. At the top of the heap are the big four groups, with the NBS fifth in line, and what a zippy little performer it is. Its preliminary figures for the year ending March indicate that total assets have grown by 22% (its nearest rival is FNB with 18%) and total advances by 25%.

NBS's EPS are up by 19,7%, ahead of Absa and Nedcor. Standard and FNB did slightly better: both increased their EPS by 20%. What are they doing right?

All NBS finance GM Paul Leaf-Wright will venture is: "We're a conservative, service-orientated financial institution that is, thankfully, too expensive for any of the other banks to take over. This is our strength and our shareholders and staff love us for it."

The staff evidently do: a 10% increase in employee numbers has achieved compound annual earnings growth of 29% since listing. Profit per employee has jumped from R9 000 to R23 000 over the past five years.

Unrealistic

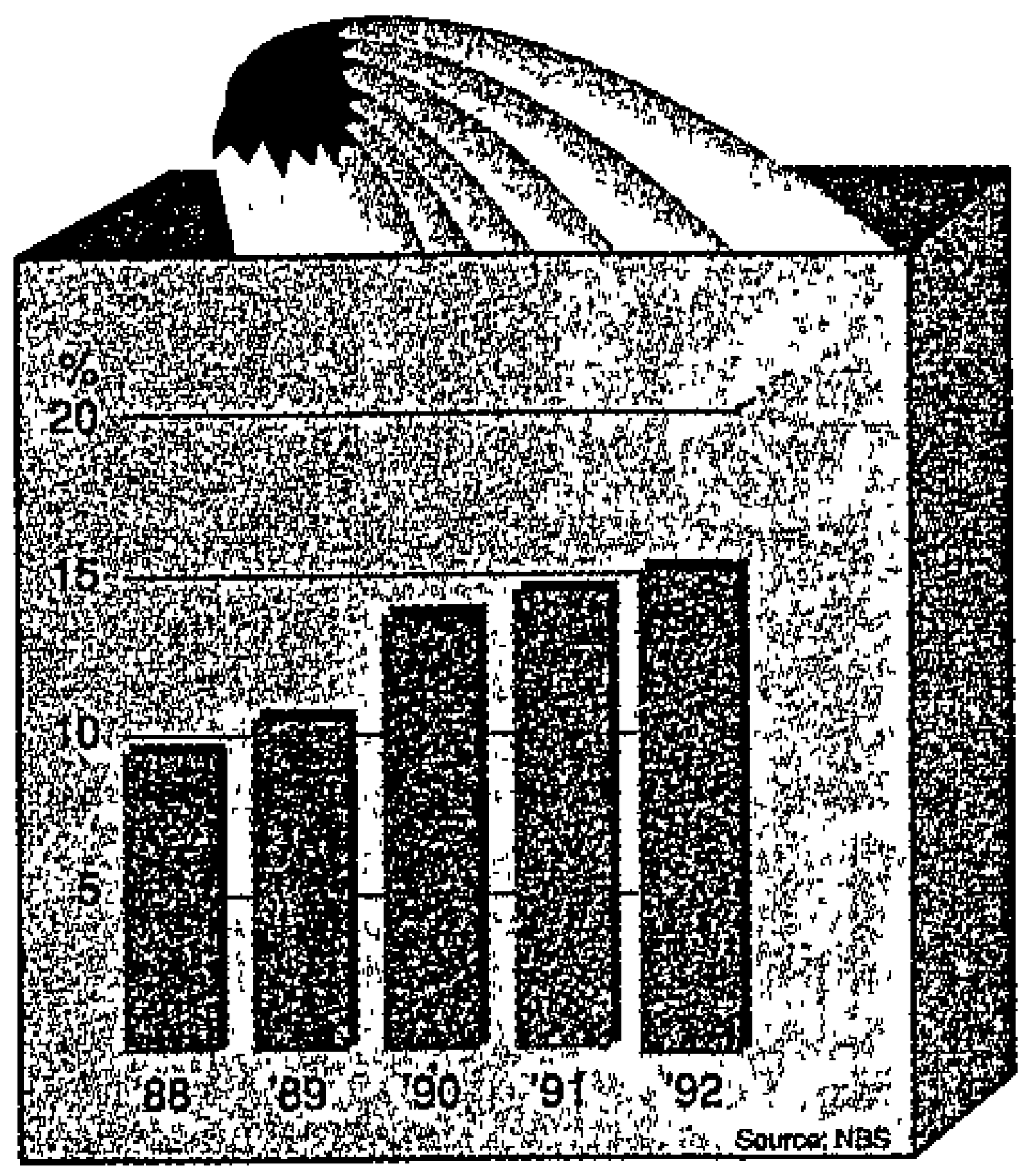
Banking and insurance account for 85% of the group's earnings. Leaf-Wright says it's unrealistic to expect the past year's growth to be repeated in the current year. "We'd like to see something in the region of 15%, but a lot depends on what happens to interest rates."

NBS is sensitive to interest rates because of the high proportion of income derived from margins (the difference between lending and borrowing rates). "The aim is to increase the nonmargin component. For example, service fees and insurance commissions." Increasing service fees might not be popular with the public but retail business is down anyway — the recession has eroded the size of individuals' savings and retail funding accounts for only 41,6% of total funding.

Obviously, other heavier-weight strategies are needed, and they are to: focus on core lending and investment business; reduce the cost structure of retail operations, confine the product range to profitable lines only; achieve a spread of lending that reduces the concentration of mortgage advances; and increase exposure to life insurance. Here, the bank's stake in Norwich Life is already showing growth potential — earnings attributable to NBS were up 50% to R4,2m.

Another bottom-line-boosting technique is to trim operating costs. In this instance

On track
Return on shareholders' interest



NBS's size counts against it: it cannot achieve the economies of scale its competitors enjoy. But what it is doing is centralising and automating administration; the two regional offices in the Transvaal have been consolidated. Likewise, branching philosophy calls for smaller, sales-orientated outlets in which on-line access to centralised functions (such as loans granting) is more cost effective. Staff numbers at branches can therefore be reduced.

These rationalisations may account for the belief that the NBS is pulling out of certain areas but, according to Leaf-Wright, this is not so.

Diversification, however, is the key if the NBS is to change from being essentially a moneylender operating in metropolitan areas. And, while it is indeed this niche focusing that gives the group its ability to attract deposits and customers, it makes the NBS more vulnerable to margin pressures than bigger banks. For instance, when they bring down bond rates — affecting 15%-20% of their business — NBS has to follow suit but this affects about 65% of its income.

Township development accounts for only 2,6% of total earnings but its contribution can grow. NBS, through its wholly owned subsidiary, NBS Developments, develops property in urban areas for middle-to-upper-income groups. Turnover for the year was R72m; this does not include the benefit of mortgage and insurance business that is introduced. Township developments are in progress in Natal, the Cape and Transvaal. Property held for resale is worth R60m.

Though NBS is widely perceived as a bigger force in its home territory than elsewhere, it is interesting to note that nearly half of all its mortgage business is done in the Transvaal; the rest is split — almost equally — between the Cape and Natal. Instalment advances, however, are concentrated in Natal with 69% of business written there. The Cape accounts for less than 10% and the balance is in the Transvaal.

Internationally, NBS's 39% stake in the French Bank of SA Ltd has provided a forex licence, a branch in London, an international partner in Banque Indosuez, and an association with Barlow Rand Ltd, from which it bought its shareholding in French Bank. Barlow Rand now owns 19% of NBS Holdings.

Overall, this revved-up performer is edging forward and ready to race. The Deposit-Taking Institutions Act sets out a capital-adequacy requirement — now calculated at 5% of risk-weighted assets. By 1995 the requirement will be 8%, for which adequate capital already exists within the group.

So, while the NBS is not likely to overtake larger competitors, it is perhaps its very size and manoeuvrability that makes the race interesting. *Anthony Sarankin*

Third party: 1 000 cases?

CT 20/6/92

(58)

By BARRY STREEK

POLICE could investigate some 1 000 cases — involving as much as R100 million — arising from massive corruption in the administration of South Africa's third party insurance fund.

Mr Justice David Melamet, whose Commission of Inquiry report was tabled in Parliament yesterday, said of the irregularities: "Wherever you scratch you find them."

Last night the Democratic Party said blame for the "nightmare come true" exposed by the investigation into the Multilateral Motor Vehicle Accident Fund (MMF) "lies squarely with the government and the responsible ministers of the time".

Dr Piet Welgemoed, Minister of Transport, said yesterday that when he took over the job he had immediately asked a friend to look into MMF affairs because he could not understand them. Within 10 minutes the friend had said the fund was bankrupt.

The previous transport ministers were Mr George Bartlett, now Mineral and Energy Affairs Minister, and Mr Eli Louw, now the Speaker of Parliament.

'Prosecution'

Dr Welgemoed told a press briefing yesterday that 200 files had already been handed to the Office for Serious Economic Offences and the figure would be doubled this week.

He said "plus/minus 1 000 files" would eventually be forwarded for "possible prosecution".

Officials were loathe to quantify the amount lost as this ranged from R900 to R950 000 per claim, but it is understood that investigators have estimated it could be R100m.

Dr Welgemoed revealed that the former director of the MMF, Mr Johan Oosthuizen, had been asked to step down and "would not be in service from July 1".

A deputy-director who the judge said had failed lamentably in supervising the insurance companies which served as agents for the fund had also retired.

Mr Justice Melamet said that "at the moment I would say the people responsible in the main are the agents (of the insurance companies) who didn't supervise (claims) properly, the assessors and, regrettably, some attorneys".

Evidence of corruption and mismanagement included trips to Sun City for employees, hunting trips and vast overpayments to attorneys.

Dippenaar's momentous challenge

S/Times (Buss) 21/6/92 (58)

DIAGONAL STREET by Julie Walker

RAND Merchant Bank Holdings' takeover of Momentum means that, for once, a big South African insurance company is under the control of a banking group.

RMB Holdings (RMBH) took control of 76% of listed Momentum RMBH then sold its stake in Rand Merchant Bank to Momentum.

The price for control was 440c a share — a handsome premium to the JSE's rating of Momentum before the deal. Happily for the buyer, the market has rerated Momentum and pushed the shares to 480c.

RMBH has lost no time in implementing change. It has appointed its present managing director, Laurie Dippenaar, chairman of the Momentum board. RMB Holdings' deputy chairman, GT Ferreira, and deputy managing director, Paul Harris, also become directors.

Did Mr Dippenaar draw the short straw?

"It had to be one of the three of us, and I have a little more background in assurance than do the others. We own and manage ourselves, and it was not prescriptive."

Mr Dippenaar enlarges on the philosophy "A merchant bank's income is exciting — volatile, if you like — whereas a life office produces a steady stream of earnings

"Our strategy is to develop RMB Holdings into a broader-based financial services group, and it is not every day that an opportunity like Momentum comes along"

It is another chapter in the saga of Momentum, formerly Lifegro, formerly L&GV, etc, etc

Lifegro listed in 1986 but got into a mess the following year after imprudently issuing guaranteed policies which the JSE could not match.

According to Mr Dippenaar, Lifegro's problems resulted in its being taken over. "Lifegro was a whale with indigestion taken over by a sardine (Momentum) To be fair, Momentum effectively received a hospital pass."

That Momentum has done its best under the circumstances is acknowledged, but it has not come through unscathed. Returns to shareholders in particular have been below par.

Momentum's fortunes were destined to change again this year when Absa wanted to sell out. Sanlam was ready to buy it, but Momentum's managers saw the

MOMENTUM'S LAURIE DIPPENAAR: We want to add value, not extract it Picture CATHERINE ROSS

writing on the wall — it would have been swallowed by the insurance giant.

"Why would Sanlam nurture a partly-owned life office in direct competition with its own business?" asks Mr Dippenaar Another life office was also interested, but the same fate would have been inevitable.

RMB has been the smartest outfit around in recent years, operating on the basis of 26 profit centres. Mr Dippenaar relishes the challenge of steering Momentum away from a period of fire-fighting to one of improved returns.

"As major shareholders we want to add value, not extract it. If we can strengthen the profit culture at Momentum it will make a big difference to the returns achieved"

Already, the frequency of executive committee meetings has been increased from eight a year to one a week. "It's a strategy we have used with good effect at RMB.

"Lots of investment analysts have shown interest in us since the deal," says Mr Dippenaar. He says changes to the existing structure of the new financial grouping will be effected during the next 18 months in order to unlock synergies. RMB Holdings will likely be quoted later this year.

As he points out, life assurance is a delicate partnership between policyholders and shareholders. Smarter operating under new control should lead to improvements for both types of stakeholder.

"A life office can't turn on a tickey like a merchant bank can. The investment returns have not been as high as they possibly might, and it is an area where we will focus our immediate attention.

"If our unique merchant-bank culture can be diffused into Momentum the benefits will be reaped by all in the longer term."

Momentum minorities who declined the 440c obviously have as much faith in the new regime as it has in itself It looks a certainty at 480c.

…'s a turn-on for Teljoy

S/Times (Buss) 21/6/92 · (295)

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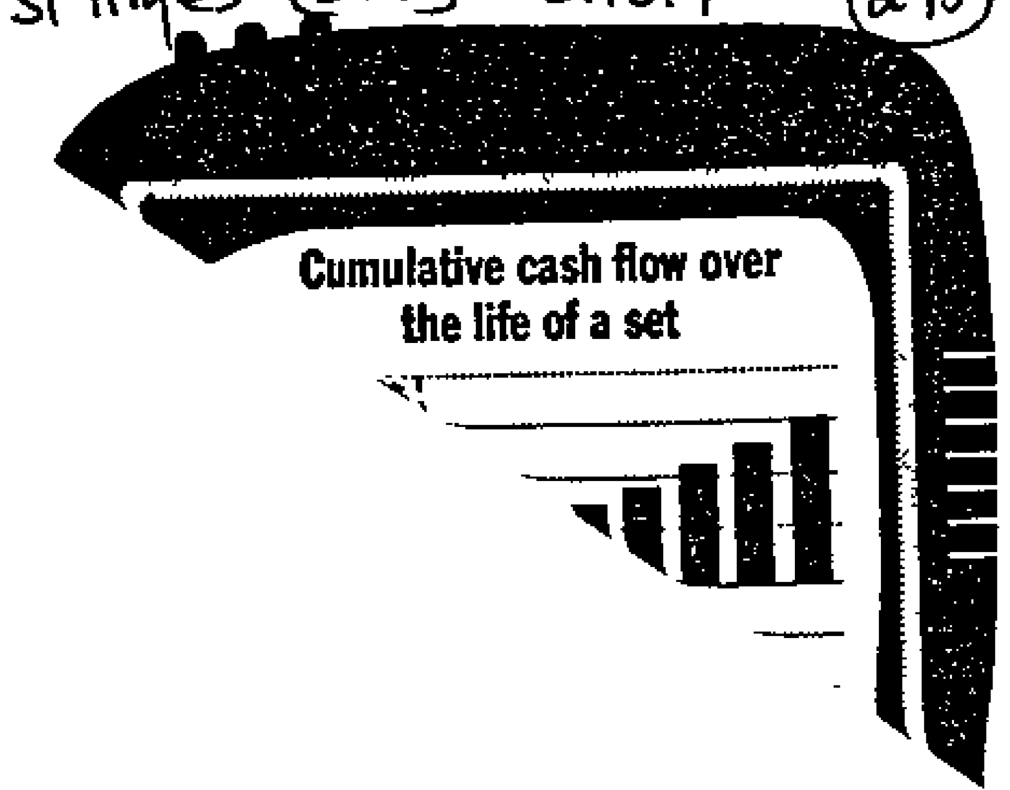
…a ca-



but a safer socio-political climate is required. One avenue is through corporates, such as the deal with TransNet.

As an employee benefit, particularly for education purposes, TransNet has arranged for Teljoy to provide its staff with sets. Employees are still responsible for payments but TransNet collects them, lowering risk.

The upside of unrest is the potential for Teljoy Business Systems to equip trains with closed-circuit TV surveillance to help protect commuters.

Mr Rutstein says SA's re-entry into the world of sport will increase demand for TVs, and rental will be a preferred route for many. Rental also protects against the …ssibility of buying equip… that becomes techno… outdated.

New home loan package from NBS

STAR 20/6/92

58 [redacted]

THE Natal Building Society has announced the launch of Actionbond, a home loan package which it says adds a new dimension to financial planning.

In a redefinition of mortgage finance, NBS Actionbond allows qualifying homeowners to tailor a credit line based on the increasing value of their property. Actionbond clients will now have access to extra credit and not just the portion which has been repaid.

"We believe this is an innovative concept in South Africa, making Actionbond the leader in strategic mortgage-based financial planning," says Trevor Olivier, assistant general manager NBS Loans and Savings Administration.

"Properly addressed, the new plan can provide funds for education, a new car or home improvements, and at the same time offer numerous cost savings.

"The Rode report indicates that since 1980 house prices have increased on average by an effective 325 percent. In fact, since 1988 the growth has been about 53 percent, which means a house purchased at R150 000 would now be worth about R230 000."

When dealing with conventional mortgage access products, attention was given to the bond amount and outstanding balance. The difference with Actionbond was that the equity, which accrued to a homeowner as a result of rising property values, was also taken into account when establishing a credit line.

One-stop package

Olivier says that depending on personal circumstances, Actionbond gave homeowners access to up to 10 times their normal re-advance limit. For example, if a house was purchased in 1988 for R100 000 and a R90 000 NBS bond registered — payable at 19 percent over 20 years, the amount available for re-advance four years later would be R2 390 (ie the capital repaid).

However, if the value of the property increased during this time period to R175 000, the Actionbond client would now have access to 90 percent of the accumulated equity in his property, thus providing R67 500 rather than R2 390.

"Actionbond is a one-stop finance package specifically designed to allow borrowers to effectively manage their total financial situation through their home loan. Real monthly cash savings can be achieved by consolidating various repayments into a mortage loan at lower rates," says Olivier.

Abuses by lawyers criticised

ARG 20/6/92 (58)

AN attorney who negotiated settlement of a motor vehicle accident claim for R18 000 six months after the claimant had died is one of a string of irregularities described in the Melamet Report.

Mr Justice Melamet's report into the Multilateral Motor Vehicle Accident Fund (MMF) highlights scores of abuses by attorneys, doctors, assessors and claimants.

While pointing out that the abuses by lawyers are "exceptions", he says: "It is a pity that the good name of and high esteem in which the profession is held should be tarnished by the misdemeanours of very few."

He recommends the Association of Law Societies take steps to eliminate, or at least reduce, the malpractices.

Other examples of abuses — by lawyers and others — in the report are:

● An attorney, whose name has been struck from the roll, whose wife bought a BMW with an accident claim cheque for R95 397 made out to his trust account in respect of a claim. The claimant received nothing;

● A fraudulent claim involving R950 000 for an alleged whiplash injury from a collision, when in fact the injury was caused by an assault with an iron pipe;

● Evidence was given of a firm of assessors that employed touts at hospitals and police stations, particularly in the homelands. They then constructed cases to make claims valid and, in so doing, elicited false statements and other evidence. They then took the claims to different attorneys, bargaining for the highest percentage of any settlement obtained;

● Evidence was heard about a physical fight between touts of the Association of Law Societies and those of an attorney on hospital premises;

● Gifts and other benefits — including free lunches, bottles of whisky and wine, trips to casinos, hunting and boat trips — were given by attorneys, assessors and agents to staff of the MMF "apparently as a permissible practice";

● Evidence was submitted of medical specialists known to prepare medico-legal reports exclusively for claimants. It was suggested such practitioners operated in teams; and

● A complaint made on more than one occasion was that certain firms of attorneys, "are more interested in running up costs than in serving the interests of their clients".

Third Party chief ordered to resign

58

ANC 20/6/92

THE director of the ailing Muitilaterial Motor Vehicle Accidents Fund (MMF) has been ordered by the government to retire at the end of the month amid an investigation into more than two dozen cases of suspected fraud.

All 12 insurance companies appointed as MMF agents have been given 12 months notice.

Minister of Transport Dr Piet Welgemoed said 26 files had been handed to the Justice Department's Office for Serious Economic Offices for investigation, and possible prosecution.

Dr Welgemoed said the director of the third party insurance fund, Mr J P Oosthuizen, must retire from July 1.

He said the executive committee of the MMF had "merely acted as a rubber stamp for recommendations made by the director.

Dr Welgemoed also announced that:

■ Present agents had been given notice that their appointments would expire at the end of next April "to make provision for adjustments in the running fo the Fund".

■ MMF income from the fuel levy would be paid monthly instead of quarterly, bringing an additional R9-million a year in interest income.

■ The Cabinet had decided on the recommendation of the Commission to restructure the board of directors of the MMF to include at least six experts from the private sector.

Agents given notice after R2,1-b deficit found in fund

58 ARG 20/6/92

Third Party blitz

Fraud, irregularities and inefficiency are revealed in South Africa's third-party insurance fund. MICHAEL MORRIS of the Weekend Argus Political Staff reports on a government investigation into the insurance industry.

TWELVE insurance companies, who have operated as agents handling thousands of claims annually for the Multilateral Motor Vehicle Accident Fund (MMF) since 1989 have been given a year's notice after the Melamet Commission findings.

This is to "make provision for possible adjustments in the running of the fund".

As many as 1 000 third-party claim files are expected to be handed to the Office for Serious Economic Offences for investigation and possible prosecution following the commission's report, tabled in parliament yesterday.

Mr Justice D Melamet chronicles widespread inefficiency, irregularities and fraud which left the fund in a "disastrous" financial state with an accumulated deficit of R2,1-billion.

The report highlights inefficiency and inadequate control by officials, laxity by insurance companies appointed as agents and abuses by attorneys, doctors, assessors and claimants.

Mr Justice Melamet concludes: "It is felt that only a few irregularities have been brought to the attention of the commission and that they constitute the tip of the iceberg."

He devotes much of his 112-page report to the activities of the agents, who, collectively, handled about 25 000 MMF claims every year.

Each agent is allocated a certain number of days of the year and is responsible for dealing with claims (where the owner or driver is known) arising from accidents on those days.

The allocation "was apparently based on the number of free tokens of identification that were distributed by insurance companies on behalf of the MVA in 1986.

"There are allegations that gross irregularities took place at that time, with tokens having been distributed freely to obtain as large an allocation of MVA work as possible."

The companies (with the number of days they are responsible for in brackets) are:

Sentraboer (10), Commercial Union (18), President (41), Santam (140), Mutual and Federal (28), NEG (31), General Accident (19), Guardian National (19), Fedgen (8), Allianz (12), Standard General (5), SA Eagle (36).

Mr Justice Melamet said: "All the agents gave evidence to the commission and all accepted that they were making a profit from MMF fees.

"Most, if not all, were somewhat coy about the amount, but there was evidence that one agent made a profit of R5,2-million in a year.

"That acting as an agent is profitable, or can be, is apparent from the concern of certain insurance companies wishing to be agents."

Bank to put fax in its well-heeled clients' homes

S/Times (Buss) 21/6/92

A NEW bank intends installing a fax in the home of each of its customers. Private Banking, a newly-launched division of Syfrets, will manage the investment portfolios of well-heeled South Africans.

It has already targeted 80 clients, and it estimates the market potential to be about 60 000 people. "That is a lot of fax machines we will have to buy," says Private Banking executive Patrick Chapman. The fax is a dedicated link between the client, the bank and overseas advisers.

By TERRY BETTY (58)

The bank has nine top executives to give personal advice to affluent clients countrywide. "We will even fly to the banks of the Limpopo to give a wealthy game farmer investment advice," says Mr Chapman.

Only the fortunate few qualify — those with a net investable family wealth of more than R5-million, or somewhat less for active investors, such as entrepreneurs. "This excludes the person's first home," says Mr Chapman.

He says the bank will slowly increase the limit to R20-million, as R5-million "is not a lot of money these days".

Private Banking manages clients' investment portfolios, whether it be in shares, property, trusts, cash or offshore investments. It will also help individuals manage their tax, estates and assurance.

Normal banking facilities will be offered through Nedbank. But clients will still have the exclusive and distinctive Private Banking cheque accounts and credit cards.

The computer system will also ensure funds are transferred to a client's account should they go into overdraft without prior arrangement.

Mr Chapman says they will first approach qualifying clients of Syfrets, Nedbank and UAL.

He says this is the first service of its kind, so they will not be stepping on the toes of other banks.

Market research shows about 1% of SA's population would qualify, 55% of which are women.

SA in low saving, low investment, low growth trap

S/Times (Buss) 21/6/92 (58)

By IAN ROBINSON

MISALLOCATION of savings has been a major reason for South Africa's poor economic growth since the early 70s, says ABSA's June Economic Spotlight.

Examples of incorrect allocation of savings include Mossgas, over-investment in the protected motor industry, under-investment in export-orientated manufacturing industries and over-investment in office blocks, says this report.

It identifies the causes as apartheid ideology, sanctions, the economic philosophy of self-sufficiency and strategic industries, excessive regulation and the establishment of statutory monopolies.

The result is that South Africa is caught in a low saving, low investment, low growth trap.

Five major initiatives are needed to catapult the economy out of this trap.

They are:

- To encourage the inflow of foreign capital;
- To grow export earnings rapidly;
- To use the existing fixed capital stock more productively;
- To allocate funding flows and investment spending more effectively; and
- To implement a balanced approach to higher saving.

An improvement in the productivity of existing facilities could be a quicker and more effective way of raising output than trying to boost savings and investment.

Worst

ABSA believes that South Africa's record over the last decade in achieving increased output in line with new investment expenditure is possibly the worst in the world.

In 1982, GDP equalled almost 40% of the existing capital stock, but the additional output achieved between 1982 and 1991 equalled only 15% of new investment expenditure.

The Spotlight suggests that devaluation of the rand might be essential to generate a dramatic boom in exports, and that a once-off depreciation through the phasing out of the financial rand should be investigated.

City property rates 'highest in country'

[redacted] [redacted] 58

PROPERTY rates in Cape Town are the highest in the country and are hampering development.

This was said this week by the South African Property Owners Association (Sapoa), which claims to be the most powerful lobby of property owners in South Africa. ST Times (Cape Metro) 21/6/92.

Sapoa, among other things, runs "think tank" seminars and an annual convention on property and sets up committees to monitor property legislation.

Its Western Cape regional chairman, Mr Anton Musgrave, said Sapoa had recently updated a study which it had first submitted to Mr Justice Steyn in 1989 for use in his investigation of the rating system in Cape Town.

By EVE VOSLOO

Sapoa analysts found that in respect of total rates and fees the main charges in different centres were:

- Cape Town: R2,80 per m^2 per month or 11,4 percent of gross market rental,
- Durban: R1,50 per m^2 (6,3 percent of gross market rental),
- Johannesburg: R1,32 per m^2 (6,3 percent of gross market rental),
- Pretoria: R1,18 per m^2 (5,3 percent of gross market rental).

"As expected, Cape Town has by far the highest rates and fees. The mean total rates and fees in Cape Town is 1,87 times Durban's mean, 2,12 times Johannesburg's and 2,37 times Pretoria's," the study showed.

Negative

Mr Musgrave said the latest Cape Town rate increase for 1992/1993 of about 16,5 percent — which he said was closer to 18 percent when VAT was added — was excessive.

"Insufficient effort has been made by the municipality to curb the increase," Mr Musgrave said.

"Taking into account the fact that Cape Town's rates are already approximately double those of Durban, Johannesburg or Pretoria, the announced increase is extremely disappointing and is a negative factor towards encouraging new development here."

Most of the municipalities around Cape Town also recently announced their rates increases.

These ranged between 11 and about 15 percent (Constantia and Tokai 11,7 percent; Goodwood 11,75 percent; Kuils River 12 percent; Pinelands 13,8 percent, Parow 14,9 percent and Fish Hoek just over 15 percent).

City council spokesman Mr Ted Doman said yesterday that the city did not necessarily agree with these figures.

"All sorts of variables have to be taken into account when doing comparisons," he said.

"For instance, as yet Cape Town does not charge separately for sewage and refuse removal which some of the municipalities in the comparison do.

"People say that if you take that into account Cape Town's rates are still higher, but we are in the peculiar position of being a municipality in which a great number of people from outside use its infrastructure, services and facilities."

Mr Doman said Regional Services Council areas around Cape Town (Constantia, Tokai) and other municipalities (Fish Hoek, Simon's Town, Pinelands and parts of Milnerton) used Cape Town's electricity and other services like its libraries, traffic department and clinics without having to pay for the infrastructure.

"Cape Town also has a community conscience which motivates it to spend about one percent of its rates income on low-income housing," he said.

Improve

The city received subsidies from the government, but there was always a greater need than the money could cater for and the city contributed from its own coffers, he said.

People in low-income areas, who had been kept there artificially by government policies, were slowly improving their position and would later be able to pay more rates as the value of their properties increased, he said.

Mr Doman said the inquiry into Cape Town's rating system by Mr Justice Steyn two years ago had made several recommendations, some of which the council was implementing.

One of these was a complete revaluation of all properties which should be completed by mid-1993.

Once this has been done and new rates determined the situation should improve, Mr Doman said.

ARG 22/6/92 (58)

Threatened city libraries reprieved until July 1993

CLIVE SAWYER
Municipal Reporter

THE city council has lifted the axe from six suburban libraries under threat of closure — at least until the end of the financial year in July 1993.

About R160 000 had been voted for the "unfreezing" of existing posts, said deputy city administrator Mr Attie van der Merwe. No new posts were created.

Faced by increasing circulation and greater demand on staff, as well as dwindling provincial subsidies, the council earlier this year targeted six libraries for closure.

Janet Bourhill in Claremont, Regent Road in Sea Point, Observatory, Maitland, Kewtown and Brooklyn libraries were to be shut, freeing staff for duty in larger libraries.

Mr Van Der Merwe said it was difficult to say how long the reprieve would last.

If circulation figures continued to climb, and subsidies were cut further, the situation would have to be reviewed, he said.

● Central library users are to be canvassed on a proposed move of the library from the City Hall to the Civic Centre large exhibition hall.

The city council executive committee has postponed a decision until the survey had been done.

At an exco meeting, it was noted that the large exhibition hall was used often for meetings.

MONEY MARKETS by Hilary Gush

Mopping up has little effect

B/Day 22/6/92. (58)

ALTHOUGH the Reserve Bank continued mopping-up operations last week, the market shortage was down to just over R1bn on Friday from Monday's high of R1,446bn.

The results of the Bank's zero-coupon bond tender showed only R130m allotted of the R600m total on offer. Dealers proclaimed the issue a failure, saying both the pricing of the bills and their marketing by the Bank left much to be desired.

The results of the nine-month Bank bill tender were more promising and reflected good demand in the market for quality assets. The tender was almost three times over-subscribed and the average rate offered was 13,11% which was in line with standard nine-month TB rates.

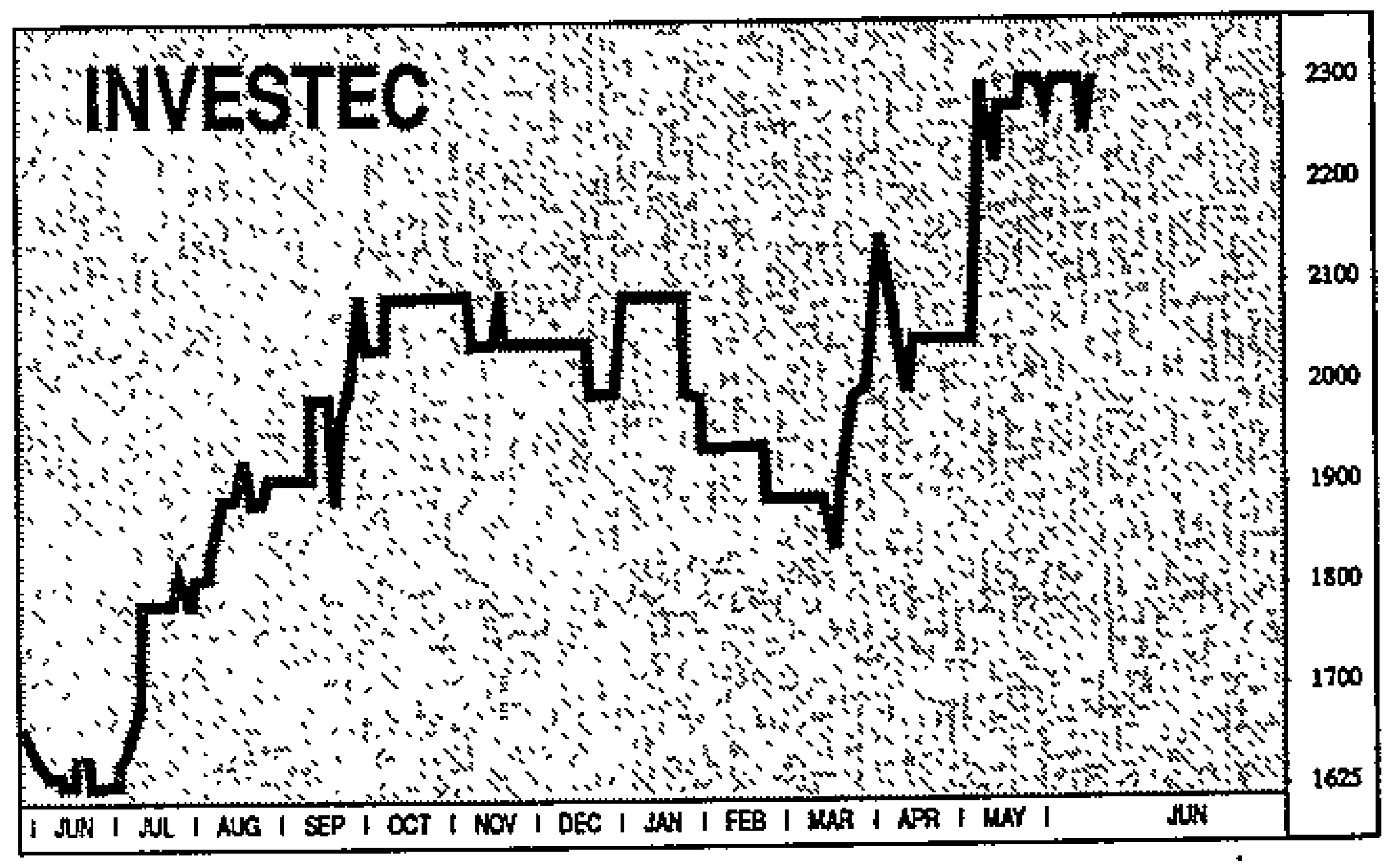
Money market rates moved sideways throughout the week with the 90-day liquid BA rate holding steady in a range of 14,30%-14,55%.

Applications for the weekly six-month Treasury bill (TB) tender saw the Bank receive R610m in bids for the R150m on offer. at an average rate of 13,61% against last week's 13,60%. The Bank attracted bids of R425m for the R150m offered in three-month TBs The rate on these was 14,03%. against 14,02% last week.

Capital market rates firmed on the mass action threats but, as nothing significant occurred on the political front, rates began to drift down on Wednesday. Thursday saw a run on the market with long-term rates falling. By the week's close rates had returned to the previous week's levels. The yield on government R150 stocks was at 15,93% late on Friday after a 16,17% high on Monday and a week's steady easing. The benchmark Eskom 168 traded at 15,71% on Friday afternoon, after moving in a 15,69%-15,91% band during the week.

Investec strengthening overseas interests

By Leigh Hassall (58)



Investec's share price has doubled in the last 12 months.

Investec Bank is building up its rand hedge potential and speculation is growing that it is poised to take a controlling interest in a London-based bank.

Nearly 30 percent of Investec's attributable income to end-March 1992 was earned in foreign currency, says chairman, Bas Kardol, in the 1992 annual report. STAR 23/6/92.

The international operations are through its subsidiary, Reichmans and associated company, Integro.

Reichmans, purchased late 1990 from FSI, has an international trade company which provides specialised finance through its offices in South Africa, London, Geneva and Hong Kong.

Integro is an international finance company based in Amsterdam. It provides financial services such as portfolio management and off-shore trusts to its international clients. Investec's shareholding in Integro is undisclosed.

Mr Kardol, says the group will continue its strong international focus, looking for further opportunities to expand.

Two cautionary announcements have been made by the group recently which have fuelled strong market speculation that Investec will acquire a controlling interest in a London-based bank.

An announcement is expected later this week.

Investec has come a long way since its early days of being regarded as the "cowboy bank". Through strategic acquisitions and alliances it has become a strong, well-rounded force in the financial services industry.

The 1992 divisional analysis shows the spread of earnings as 67 percent banking and merchant banking, 19 percent Metboard, an investment trust company, 10 percent Reichmans and four percent Fedsure.

Managing director, Stephen Koseff, says in his 1992 annual review: "Investec has built a balanced portfolio of businesses from which the income generated is now equally divided between fee and margin income, and the proportion of total income from deal-based transactions is less than 35 percent".

The group has achieved phenomenal growth in the last ten years. Compound growth has averaged 25 percent in earnings per share and 22 percent in dividends.

This strong growth record has precipitated a bullish trend in the share price. In the last 12 months the price has doubled to its current R22,50.

The price-earnings ratio is a high 15,1 with a three percent dividend yield which is slightly below the sector average of 3,7 percent.

Finance chief outlines strategy to broaden foreign investor base

B/Day 23/6/92

LINDA ENSOR

'APE TOWN — SA had embarked on a trategy to tap new sources of funds and urrencies to broaden the international lemand for SA paper, Finance director-:eneral Gerhard Croeser told an inter-ıational forum of bankers and investors in .ondon yesterday.

SA's participation in the conference, pened by Bank of England Governor Rob-n Leigh-Pemberton, signalled the adop-ıon of a more active marketing approach o broaden the international investor base, 'roeser said.

He said efforts would be directed towards reaching international institutional investors, though retail investors would remain an important target of SA issues.

Croeser and a team from nine SA corporations addressed an audience of about 500, including frontline bankers from Europe, institutional fund managers and private investors at the three-day Euromoney Global Borrowers' and Issuers' Forum.

The SA delegations were led by Genbel chairman Tom de Beer, Development Bank of SA CE André le Grange, Eskom finance and services executive director Mick Davis, Transnet chairman Marius de Waal and CE Anton Moolman, Telkom senior finance GM Christoffel Erasmus, AECI finance director Neil Axelson, SA Breweries finance director Selwyn MacFarlane, Standard Bank MD Mike Vosloo, and Industrial Development Corp senior GM Malcolm MacDonald.

Each team presented its view on the SA economy. The total time allotted for the SA presentation was about 90 minutes.

In his introductory speech, a copy of which was released in Cape Town yesterday, Croeser said the Finance Department was managing the 1992 programme of SA capital market borrowers and was seeking to refinance the six maturing Deutschmark issues, valued at DM670m, with new and larger issues, as well as a few additional ones.

The encouraging position of SA's foreign exchange reserves, coupled with the policy of mopping up excess domestic liquidity to maintain a tight monetary policy, implied a smaller international loan requirement.

The limited market for SA paper did not permit simultaneous competition on the international capital market by different institutions so the department regulated participation via a formal queue system.

Croeser said the department could not be prescriptive as far as the composition of the management groups of parastatal issues was concerned, but it favoured a system of bank rotation. Ratios, as well as the bunching of maturing issues, were being watched carefully.

Resort to international capital markets would be based on the principle of protecting the country's foreign exchange re-

□ To Page 2

Foreign investors

□ From Page 1

serves, reducing the premium at which SA institutions borrowed, securing a final arrangement with overseas creditors when the debt standstill expired and facilitating foreign investment.

Croeser said that with a ratio of debt to export earnings of 64,9%, or debt to GDP of 16,9%, SA was not an overborrowed country. It had also scrupulously complied with its commitments under the debt standstill.

He said the "hiccup" at Codesa was not surprising given the deep-seated differences between the parties. But he was confident negotiations would remain on track, although "the final outcome will be determined largely by the economy".

Croeser said the economic advisers of the extra-parliamentary movements were coming to see that experimenting with "ossified ideas of socialism and redistribution" would harm the very people whose welfare they sought.

He said signs of a turnaround were slowly emerging as the economy moved away from its former state of siege and restructuring measures began to bear fruit.

□ The Finance Department was one of the co-sponsors of the conference, but syndicated its share of the costs.

23/6/92

COMPANIES

Investec 'about to clinch foreign deal'

SHARON WOOD

A DEAL between Investec and an overseas banking interest was expected to be concluded within the next week, a source said yesterday. B Day 23/6/92

It was believed top executives were overseas at the moment finalising the deal. The name of the bank remained unknown.

The deal followed the announcement of two cautionaries by the bank in mid-May and early-June.

This will be the seventh acquisition after the group's listing in 1988. Since 1990 the group has acquired Corbank, trade finance company Reichmans and a 22,4% stake in Fedsure. The group has the highest risk weighted capital to asset ratio in the industry, which virtually doubled to 14% in 1992 from 7,6% the previous year. (58)

Analysts consider Investec to be a success-story because it has made carefully considered and wise decisions when expanding its operations.

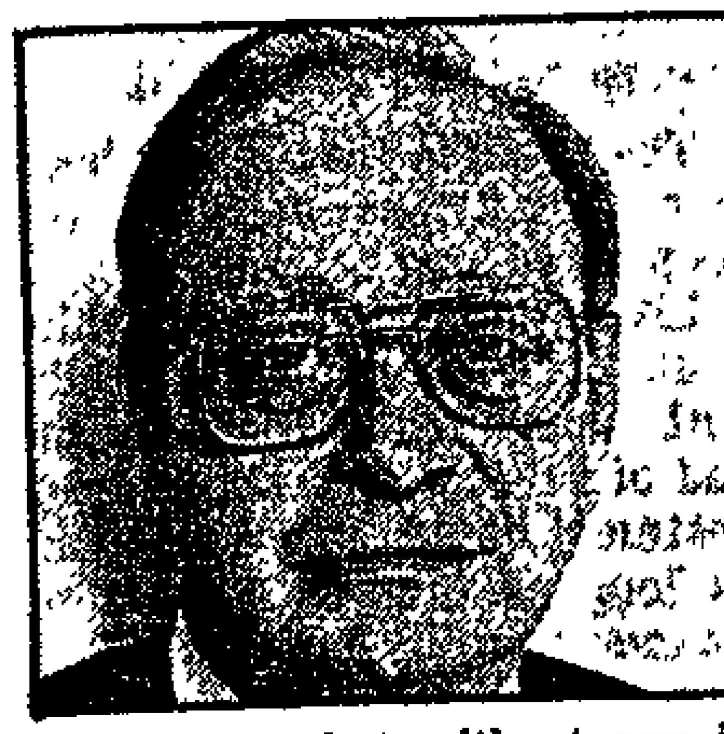
The group reported good results in the year ended March 31, when it boosted diluted earnings a share by 23,6%.

Investec shares have traded steadily at R23 during June, after moving up from R22,75 on May 26.

Capital gains tax difficult to justify

STAR 24/6/92

By Derek Tommey



From time to time people of leftist persuasion, possibly dazzled by unit-trust claims about how they have generated untold wealth for unit-holders, advocate a capital gains tax on share market investments.

The question that has to be asked about any new tax is whether it will generate sufficient revenue to make it worth while — whether the income will justify the additional cost and the public resentment.

With this in mind, I did a few rough calculations to find out just how large have been the capital gains made by investors in JSE shares in recent years.

The result is rather staggering for it shows that over the past eight years there have been no real capital gains. In fact, investors have actually suffered fairly substantial losses.

It is true that shares listed on the JSE have in nominal terms risen sharply in recent years. In fact, according to Reserve Bank figures, the prices of commercial shares on average have doubled in the past eight years and the prices of industrial shares have trebled.

As the consumer price index virtually doubled in this period, it is clear that the value of an investment in shares generally has to keep abreast and even ahead of inflation.

But the rate of inflation is not the only thing to be taken into account when determining whether a capital gain has been made.

A factor that tends to be overlooked, but which is most important in determining capital gains, is that every year most companies reinvest a large sum of money in their businesses.

This is equal to a half to three-quarters of their taxed profits and belongs to the shareholders

If this annual injection of capital adjusted for inflation is taken into account, a completely different picture emerges.

It shows that without any internal growth, prices of commerical shares should not be double but treble their 1983 levels and that prices of industrial shares should be almost four times higher than in 1983.

What this means is that if industrial and commercial shares fully reflected the capital investment, they would be 61 percent higher today than they actually are.

If one were to add in a 2,5 percent annual increase in productivity — which is what company chiefs are supposed to achieve in order to justify their big salaries, prices of industrial and commercial prices should be almost double what they are today.

These calculations, admittedly, are not precise, but they are accurate enough to show what the real situation is.

This is that in the past eight years SA commercial and industrial companies have dreadfully underperformed so that capital gains have been non-existent, which is understandable, given the poor performance of the economy.

However, there is a silver lining in the dark cloud.

Once the resources amassed by commerce and industry in the past eight years are fully utilised, one should be able to expect industrial performance, profits and share prices to soar.

a capital forestalled

CT 24/6/92

Political Staff

THE government spent R53,9 million, at 1987 prices, to build a new capital for the KwaNdebele homeland, including R5,1 million on an Independence Stadium.

This was disclosed yesterday by the Minister of Regional and Land Affairs, Mr Jacob de Villiers, when he replied to a question tabled in Parliament by Mr Peter Soal (DP Johannesburg North).

The government ordered the urgent construction of the capital, KwaMhlanga, in the late 1980s when it decided that KwaNdebele would become the fifth "independent homeland".

Resistance, conflict, violence and corruption thwarted the plan.

However, in the process, the government built a parliament, government buildings, a post office, a supreme court, the stadium, show grounds, schools, roads, 130 houses, a computer centre, a nurses' home and three health centres at KwaMhlanga.

'Syndicates' milked MMF

58

CT 24/6/92

'Doctors, lawyers, assessors involved'

Own Correspondent

JOHANNESBURG. — Authorities suspect that syndicates of professional people — including medical specialists, doctors and attorneys — have defrauded the Multilateral Motor Vehicle Accident Fund (MMF) of millions.

Office for Serious Economic Offences director Mr Jan Swanepoel, SC, said yesterday he believed fraudulent claims were still being submitted to the MMF.

130 files

"Our main objective at this stage is to bring the guilty parties to court as soon as possible to stop this practice," he said.

Of the more than 130 files received by the office, about 50 constituted possible fraud, Mr Swanepoel said. However, more files could be handed to the office in the near future following the findings of the Melamet Commission last week.

Although the investigation was at a very early stage, Mr Swanepoel said it seemed that frauds were carried out by syndicates that usually consisted of an "injured client", an attorney, a doctor or a specialist and an insurance company assessor.

It appeared from investigations that in some cases attorneys involved had not only defrauded the fund, but also clients, by handing over only part of a large settlement amount received from the MMF.

Four policemen and an advocate are in Cape Town to investigate the matter.

The alleged frauds so far involved between R1 million and R2m.

Mr Swanepoel, who has the power to subpoena any person to his office for questioning, said that from tomorrow he intended ordering attorneys involved in the alleged fraudulent claims to give evidence.

At this stage, the investigation showed that none of the better-known law firms were involved in the fraud.

Commission

Mr Swanepoel said he would obtain the services of medical specialists to advise his team on possible fraudulent medical information submitted to the fund.

A R180m investment by the MMF, for which an agent had received R8m commission, would also be investigated, he said.

Property syndicate given resale guarantee

STAR 24/6/92

By Meg Wilson (58)

The strategy adopted by Timelife Insurance in syndicating McCarthy House, an upmarket commercial building in Sandton's Wierda Valley, has seen the R7 million subscription sold out.

MD Bill Haslam says the success of the scheme was due largely to the fact that it made a quality building accessible to private investors, at a minimum investment of R10 000, and to the establishment by Timelife of a guaranteed syndication share resale scheme — "virtually a syndication trading market".

Traditionally, he says, commercial property syndication has been the preserve of institutions or the extremely well-heeled, and the difficulties of liquidating an asset in syndicated property have been a disadvantage for "the smaller man".

In the case of McCarthy House, three major financial institutions have given the undertaking that they will each purchase up to 10 percent of the value of the property in any one year from investors wishing to sell.

"This means that an investor will be able to sell his interest with relative ease after holding it for only a year."

McCarthy House now has 85 owners, apparently reflecting an average investment of R90 000. But Mr Haslam says the average was pushed up by some large pension fund purchases.

BoE raising R19,6-m to fund hospital

STAR 24/6/92.

(58)

The Board of Executors is to raise R19,6 million from a private property syndication to fund a 90-bed hospital in Pinetown, Natal.

The developers are a consortium comprising Hiway Medical Centre, owners of the Westville Hospital; Durban Anaesthetic Clinics, owners and mangers of the Durdoc Clinic in Durban; and Afrox Healthcare, which owns and manages 14 private health care facilities around the country.

The consortium has agreed to a nine-year fully repairing and insuring lease on the new Crompton Hospital, which will have comprehensive out-patient facilities as well as three operating theatres, full casualty services, x-ray units, a pathology laboratory and a pharmacy service.

John Dickson, BoE executive director for the Natal region, said the company believed the private health care industry offered excellent porspects for income and capital growth.

The syndication has a start-up yield of 10,75 percent, with income yield rising to 19,16 percent in the sixth year of the lease.

Southern trust assets go up

58

Bday 24/6/92

MICK ELLINGHAM

SOUTHERN Unit Trusts have reported a sharp rise in assets to R130m at the year ended March 1992, compared with 1991 asset holdings of R58m.

The Southern Equity Fund and Southern Mining Fund had returns of 35% and 13,3% for the year.

Mining-related holdings comprised 30% of the Southern Equity Fund at year-end, with liquidity reduced from 20,8% to 16,6%.

Unitholders received 4,49c (3,54) and 4,34c (4,39) per unit in August 1991 and February 1992.

The Southern Mining Fund reduced its exposure to direct gold holdings from 17% to 13,9%. In August 1991 and February 1992 unitholders received 3,77c (4,03) and 3,40c (3,92).

Move to give Barend bank post is opposed

BDay 24/6/92

(58)

ALAN FINE

BOTH the ANC and sources within the Development Bank of Southern Africa have expressed concern about the proposed appointment of former Finance Minister Barend du Plessis as president of the bank's council of governors.

A decision on the matter will be made on Friday.

A bank source said he feared a controversial political appointment could tarnish the bank's "carefully cultivated image of independence from government".

And ANC international affairs department spokesman Yusuf Saloojee said the proposed appointment by the Cabinet went against the spirit of consultation.

A report on economic restructuring in a future SA, prepared by the bank at the ANC's request, was shown to Business Day as an example of past co-operation which could be affected by the appointment. The report, Toward a Democratic Economy in SA: An approach to Economic Restructuring, was handed to the ANC last month before the policy conference which substantially moderated ANC economic policy.

The bank source said its reputation for independence had allowed the bank to raise funds for SA on the Eurodollar market and to play a key liaison role with foreign institutions such as the Japanese Exim Bank which is reportedly considering a request for soft loans for development projects.

The bank had also played an important role in building relationships with the World Bank and IMF.

Salojee said the bank dealt with issues affecting the entire country and had an important role in procuring foreign funds, making continuing consultation with all interested groups necessary.

The international affairs and economic policy departments — which have had regular dealings with the bank — would raise the matter of Du Plessis' appointment with the bank "quite sharply".

He confirmed the ANC had requested a submission from the bank on economic and other development issues, and that suggestions in the report had been taken into consideration in internal ANC debates.

● See Page 8

Safia admits Swiss body (58)

MERVYN HARRIS

BDay 24/6/92

THE SA Financial Instruments Association (Safia) has admitted its first overseas member, the Swiss Commodities Futures and Options Association (SCFOA).

Safia has also been invited to become a member of SCFOA.

The two organisations will exchange information on financial regulation and education and promote high ethical standards in derivative markets.

Negotiations are also underway for SA to preside over the prestigious 1994 International Forum for Derivative Markets in Switzerland sponsored by SCFOA.

PROPERTY

Speculation rife about Oxford Manor

B Day 24/6/92

(58)

PETER GALLI

THE ultimate test of the success of a commercial property development is its acceptance by the market, reflected in tenancy levels and rentals achieved.

Time Property's (Timeprop's) R55m Oxford Manor development, scheduled for completion next week, has caused much speculation in the marketplace.

The 13 121m² development comprising four separate buildings has been sold to the Durban Corporation, which has a big property portfolio, but Time Developments holds a 15-year head-lease on the property.

A property economist said this meant Time Developments was guaranteeing rentals for that period, and that its development profit could be quickly eroded if vacancies remained high.

The development comprises about 1 500m² of retail space and 11 600m² of office accommodation.

Industry sources feel head-leases are highly risky and perhaps used too frequently by Time Developments.

Time's property management services director Louisa Myberg feels that the excellent location of the development — fronting onto Oxford Road, the Wanderers Golf Club and Rudd Road in Illovo — and its accessibility negates that risk.

"All elements are taken into consideration when a head-lease is considered, and we believe this is not risky as the location is sound and there is little potential for the rezoning of further properties with business rights in the area," she says.

Timeprop's new 13 121m², R55m Oxford Manor development in Illovo, Johannesburg, is due for completion next week.

TimeProp MD Mike Raggett says the viability and risk of developments undertaken are carefully assessed. "The success of a scheme depends upon its ability to let, no matter what the state of the market in general, although timing in terms of demand and building costs is crucial".

With leasing enquiries for Oxford Manor building up strongly, the company is confident the property will let successfully and exceed rental commitments, he says.

About 2 800m² or 25% of space has been leased so far, and another 2 500m² is under negotiation.

Myberg says the development should be 50% let by the end of August and, based on current negotiations and the number of enquiries, she expects the development to be fully let by year-end.

Other developers and property players feel this is a very optimistic view. They say the cost of the development, which works out at R4 191,75/m², is too expensive for present market conditions and will be reflected in high rents.

Myberg admits the cost is high, saying the land element was fairly expensive. "However, net rental levels of R27/m² are being asked and achieved, which is very much in line with those of other similar areas." she says.

While reluctant to give details of incentives offered, Myberg says Timeprop is not offering the same incentives as the big institutions and that each case is looked at individually.

The travel centre theme is still being actively pursued and about 1 500m² has been set aside in two buildings for this.

The aim is to offer a diverse service by selecting a variety of operators.

Myberg says so far, Alitalia and Travel Creations have taken space, while negotiations are underway with several other international airlines. By the end of August, about 800m² of this centre is expected to have been let.

"According to our letting strategy, we are filling the two buildings that front onto Oxford Road so that if we have a prospective corporate tenant of, say, 5 000m² it can be accommodated in one of the buildings overlooking the Wanderers Golf Club," she says.

The latest tenant is Cape-based restaurant group St Elmos, which has taken 400m² of groundfloor space and is the first St Elmos outside the Cape province.

Municipal rezonings for offices 'obsessive'

(58) B Day 24/6/92

ANDREW KRUMM

SOME municipalities have an obsession about rezoning land for office rights in spite of overtraded market conditions, says Old Mutual Properties investment manager Ian Watt.

Questioning whether SA and property investors could afford the current pace of rezoning, Watt said: "It seems most municipal authorities are determined to get bigger chunks of commercial space to boost revenue for infrastructural needs."

"Wild" rezoning contributed to a rising oversupply of office space as many poorly conceived schemes went onto the market. This meant the serious property investor faced additional risks at the whim of town planners, he said.

"The result is the erosion of prime residential areas, forcing people to move further away from commercial activity, and the stretching of municipal infrastructure over longer distances."

Watt questioned the heavy emphasis placed on office rights and development at a time when there was a need for a manufacturing-driven economy.

He suggested local authorities should take greater care in the timing of rezoning, and look to the reuse of certain areas.

Russell, Marriott and Boyd Trust executive director Nick Harris said local authorities were not the only culprits behind excessive rezoning.

"For example, Sandton municipality's wish for the town to remain a predominantly residential area has often been overruled by the Township Board."

Residents seeking to enhance the sale value of their properties were another cause, Harris said.

"It is often not developers who apply for rezoning, but residents wanting to increase the value of their properties." 24/6/92

He said the provision of an infrastructure to support an office environment was costly, and those residents who benefited from rezoning should be made to bear the costs of rezoning and not ratepayers in general. This would also act as a dampener on rezoning requests.

A precondition of any rezoning application should be an independent environmental impact study, Harris added.

He also suggested municipalities could be "making a rod for their own back" by rezoning excessively. Falling rentals — lower in real terms now than in the '70s — were reflected in land values and, accordingly, in municipal rates income.

"If a scheme is not viable, land values drop and a lower rates base results. But municipalities would still have to provide an infrastructure off the lower base, and so funding could be a problem."

UK interest in SA growing, says London agent

BDay 24/6/92 (S8) (Vb)

LINDA ENSOR

CAPE TOWN — Interest in SA property had increased significantly this year although political uncertainty remained, said Seeff Residential Properties' London agent Adele Beare.

British people usually bought homes in places where they holiday, such as Spain, Portugal and Florida in the US. Now SA, with its attractive exchange rate, was becoming a prime holiday destination.

"We expect a growing number of British travellers to invest in SA holiday homes, particularly in the western Cape."

Furthermore, resort entrepreneurs believed there were opportunities in the "ill-equipped" SA market to establish tourist hotels to cater for the anticipated vast growth in the number of foreign tourists.

"Some of these entrepreneurs are interested in buying and adapting existing hotels while others are looking further ahead and identifying properties suitable for future development."

"Once these entrepreneurs are convinced that political stability is around the corner, I expect an influx of foreign investment into the SA tourist market, which must be considered a 12-month industry," Beare said.

Refurbishment 'key to strategic planning'

B/day 24/6/92 (58)

ANDREW KRUMM

GIVEN the current state of the property market, refurbishment and not expansion has played a key role in property companies' strategy, says Ampros MD Gerald Leissner.

Refurbishment had been an important part of the Ampros strategy over the past five years.

"That's not to say strategic acquisitions were not made where the right opportunities presented themselves, but rather that the state of the market has been appropriate for consolidation and housekeeping," he said.

Ampros' latest projects include a R22m revamp of the Killarney Mall and R6m to be spent on the Carlton Centre office tower.

Southern Life Properties (SLP) regional property manager Tony Moore said the company was conducting a refurbishment programme worth about R200m. The Southern Life Centre in Commissioner Street, Johannesburg, would be revamped at a cost of R95m.

"The capital injection is a vote of confidence in the Johannesburg CBD, but it will also extend the building's economic life," Moore said.

The upgrading would include 80 new parking bays, the conversion of lifts to incorporate the latest technology and the revamping of all common areas and foyers.

Other SLP projects in the pipeline were a R55m upgrading of the African Life Centre and a substantial revamp of the Braamfontein Centre.

Absa foresees growth trap

HILARY GUSH

FIVE policy priorities could catapult the economy out of its low-growth trap, Amalgamated Banks of SA (Absa) says in its latest Economic Spotlight.

Absa also forecasts a downturn in 1996 which would reimpose a low-investment, low-growth trap on the economy.

Higher savings require sharp cuts in consumption, which are politically unacceptable, or higher incomes which, in turn, first need higher economic growth. BI Day 25/6/92

"This is the self-defeating vicious circle which threatens to ensnare the SA economy in the 1990s, — resulting in unemployment, socio-political instability and "ungovernability"," the bank says.

The bank identifies capital inflows, rising export earnings, higher savings, better productivity and efficient investment allocation as the factors which will spring the economy from its low-growth trap.

The bank believes positive tax policies, assurances against nationalisation and the phasing out of exchange controls are needed to attract foreign capital.

NBS chief calls for savings boost

BDay 25/6/92

SHARON WOOD 58

MEASURES were urgently needed to encourage personal saving ahead of a decline in inflation and personal rates of taxation, NBS chairman Gordon Chapman said in the bank's 1992 annual report.

"The present climate of high inflation and negative deposit rates after tax discourages saving and compels those individuals who are able to save to channel their savings to growth-related investments," he said.

To enhance the attraction of deposits, banks should offer also tax sheltered retirement deposits which would be subject to the same legal constraints as retirement annuities.

Chapman urged the authorities to give serious consideration again to introducing a low rate withholding tax on interest income.

In the year ahead, he expected NBS to show modest earnings growth, against a background of economic uncertainty.

"In the event that pressure on margins becomes more severe, it is to be hoped that this will, to an extent, be offset by the lower overall cost of non-performing debt."

Positive factors during the year would be the continued growth in advances, and the non-banking interests should continue to perform well. The group also has interests in the insurance industry through its association with Norwich Life.

"The long recession we have endured has sapped confidence, but there is good reason to believe it will return with vigour once economic growth is resumed."

The merger of Natal Building Society and NBS Bank had settled down well and yielded material financial benefits.

"Balance sheet growth continues to be the driving force behind the growth in group earnings."

The highlight of the year had been the acquisition of 38,9% of French Bank of Southern Africa.

"Having Barlows as a substantial shareholder will give the group greater solidity and provide NBS with an opportunity to develop tailored products to meet the needs of Barlows and its staff."

The deal had also given NBS an association with Banque Indosuez, which is the holding company of French Bank and one of the 10 largest French banks.

"A strong rapport has developed between NBS and French Bank and both banks are benefiting from reciprocal support," he added.

The group's relationship with Norwich Life continued to develop from strength to strength, he said.

NBS's total attributable earnings rose by 30% during 1992, and after adjustment for the increased number of shares in issue, earnings rose by 20%. Since the group's listing in 1987, earnings and dividends a share have grown at compound rates of 29% and 21% respectively.

Syfrets, UAL launch new investments

BDay 25/6/92

LINDA ENSOR

(58)

CAPE TOWN — Syfrets and UAL have launched a range of investments which guarantee investors their initial capital investment and certain rates of return.

UAL investment planning services MD Peter Anschutz said the products provided security for the initial investment as well as the best possible return.

These products are the Guaranteed Performance Trust and the Perpetual Income Provider.

The Guaranteed Performance Trust locks up a portion of the initial investment in zero-coupon bonds which on maturity provides a capital guarantee. The balance is invested in UAL and Syfrets unit trusts.

The Perpetual Income Provider consists of an annuity and unit trust investments.

Housing forum to be launched 'soon'

WILSON ZWANE

A NATIONAL housing forum is expected to be launched within weeks.

The establishment of the forum was first discussed at a meeting in Johannesburg last November, attended by representatives from government, political and civic organisations, trade unions, business and development agencies.

Government has since withdrawn from discussions aimed at establishing the forum, saying the forum was an attempt at "interim government by stealth".

Government would, however, maintain bilateral contact with the forum.

A source said yesterday a working committee entrusted with working out the forum's details, was close to completing its job. "The forum will be launched soon, possibly within weeks," he said.

Our East London correspondent reports that Time Housing MD Murray MacKay yesterday said the two biggest problems facing affordable housing developers in SA were the tapping of financial institution funds and bureaucratic delays.

The only way to tackle the bulk of the housing backlog was to provide adequate security for funding institutions, which had "plenty of money available" but were reluctant to lend in areas where the traditional security of a bond was not working.

Assurers 'not averse to social investment'

LINDA ENSOR

CAPE TOWN — Life assurers and financial institutions were in favour of socially desirable investments provided the responsibility was equally shared in the industry and as long as the amount allocated was small in relation to their total assets.

This was said by ANC economic adviser Allan Hirsch at a meeting of businessmen and diplomats last night. Hirsch said a possibility was to have life assurers invest in government bonds directed towards housing or for government to guarantee loans to small businessmen.

ANC economics chief Trevor Manual said the Life Office's Association (LOA) had recognised that insufficient money was channelled into socially desirable investments and was prepared to ensure that this took place.

"The LOA wants a democratic government to give life assurers the opportunity to commit money in an open way to socially desirable investments. If that fails, then they would be willing to accept prescribed investments. They are asking for an opportunity to manage their assets in their own way first."

Manuel said the ANC intended to "engage" with those companies which had terminated their affirmative action programmes. A close watch was being kept on these companies.

He also said the ANC was investigating the possibility of establishing a court of audit to bring civil servants to book over the way they disbursed public funds.

Business Day

LTA
Still optimistic

Helped by contracts in Botswana and Lesotho, LTA's results are impressive given the economic climate. Though the construction industry tends to lag the economy by up to two years, the downturn has undoubtedly hit the sector by now, yet the 1992 year's earnings are well up.

Like life assurance companies, construction groups are able to dress up their accounts to some degree. Finance director Jimmy Oosthuizen says LTA has been conservative in drawing up the 1992 accounts, so explaining how the group is able to predict 1993's results with some assurance Chairman Hilton Davies believes the group should be able to maintain earnings this year.

Analysts worry that many contracts are coming to an end, indicated by the lack of turnover growth and larger cash reserves. "It looks as though a number of contracts are being completed, with the associated profits being brought to book," one comments

Oosthuizen agrees this logic would have applied in the old days but adds that most current contracts require an upfront payment, often needed to acquire expensive capital equipment for a project, or demanded where there is risk attached to the country or client. Increased cash reserves could, rather, indicate new contracts signed up.

Notably, the group has enjoyed improved operating margins for the year Oosthuizen ascribes the increase, from 2,1% to 2,5%, to better efficiencies and fewer bad contracts.

He denies contracts are coming to an end, while maintaining the group has "a reasonable order book across the range" Also, the Columbus and Alusaf projects, looking increasingly probable, should help to keep local construction groups, particularly civil operations, busy.

IN GOOD NICK

Year to March 31	'91	'92
Turnover (Rm)	1 870	1 876
Operating income (Rm)	40,1	47,4
Attributable (Rm)	23,2	30,3
Earnings (c)	88	114
Dividends (c)	25	32,5

Already heavily active in Botswana and Lesotho, Oosthuizen says LTA is looking for opportunities throughout sub-Saharan Africa, adding there may be good opportunities in Angola and certain Indian Ocean islands. But he notes that Zambia and Zimbabwe have little cash for major projects.

Presumably, though, scope for SA construction groups in Africa is not endless as the further north one goes, so the comparative advantage diminishes. Nonetheless, any infrastructural development undertaken in the SADCC states should help SA groups.

This is important, as infrastructural development on the local front has fallen out of bed. Davies notes civil engineering spending has dropped by 56% (in real terms) since 1980. Oosthuizen believes roads are starting to deteriorate, adding that toll roads would reverse this trend, however discussions regarding the role of toll roads in the new SA continue.

Though nonresidential building activity has held constant, again in real terms, over the past 12 years, Davies questions how much further office and shopping centre activity can occur without improvement in the economy Oosthuizen notes, though, LTA's building side has shrunk significantly from historical levels.

LTA's Davies . *earnings should be maintained*

FNB's Bank City in Johannesburg will keep the Transvaal operation occupied until early next year when phase two will be completed. However, the group would obviously like to secure the contract for phase three

Referring to the Soweto debacle, where the group never received payment for work done 10 years ago, he says negotiations are continuing.

Though looking healthy, LTA is involved in a high-risk game where, for instance, one bad project can materially impact results. The 425c price represents fair value, giving a p:e of 3,7 and 7,6% yield, marginally better than Group 5's p:e and yield of 3,5 and 9,8%.

William Gilfillan

CIB

Depositors' luck

FM 26/6/92 (58)

When the Cape Investment Bank (CIB) was put into liquidation on April 11 1991, the Reserve Bank undertook to bail out depositors of R5m and less. But Bankorp recovered R10,2m the day before CIB was liquidated.

The payout to Bankorp has emerged for the first time. The *FM* has learnt that this was explained to the Reserve Bank-appointed liquidator, Tjaart du Plessis, a senior partner at Aitken & Peat, last year. Until this week all that had been disclosed was the bailout to people who invested less than R5m and the fate of the State-funded SA Rail Commuter Corporation, which lost almost R200m in deposits with CIB.

The *FM* has also ascertained that the decision to repay the whole amount of Bankorp's fixed deposit was made by Reserve Bank Governor Chris Stals. This was done after Registrar of Deposit-Taking Institutions Hennie van Greuning had given certain undertakings to Bankorp, apparently long before liquidation of CIB was anticipated.

However, liquidator Du Plessis had not been informed by Van Greuning or his deputy, Christo Wiese, as to the nature of the undertaking which Van Greuning had given.

Bankorp later became the subject of controversy over R1bn of assistance from the Reserve Bank. This seemed to have taken place just before the Absa merger. But it apparently related to earlier difficulties which Bankorp faced. Bank Governor Chris Stals said in an interview with a newspaper: "In view of the stories that are going around, I would like to say that the Reserve Bank had nothing to do with the Absa transaction."

The Reserve Bank's role in the liquidation process of CIB falls under Section 33 of the Reserve Bank Act which deals with the preservation of secrecy.

The Bank has accepted its involvement with CIB is that of a creditor. It assisted CIB with an initial rescue operation on December 4 1990, when it deposited R300m at 1% a year with CIB on condition CIB re-deposited the amount with the Bank at 17,12%. This was intended as central bank assistance to CIB as it resulted in a profit of R15,37m over 116 days (*Economy* June 19).The Bank felt that it would not be in the interest of public confidence and market stability to divulge further details.

The direction into which the CIB liquidation process has moved and the sensitive dealings with the Commuter Corp over its investment with CIB have also kept the Bank from divulging information.

The Commuter Corp was one of the largest depositors with CIB. A secret arbitration between the corporation and the Reserve Bank, chaired by former Chief Justice Pierre Rabie, denied the Commuter Corp its claim against the Bank. The corporation now stands to lose about R200m of its original R249m investment.

Former CIB CEO Andy Schwartz, in a sworn statement in June last year, said that despite knowing that CIB was trading in insolvent circumstances, the Reserve Bank asked the Commuter Corp not to withdraw its deposit.

He cited Wiese's evidence during a liquidation application. Wiese said the Reserve Bank's Carel Oosthuizen had persuaded the corporation's chief treasury official, Willem Louw, on March 29 (a day before the Reserve Bank withdrew its deposit) to roll over R103m — part of the corporation's deposit which had been due to be paid back the previous day.

The Bank paid the Commuter Corp an amount of R22m on April 10 1991 and has since agreed, on instructions of the liquidator, to pay another R37m to the corporation.

Eddie Botha

FABCOS FM 26/6/92

Hello Afgen

(58)

Fabcos (Foundation for African Business & Consumer Services) has finalised its plans to enter short-term insurance. Starting initially with the R30m of gross premium income injected by its predecessor, BPI, the company has been tentatively named as African General Insurance.

The shareholdings are 26,5% Fabcos and 24,5% each to Future Bank and to the insurers who will provide technical managtment, SA Eagle and Aegis. As Fabcos owns 50% of Future Bank, it has effective financial control of Afgen.

FM 26/6/92 (58)

Shareholders have agreed that, for the first five years, profits will be retained in the business.

Though the insurer does not focus exclusively on the black market and 80% of the initial book represents white-owned policies, assistant GM Vusi Sithole says many of the short-term products offered by existing insurers are too sophisticated. "Over the years, all sorts of bolt-on policies have developed. The black does not need these; he is more interested in catastrophe-type covers."

MD Johan Schuin says Afgen has R3m of shareholders' funds and all treaty arrangements that were in place for BPI have been renewed to February next year. Initially, he adds, it will be necessary for Afgen to make heavy use of the local reinsurance market. ■

FM 26/6/92 (58)

INTRUST FM 26/6/92

Ready to expand (58)

It's too early to make meaningful year-on-year comparisons of the performance of Investec's investment trust wing, Intrust, but on the face of results to March this young company could have an interesting, and perhaps profitable, year.

Intrust switched to the Investment Trust

Intrust's Kardol .. *a higher dividend this year*

Activities: *Investment trust concentrating on established second-tier companies.*
Control: *Investec 49%.*
Chairman: *B Kardol*
Capital structure: *2m ords. Market capitalisation: R40m.*
Share market: *Price: 1 955c. Yields: 4,1% on dividend; 5,1% on earnings; p:e ratio, 19,6; cover, 1,2. 12-month high, 2 000c; low, 1 625c. Trading volume last quarter, 933 shares.*

Year to Mar	**'91***	**'92**
Dividend income (R'000)	1 004	1 480
Net investment income (R'000)	1 044	1 327
Earnings (c)	98,8	99,7
Dividends (c)	87	81
Net worth (c)	1 802	2 835

* 18-month period

sector in 1990, after it was reversed into cash shell Witbank Consolidated Coal Mines. First results covered an 18-month period and the latest accounts represent Intrust's first 12 months' trading as an investment trust.

Still, annualising 1991's earnings shows an increase of 51,3% over the year. This of course comes off a low base and includes an R18m acquisition boost to Intrust's share portfolio. One consequence of the investment was to increase Fedsure's holding in Intrust from 25% to 48%. Last year Fedsure and Investec formed a share-swap alliance.

Intrust's investment policy is to focus on listed and unlisted shares in what it calls green-chip companies, defined as companies with above average yields relative to the market and good growth potential. Chairman Bas Kardol believes this policy can exploit the discrepancy between the ratings of these green-chip shares and blue-chip equities, which are generally tightly held and have been pursued by institutions since the market crash in 1987.

The investment portfolio consists of only four companies — Berzack Brothers, Bidvest, Fedsure and Fenner. During the year the value of the investments increased by 126%, to R46,2m, by acquiring the additional shares in three of the four companies, and through market rerating of the investments.The latter shows the price of the shares rising by an average 27% from the time of purchase to their market value at end-March.

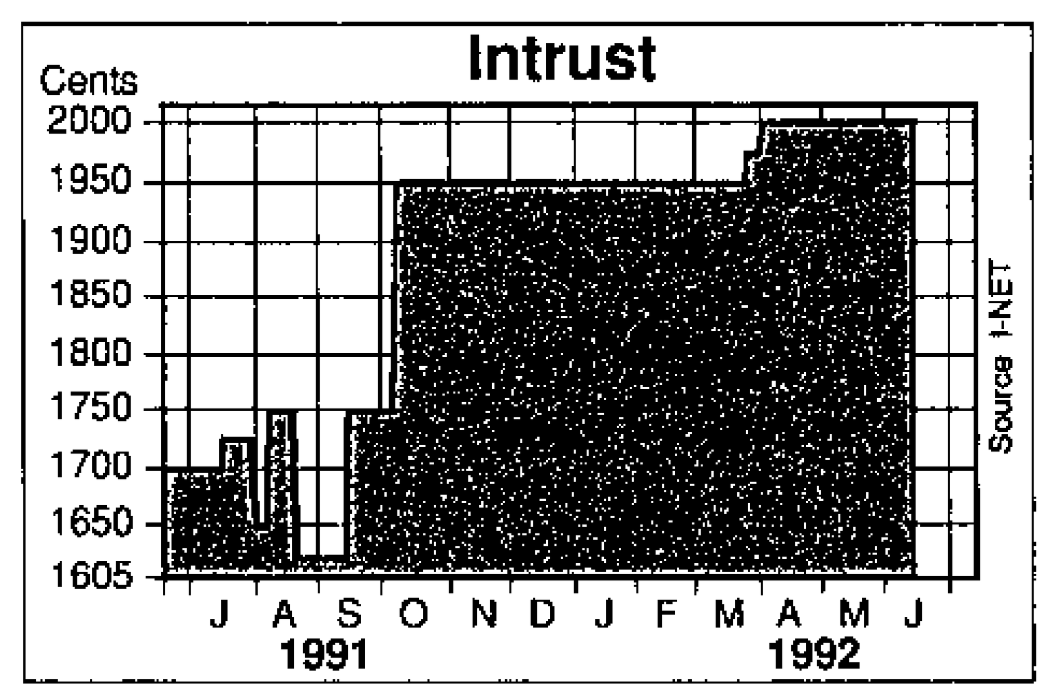
The performance of three of the investments has been good, showing a compound average increase in year-end earnings of nearly 14%, with dividends for the same period up an average 17% The exception is Berzack, whose earnings fell 16,6% and dividends dropped 16,7% at its interim.

With Investec and Fedsure holding most of Intrust's share capital, tradeability is a problem. To try to remedy this the trust will continue to issue its own shares in exchange for selected shareholdings.

"Our overriding priority this year is to get a spread of shareholders and increase the size of our portfolio," Intrust executive Zelda Zaayman says. While the performance of Intrust is linked to the performance of the JSE, Kardol says the company expects to increase both its dividend payments and the value of its portfolio this year.

With assets of R48,9m and two-thirds more cash than current liabilities, Intrust seems to be in a good position to expand.

The share, just off its high of R20 and 17,7% up on a year ago, is hard to evaluate because of the unusual nature of the invest-



ments. It trades at a 17,8% discount to net worth, though a discount is not unusual for investment trusts.

At 19,6, the earnings multiple is lower than both Natrust and Comfund, while the dividend yield is higher. These are perhaps the closest comparable shares in the sector, though both trusts invest in blue chips. Intrust seems to have potential, though a cautious investor should probably wait for results.

Shaun Harris

AMAPROP

Reducing risk exposure

FM 26/6/92 (58)

Activities: *Property development and management.*
Control: *Anglo American 66%.*
Chairman: *G G L Leissner*
Capital structure: *45m ords Market capitalisation: R284m.*
Share market: *Price: 630c. Yields: 8,0% on dividend; 12,6% on earnings; p:e ratio, 7,9; cover, 1,6. 12-month high, 860c; low, 700c. Trading volume last quarter, 241 000 shares.*

Year to Mar 31	'89	'90	'91	'92
ST debt (Rm)	9,1	2,7	15,5	30,3
LT debt (Rm)	223,4	218,1	211,4	208,6
Debt equity ratio	0,46	0,39	0,34	0,35
Shareholders' interest	0,60	0,63	0,67	0,68
Int & leasing cover	2,5	2,6	2,9	3,1
Return on cap (%)	8,1	8,6	7,1	7,3
Turnover (Rm)	162	209	200	209
Pre-int profit (Rm)	64,9	71,3	72,1	75,2
Pre-int margin (%)	40,1	34,1	34,9	34,6
Earnings (c)	54,8	67,4	73,0	78,9
Dividends (c)	35	42	47	50
Net worth (c)	918	997	1 301	1 334

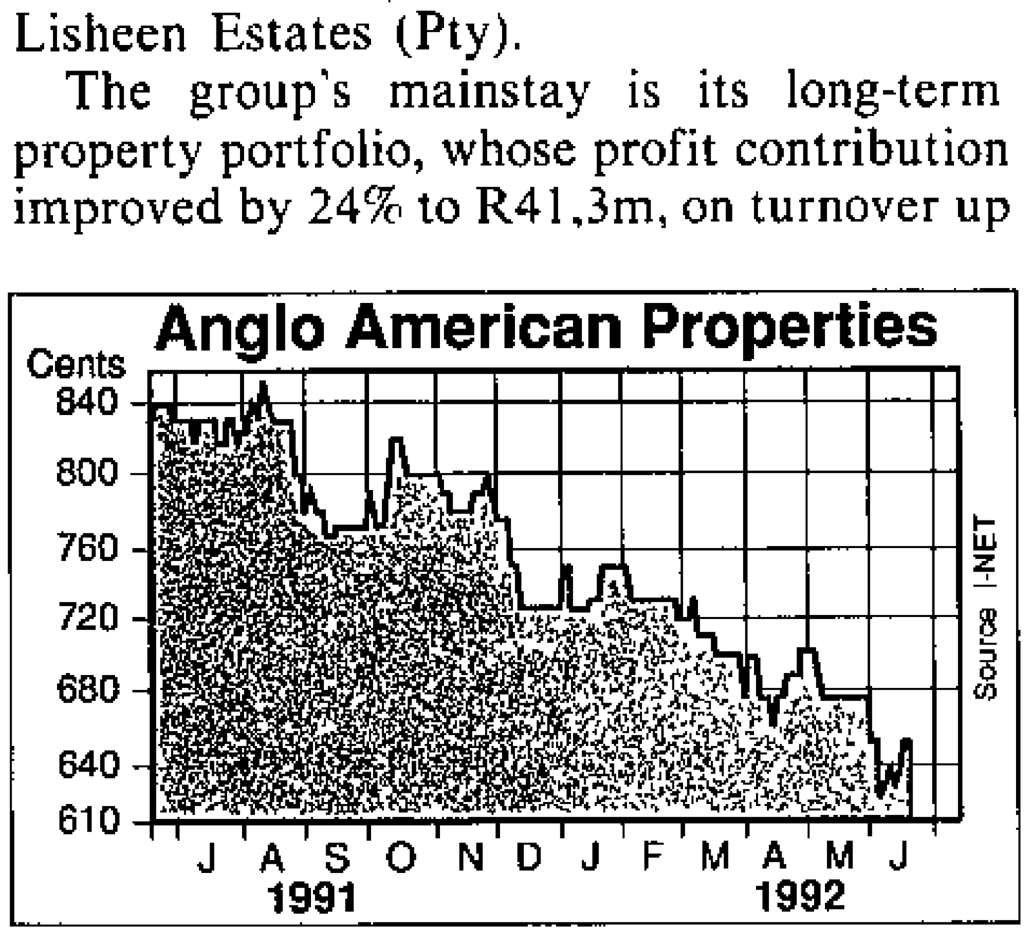
The steady, if unspectacular, growth of Anglo American Property (Amaprop)'s portfolio in the year to end-March can be attributed to its breadth and high quality

A net profit contribution of R41m from investment properties offset losses of R4m from township sales and R1,8m from the Carlton Hotel — areas particularly sensitive to the recession and political unrest Turnover increased 5%, with pre-tax profits showing a 7% rise.

The 8% rise in EPS was despite an increase in tax paid (R11,1m after R10,2m the previous year) and minimal growth in turnover. Less cash was generated by operating activities, 23% down at R82,1m.

Amaprop chairman Gerald Leissner's belief that group earnings will grow by up to 10% this year is due to management's objective of ridding the group of unprofitable investments, such as its involvment in township low-cost housing and to concentrate rather on the top end of the market. Amaprop has sold its 50% interest in Garpand Investments (Pty) and a 40% interest in Lisheen Estates (Pty).

The group's mainstay is its long-term property portfolio, whose profit contribution improved by 24% to R41,3m, on turnover up 13% at R141,7m. Office space accounts for two-thirds of the portfolio's lettable space, with retail accommodation making up the balance.



Amaprop's Leissner . *top end of the market*

The depressed economy has resulted in an oversupply of office space and a lack of meaningful growth in rentals At year-end 91,4% of Amaprop's office accommodation was let (91% in 1991), while retail space was 97,3% let, down from 99% in 1991. In real terms, rentals over the next few years are unlikely to match levels achieved last year, particularly in the office market. To retain market share, Amaprop is offering a percentage discount on five-year leases

Turnover of Amaprop's estate developments fell 35% to R25,8m and despite a reduction in tax the division's earnings contribution showed a R4,1m loss against a positive R1,7m in financial 1991. Management's decision to withdraw from investment in development of new townships is in line with its aim to reduce exposure to high-risk business. This will take about five years, as certain schemes in the pipeline will have to be run down. About R15m of unrealised profit will be brought to account.

Performance of the 60%-owned Carlton Hotel remained poor, with an occupancy rate of 64%, but improvement is expected this year. Management is committed to funding this investment.

To hold on to market share, Leissner says, Amaprop is committed to retaining tenants by maintaining property and providing superior services. The R23m refurbishment and extension of Killarney Mall will be carried out this year It will be funded by existing resources, unrealised profit on township sales, the sale of property investments and retained earnings, of which a third is reinvested each year for this purpose.

Amaprop fits the classic bill of a low-risk counter with low to modest total returns Though the outlook is uncertain (with the economy the group's vehicle of growth), the withdrawal from township investment towards those of better quality should allow reasonable earnings growth over the next five years

A change in the tax rate from the current 22% to 48% over the next five years leaves few tax incentives favouring property But Amaprop's finances are sound.

The share has lagged the JSE Industrial index since late 1990 and has fallen 23% over the past year If the group achieves its top forecast of 10% earnings growth, this would put the share on a forward p e of about 7,3, below the sector's current average With the focus on high quality investments, Amaprop has much to offer investors looking for a defensive stock with income attractions.

Marylou Greig

A FUND HEADING FOR A CRASH

(58) FM 26/6/92

Mr Justice David Melamet spares few of the players in the MMF fiasco.

Of the committee supposed to supervise the fund's affairs: "Such of the minutes of the committee meetings as have been seen by the commission . . . reflect a rather optimistic monologue by the director . . . it appears the committee does not properly discharge its duties but merely acts as a rubber stamp."

Melamet describes the directorate as lacking financial acumen, experience and ability: "The situation is undoubtedly that the financial position of the MMF is disastrous and that this is not something that has happened just recently . . . The accounts establish that the deficit was R606m at the end of the 1987 financial year so the MMF cannot be blamed for the present position. It can, however, be blamed for doing nothing about the situation since 1989."

The insurance companies that acted as agents were paid fees upfront. "There is no incentive for the agents to act for the best advantage of the MMF or to deal with claims expeditiously but only a moral obligation."

As many as 80% of claims handled by one insurer were simply passed on to "assessors" and then to attorneys. Assessor and attorney fees were then met by the MMF.

"Evidence was received of claims for unrealistically high amounts being settled by an agent without proper investigation," Melamet says.

The commission heard of dubious and fraudulent practices by certain attorneys and medico-legal practitioners. "Examples were quoted where estimates made (by these practitioners), of future medical expenses, differ widely from estimates obtained by an agent."

Some examples: R200 000 (compared with R3 515), R22 400 (R1 000) and R42 470 (R1 000).

A previous manager of the MVA section of an agent finalised several fraudulent claims in co-operation with an attorney. One was for R950 000, said to be for a motor accident injury but in fact caused by an assault with an iron pipe. A woman who lost her husband in a hit-and-run accident received only R50 000 of the R93 352 MMF cheque. The attorney kept the rest as fees

"It is also alleged that there is an attorney (who) specialises in claims by the widows of mineworkers from neighbouring countries whose husbands have been killed in road accidents. The widows, having received pension and other benefits from the mines, never know or even bother about claims having been lodged on their behalf."

Melamet quotes the case of an attorney's wife who bought a BMW with a cheque for R95 397 made out to his trust account in respect of a claim. The claimant received nothing. Another attorney negotiated settlement of a claim for R18 000, six months after the claimant had died leaving no dependants.

The practice of touting motor accident victims for their business leads to fraudulent claims and irregularities, says the commission. Touts receive about R500 for every claim they introduce and "go to all possible ends to obtain claims."

It was expected that, by the end of this week, about 400 MMF files would have been referred to the Attorney-General with a view to prosecution.

Moves to bar Barend from bank post

W/Mail 26/6 - 2/7/92

(58)

By MONDLI MAKHANYA

TODAY'S expected appointment of Barend du Plessis as president of the Development Bank of South Africa (DBSA) is already causing ripples in political and economic circles.

The appointment has come under opposition from the African National Congress which sees it as part of the government's unilateral restructuring of the economy. Within the DBSA staff association there is strong sentiment to embark on industrial action if Du Plessis gets the post. Even people in the business sector are amazed the government would choose to install Du Plessis in such a politically sensitive and important post.

"What the Nats seem to be doing is wanting to hold on to all key positions. They do not want to let go of the past," says a business leader.

Some development agencies and economic consultants who work with the DBSA have hinted they will even halt all contact with the institution should the appointment be confirmed.

"If he is appointed there will be a fight — there's no way we will work with somebody like him," says a development economist.

The former finance minister — who retired from politics a month ago due to "exhaustion" — is expected to fill the post left open by the late Simon Brand in January. While Brand was both president and chief executive of the DBSA the post will now be split, with acting CE Andre le Grange being confirmed in his present post. Both appointments have, however, raised a flurry within and outside the bank.

Du Plessis' appointment is being opposed because of his tainted past as a Nationalist politician and Le Grange's is unpopular among black professional staff because he is said to be lethargic about black advancement in the institution. A letter has been sent by staff members to ANC president Nelson Mandela, appealing for his intervention.

The post of the head of the DBSA will be one of the key posts in the next few years because there will be enormous pressures on a new government to redress the apartheid imbalances. Some even equate the importance of the post to that of a finance minister.

There is even a school of thought that says the post should be advertised internationally since there is no person in the country with the experience and expertise needed to assume the responsibilities.

The ANC — with whom the cabinet has been consulting about the successor to Brand — is also unhappy abut the appointments. The movement favoured former Perm managing director Bob Tucker for the post, mainly because of his political neutrality. While under Tucker the Perm spearheaded a drive by banks and building societies into lending to low income groups. He is presently involved in a drive to set up community-based banks which will finance low-cost housing.

Bank insiders say there was disagreement on the appointments and the government made use of the May deadlock at Codesa and cooling of relations between it and the ANC to make its appointments.

SOWETAN BUSINESS

Why blacks can't get home loans

(58)

Sowetan 26/6/92

THE newly-formed Amalgamated Banks of South Africa is to continue financing black housing in an attempt to make a significant investment in the property market.

However, it will temporarily stop loans in areas that have been hard hit by violence and unrest.

The bank was responding to claims by small builders that Absa's Allied refused applications for mortgage loans in black residential areas until its policy changed.

Absa's senior media and public relations consultant Mr Gavin Webster said they were monitoring the

By JOSHUA RABOROKO

situation closely. Their normal business activities will resume when circumstances allow.

The lack of home finance for black townships is not confined to Absa. Nedcor's Perm division, one of the more active lenders, this week reported a considerable difficulty with home loan arrears in the black community.

According to sources, even the Loan Guarantee Initiative, managed by the Urban Foundation and the Independent Development Trust, does not provide adequate security.

After pledging R3,5 million to the Initiative scheme, financial institutions have not come forward with the cash. It is understood that only 400 loans across 300 locations have been granted.

Webster said the prime responsibility of every financial institution was to protect the investments of its depositors.

Services

"The financial services industry is one of the most competitive in South Africa. There is aggressive competition between banks in all sectors of the market, including mortgage lending, and margins, including those for mortgage lending, are continually under pressure," he said.

"These factors cannot be influenced by attempts to disrupt the market by way of boycotts or any other such measures. In fact, such measures increase the risk attached to such lending and while they prevent us from continuing with our normal business, they raise rather than lower the cost of lending."

He said Absa was active in its own right in educating aspirant homeowners on the responsibilities of home ownership and the mechanics of the financial services market.

"We are also pro-actively negotiating with representative community bodies and keeping open lines of communications with bondholders in attempts to solve the problems of homeowners and to build mutual understanding.

INTERNATIONAL BANKING
FM 26/6/92

Treading warily

[redacted] (58)

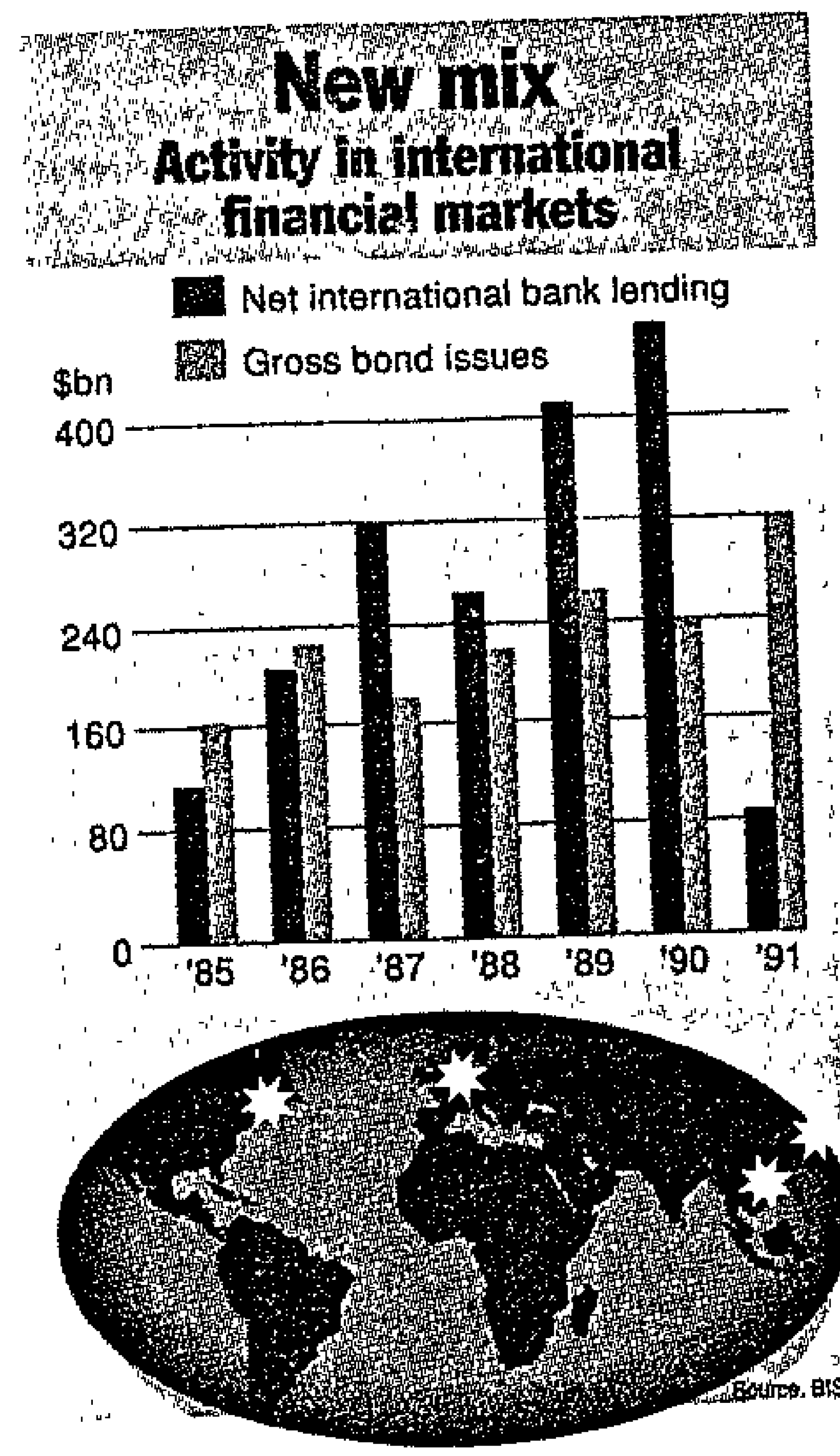
Last year saw the first ever contraction in international banking aggregates, says the Bank for International Settlements' annual report released this month.

"The outstanding total of crossborder and local foreign currency claims of the BIS reporting banks — which had grown at rates in excess of 10% in each of the previous six years — decreased by $102bn or 1%.

"There was a pronounced slowdown in final lending to residents within the BIS reporting area who had been major borrowers from international banks in previous years. New lending to outside-area countries, which were less affected by the recession in the industrial countries, recovered somewhat."

The BIS attributes the contraction to

cont →



heightened perceptions of credit risk, a general restructuring of financial markets, the economic cycle and banks' concerns about their capital adequacy.

The area which saw the greatest shrinkage was interbank lending. "Banks increasingly perceived interbank activity as yielding low returns while entailing potentially high counterparty risks."

The general caution was reflected in higher spreads and shorter maturities for new internationally syndicated credits.

Banks compensated by increasing their use of derivative instruments "which can substitute for on-balance-sheet operations but involve less credit risk." The identified, outstanding, notional value, of derivative contracts on interest rates and currencies, is estimated to have risen from 75% of international assets, of BIS reporting banks at the end of 1990, to nearly 100% a year later.

Banks are the main intermediaries in over-the-counter markets, says the BIS, though precise data is not available on their direct involvement in derivatives.

As bank lending fell, bond market activity increased. Borrowers were attracted by the decline in long-term interest rates. Investors were attracted by expectations of further falls in interest rates. "The volume of completed new international bond issues soared to $319bn, one-third more than in 1990 and well above the previous peak. Activity was particularly buoyant in the first half of the year, when a number of large issues were made by sovereign entities."

Events in Japan were already adversely influencing international financial markets in 1991. The decline in domestic property prices there reduced demand for credit from Japanese residents. And the depressed state of the stock market in the second half limited issuing of equity-related bonds. Japanese banks pared their low-return interbank positions to improve their profitability and meet Basle's capital adequacy guidelines.

"The decline in the gross international banking aggregates last year was fully accounted for by a 9% contraction in Japanese banks' balance sheets." ■

PROPERTY

Black women invest wisely in property

Sowetan 26/6/92

58

By JOSHUA RABOROKO

BLACK women were far more likely to resort to property as an investment than their white counterparts, the chief executive officer of Focused Finance Group, Mr Chris Nixon, said yesterday.

Nixon told *Sowetan* Property: "Although investment has always been an essential dimension to a balanced portfolio, white South African women adopt a remarkably conservative approach and tend to acquire property through marriage or divorce."

His argument is based on the large number of black women who are active participants in the burial societies, women's and meholisano clubs, stokvels and in the informal sector in South Africa.

According to the SA Institute of Race Relations survey, as many as 4 million people (or 29 percent of the economically active population) are wholly or partly employed in the informal sector in South Africa (excluding the "independent" homelands).

Nixon said all too often when a woman retired her portfolio consised of insurance policies with an occasional share or unit trust investment.

"When they do acquire capital sums they put it in the bank or buy a new car instead of actively seeking ways of investing for maximum return.

"Good investment property is one way of achieving inflation linked income growth coupled with sound capital growth," he added.

A recently retired executive secretary who several years ago followed his advice to investment this way is now set to enjoy a good return from the rentals on a number of flats acquired over the years, he added.

Nixon said the usual argument against that sort of venture was the risk of bad tenants, but one sometimes had to take a calculated risk to make money.

Even that, he added, could be minimised by forming a syndicate to buy property and appointing an agent to manage it.

On the other hand, he said, black women, have long used the "syndicate" system to their advantage.

REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

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GOEWERMENTSKENNISGEWING

DEPARTEMENT VAN FINANSIES

No. 1744 **26 Junie 1992**

SUID-AFRIKAANSE RESERWEBANKWET, 1989

GROOTTE, ONTWERP EN SAMESTELLING VAN DIE KROONGROOTTE SILWER R2-GEDENKMUNT

Kragtens die bevoegdheid my verleen by artikel 19 (1) (a) van die Suid-Afrikaanse Reserwebankwet (Wet No. 90 van 1989), verklaar ek hierby—

(a) dat die kroongrootte silwer R2-gedenkmunt wat in deel (a) van die Tweede Bylae van bogenoemde Wet uiteengesit word en wat tans vervaardig en uitgereik sal word kragtens artikel 16 (1) van genoemde Wet, vanaf 19 Junie 1992 'n wettige betaalmiddel is; en

(b) dat die ontwerp van die gemelde munt dié is soos uiteengesit in Bylae A tot hierdie kennisgewing; en

(c) dat die deursnee van die gemelde munt soos volg is:

Denominasie	*Deursnit*	*Toleransie (positief en negatief) op deursnit*
Kroongrootte silwer R2	38,725 mm	0,08 mm

D. L. KEYS,

Minister van Finansies.

GOVERNMENT NOTICE

DEPARTMENT OF FINANCE

No. 1744 (58) **26 June 1992**

SOUTH AFRICAN RESERVE BANK ACT, 1989

THE DIMENSION OF, DESIGN FOR, AND COMPILATION OF THE CROWNSIZE SILVER R2 COMMEMORATIVE COIN

By virtue of the powers vested in me by section 19 (1) (a) of the South African Reserve Bank Act (Act No. 90 of 1989), I hereby declare—

(a) that the crownsize silver R2 commemorative coin as set out in section (a) of the Second Schedule to the said Act, and which is being manufactured, and which will be issued by virtue of section 16 (1) of the said Act, shall be legal tender as from 19 June 1992; and

(b) that the designs of the said coin shall be the designs as shown in Schedule A which is attached to this notice; and

(c) that the specifications of the said coin are as follows:

Denomination	*Diameter*	*Tolerance (positive and negative) on diameter*
Crownsize silver R2	38,725 mm	0,08 mm

D. L. KEYS,

Minister of Finance.

Sluggish property market predicts boom times

B/Day 26/6/92 (58)

PRETORIA'S property market is waiting expectantly for an economic upturn to fuel new demand and development.

In recent years the city has seen a steady, if unspectacular, rate of property development and the recession has left landlords seeking to fill existing space rather than look to new investments.

The city has an office market of about 1,5-million m² better grade office accommodation.

Pretoria's stability has a lot to do with the fact that the state takes about 70% of available space.

Sanlam Properties' regional manager: asset management Frikkie Botha describes the current market as "relatively weak", but he adds that there are opportunities to be found.

Sanlam — one of the two big players in the local market — has some 170 000m² A and B grade office space.

Pretoria as a whole has a vacancy rate of about 14%.

Higher

B grade space is currently letting at an average of about R14/m², while A space is currently going at about R25/m² net, although some of the better addresses command higher rentals.

In addition to the stability of the market, particularly that of the CBD which has never lost its attractiveness for tenants, Botha estimates that rentals are about 20% lower in Pretoria than in greater Johannesburg.

Apart from the Sammy Marks Square, retail development is virtually at a standstill — a reflection of the fact that the city has virtually all the shopping centres it needs.

Sanlam's property investment regional manager Fanus Gerber is optimistic about the future.

In the prevailing climate, Sanlam's current priority is filling its new R100m Sancardia complex, which has 7 000m² of office space in addition to large retail and parking facilities. Botha says the unlet space will soon be taken up.

Both Botha and Gerber emphasise the importance of political developments on the future of the city's property market. Should the city be deprived of its capital status, the results would be very detrimental.

But it seems no-one is taking that threat too seriously. Foreign countries, it seems, are not taking the possibility too seriously either.

Gerber notes that the influx of embassies and consulates resulting from SA's new-found international respectability is already having a small, but beneficial influence.

NATAL INVESTMENT (58)

Going for broke

FM 26/6/92

Old Mutual Properties Natal (OMP) plans to almost double the value of its property portfolio in the province in two years.

According to regional manager Charles Oxenham, the value of the group's properties which fall under the Durban wing could increase from R658m to around R1,5bn.

Aggressive expansion in the depressed property market is rare but Oxenham says vacancies in OMP's industrial and commercial properties are low: 2,2% for industrial and less than 9,2% for commercial (both substantially below Durban's average).

"If a customer requested a large amount of space now in either sector, we would have to develop additional properties to accommodate them," he says.

Plans to expand in Natal conform with the OMP group strategy of emphasising the growth of its coastal portfolios. Considerable investment has gone into the western Cape in the past year.

Looking at OMP's vacancies, it is not surprising that the focus for growth should now be on industrial property. "Our emphasis in Natal has been in industrial property and, despite the recession, this sector has done well. But the fact that we have just bought the former NBS headquarters shows that we still consider prime office investments," says Oxenham.

Along with its plans for growth, OMP is making an interesting departure from tradition. Institutional property companies have traditionally managed their own portfolios. Now, however, OMP has started farming sections of its portfolio out to independent property management companies.

Oxenham says J H Isaacs and Coreprop have been contracted to manage certain properties in Durban and Maritzburg. "The idea is to place the more management-intensive, decentralised properties in the hands of outside companies so that we can concentrate on key properties where returns can be enhanced by our special expertise." ■

THIRD PARTY INSURANCE

FM 26/6/92

Government failure

(58)

Melamet exposes abuse but has no financial solutions

Fraud and bungling were plentiful in the Multilateral Motor Vehicle Accidents Fund (MMF). That will wash out — through the courts and via sudden retirements.

The task now is to get the compulsory third-party insurance scheme back to solvency and sanity.

Looking at basics, the source of MMF funding — a 6c/*l* fuel levy — needs to be rethought. So does the purpose of the fund For example, should it be trying to offer full third-party insurance cover or should it be no more than a form of social security, offering compensation on a fixed — and affordable — scale?

The system that allows agents (insurers) to write cheques of up to R1m on MMF accounts almost invited the abuses now highlighted in the report of the commission chaired by Mr Justice David Melamet.

That the 11 agents which represented the MMF and settled most of the claims have been put on notice is merely the start At the MMF's Pretoria office this week, there was the appearance of normality. But Willem Swanepoel, seconded there from the SA Special Risks Insurance Association (Sasria) to sort out the mess, is probably the only official of senior rank who can feel secure after publication of the Melamet report last week. The 112-page document catalogues almost every way in which public funds can be — and were — abused.

There is little direct evidence of fraud inside the MMF. But it was underfunded from the start in 1986 and, as problems mounted, there arose a self-deceiving attitude among management and the executive committee that *alles sal regkom.*

The most obvious incompetence was the decision in 1991 to invest R180m, for five years, with three life offices. As the fund had no free reserves, it should have been clear that the money represented desperately needed working capital. At the end of May, Swanepoel cancelled the endowment policies and lost the upfront loadings.

Melamet

The commission confirms that the fund, with a deficit of more than R2bn, is insolvent. Nor, though government seems tacitly to have admitted that it is the virtual reinsurer of the fund, could the commission find anything in writing to show that government will stand behind the debt

This offers an opportunity to restructure the entire third-party system. With the MMF under new management and with an inspectorate in training — and the 11 favoured insurers forced to compete with the rest of the short-term industry for what has so far been lucrative business — it's timely to rethink what is appropriate in SA's unique society.

Swanepoel

Swanepoel is not convinced all the answers lie in the Melamet report.

"We operate a Rolls Royce third-party scheme in bakkie country," he contends Even in highly developed countries there is no third-party cover under which the injured or dead can claim unlimited amounts, which is theoretically the case in SA. One settlement involving a Japanese tourist cost the fund R7m. In practice, the average settlement in the 28 000 cases handled last year will be about R20 000.

For that sort of cover the road user should pay dearly.

When the unpopular third-party token system was abolished in 1986 to make way for the scheme which later evolved into the MMF, the annual cost to the motorist was R17. The amount had not been increased for more than 20 years though government, as reinsurer to the third-party consortium, was effectively subsidising the premiums.

An increase to appropriate levels was politically unacceptable at the time, so government resorted to the petrol levy to fund third-party insurance. In doing so, it ignored the view of the majority of the Grosskopf Commission, that third-party payments should be collected in the Central Vehicle Registry Today, calculating that the average motorist covers 15 000 km annually, consumes 10*l* for every 100 km and pays a 6c/*l* levy, the cost is R90. But still the fund is in deficit because the levy was never set sufficiently high to meet the size of benefits awarded by the MMF.

The dilemma, to Swanepoel, is: "Does the motorist accept that he must pay several cents a litre more for petrol to make the fund cash-flow solvent — or must the benefits be curtailed?"

Melamet quotes some actuarial estimates of how the fund could be made solvent. The first projects annual increases in the levy, with annual investment income in brackets: 1992, 75% increase (R65m); 1993, 31% (R90m); 1994, 29% (R123m); 1995, 31% (166m); and 1996, 32% (R227m).

But the projections are fanciful; they assume an investment income which will not occur At present, the MMF has less than R200m available for investment. So that might suggest even more swingeing fuel price increases, which Melamet accepts are politically and economically sensitive.

Melamet suggests, instead, that political or other embarrassment could be avoided and a suitable reserve achieved within a reasonable period.

"If possible the Central Energy Fund (should) pay the estimated levy for each year at the beginning of each year. This would deprive that fund of some investment income but this would pass to the MMF and could be considered as compensation for the short funding that has taken place for some time.

"The MMF would not include the investment income it earns in its budget and would retain this towards creating a reserve. It is estimated that, subject to available interest rates, a reserve equal to one year's expenses could be created in seven or eight years and that, ultimately, this could possibly delay additional increases in the levy for a considerable period."

The commission might well have added that robbing one account to pay another is in the classical government tradition. Government, in any case, has indicated it won't accept the upfront funding proposal.

The report also raises doubts whether the Central Energy Fund has paid over the full amount of the levy to the MMF. Swanepoel says he does not know but has been charged with finding out — if the Central Energy Fund will co-operate.

In fact, the answer to the MMF's troubles lies in a return to free-market principles. That does not necessarily mean a return to the system where the insurance companies provided the cover.

Originally, this was the case but the insurers withdrew the service when government put a cap on what they could charge and third-party business became uneconomic. This was succeeded in 1965 by the consortium, licensed to issue third-party tokens, in open competition. That system was patently unjust. not only did the second car owner covering 4 000 km a year pay the same as someone driving 30 000 km, but there was an estimated 35% of the motoring population who paid nothing at all, preferring to use stolen discs or risk a fine.

So the fuel levy was introduced and was seen as a fair method of assessment. It is not strictly equitable, of course, because industries such as fishing use large diesel volumes but do not run over pedestrians. Also, large numbers of beneficiaries of the MMF are pedestrians, who do not buy much fuel.

If Melamet's exposé leads to the elimination of most of the abuses and if no better formula than the levy can be found, then the only argument is the size of the levy and the benefits it can fund.

(Continued from p22)

conflict. Beyond that one sees the opening skirmishes of a wider Xhosa-Zulu war.

For Mandela to accuse De Klerk of full responsibility for murder intimates such a breakdown of trust as to suggest to observers that Codesa was an exercise in frivolity. Yet the truth remains that only through Codesa — through the very talks which the movement Mandela leads has been urging for years — can some semblance of a normal society return.

The stalemate within Codesa arose out of government's demand for a 75% majority in an elected lower house to pass the constitution, and, for a senate, the power of veto. This of course translates into a minority (white) veto and remains unacceptable.

The overwhelming majority of whites in the referendum voted for a settlement in which there was no hint of a minority veto. And in this sense the Nationalists — possibly buoyed by their success on March 17 — have displayed bad faith and contributed to the climate which has ensured that mass action will intensify, not least on the industrial front (see *Current Affairs*).

The deadlock, as the DP's Colin Eglin describes it, was brought about more because of tactical considerations by the main players than for reasons of substance. Government's last-minute proposal for a constitutional role for the senate came too late for proper debate.

Yet it seems clear that the charge that the Nationalists do not really want to share power has some validity. The gross corruptions to which they were a party are revealed by the week — and everything from the misappropriation of public funds to steroids in rugby players leaves an impression of terminal cynicism and decadence.

None of this dissuades us that De Klerk is an honest man. His evident stumbles in recent days — making a pointed visit to Ulundi on June 16, flying off to Spain even as the crisis mounted — do not have the malign quality Mandela implies. If they did, there would be no reason for hope; whites would exercise their sole veto and emigrate.

Rather, De Klerk remains far more consistent than Mandela: his trip to Boipatong

Mandela

De Klerk

arose from decency, though it exposed the limits of law and order in a situation similar to that in the Balkans, albeit on a more primitive scale.

Resolution of the situation requires compromise on both sides. Government must accept that it cannot reserve a minority veto for itself without indefinitely postponing a settlement — and, with it, a renewal of economic confidence and an end to the recession The ANC must abandon mass action as a form of pressure, since, as the *FM* put it last week, "the calculations which the 'sides' to our current conflict must be making (and which they believe favour them) will very likely all prove wrong."

The government accusation that mass action led to Boipatong seems perverse — part of that general disclaiming of personal responsibility for murder which has poisoned our social life Perhaps after the midweek meeting of the Cabinet — with De Klerk presiding — a firmer statement about the progress of justice in this case will be made. Meanwhile, the hostels must be closed or, at least, patrolled until the crisis abates.

Iscor issued a statement that the kwaMadala hostel — at which by midweek police did at last report arrests of suspects in the Boipatong killings — would be closed. But the iniquities of the system remain; in the ethnic concentration and tawdry standards of the hostels, who knows what evil forces are at work?

Other ANC demands seem less than helpful. While UN monitors might well serve a purpose in the run up to elections — which now seem unlikely this year — it is fatuous to call for foreign intervention to keep the peace.

Though government's authority evidently stops at the boundaries of certain townships, it remains sovereign and the process by which it shares that sovereignty has to be legal and logical. At heart, the NP knows this — it is already conducting what amounts to an election campaign in black areas.

UN peace-keeping forces have a habit of being sent in once conditions have regressed beyond the point of salvage. Appalling as Boipatong is — along with every other bloody outbreak — it is not remotely the kind of event Mandela asserts it is. A total breakdown of law and order would see massacres spread across the country and black suffering plummet to depths unheard of

This is surely not what he wants. Yet a question mark remains over Mandela's grasp of the complex reality of SA. While ostensibly aimed at extracting greater flexibility from government round the negotiating table, a great deal of the ANC's attitude seems less to do with the deadlock at Codesa, or the violence, than with its perceived need to get back in touch with its constituency. This in itself is revealing

The ANC would hardly be gearing up for elections — the political aim of mass mobilisation — if it did not ultimately expect a settlement at Codesa.

Clearly, the issue of violence and its effective policing must be addressed — by cool heads not primarily concerned with point-scoring. The idea suggested by Frederik Van Zyl Slabbert, of a Codesa-type forum specifically aimed at dealing with the violence, needs to be explored

It is possible that more can be done to make the Peace Accord effective. Township trust in the security forces is now non-existent. Boipatong follows the Trust Feed massacre in which policemen, in league with Inkatha members, were found guilty, and the massacre at Swanieville a year ago in circumstances eerily similar to Boipatong.

Even Rhema Church pastor Ray McCauley entered the debate this week — writing an open letter to De Klerk after visiting Boipatong. According to McCauley, there is

Van Zyl Slabbert

Spicer

a growing perception among moderate South Africans of a link between the police and Inkatha.

Finally, it is difficult to imagine the ANC calling off all negotiations — and plunging into open-ended mass action. Even the present protest campaign seems directionless.

Granted, all this savage theatre will spoil De Klerk's international reputation and bring back the pressure. There are already doubts over SA's participation in the Olympics and the All Black tour.

Diplomatic sanctions are being rallied. But such a development can only have the effect of drawing the NP and ANC back into negotiations. Even the ANC's Pallo Jordan admits it would be a long shot to believe mass action will lead to the collapse of government.

It has to be hoped that the crisis will be short — but that needs leadership with vision. And vision is precisely what is now faltering, more on Mandela's side than De Klerk's. But part of the lesson of the Boipatong tragedy, and its repercussions, is that blame and responsibility have to be accepted on all sides. We need a rededication to the already agreed principles of Codesa and the Peace Accord. ■

STATISTICAL ERROR

Some errors were inadvertently made in last week's leader on the Board on Tariffs & Trade's food industry report:

☐ David van den Heever is not the head of Central Statistical Service, but deputy director (socio-economic statistics);

☐ The rates of increase in the monthly food PPI for March (1,9%) and April (2,2%) were transposed; and

☐ Van den Heever warned against making deductions from annualising rates of change relating to a single month.

Melamet examines, and rejects, the thought that all MMF claims should be settled according to some sort of scale of benefits. In reality, says the commission, there are different social and economic classes. It is certainly correct that what might be a handsome payout in one case could be derisory in another.

True, an injured party would then have recourse to action to recover larger sums than those awarded from the fund — which is not possible under current legislation — but that could lead to inequities. A person of substance pursuing a case against someone of little or no financial substance would waste time, money and effort. In the reverse situation, the claimant would have the advantage.

Melamet's dismissal of scaled benefits or of the "no fault" system used in several developed countries, leaves Swanepoel dubious. "In Switzerland," he says, "when you buy a house you are obliged to take out insurance against any damage a fire on your property might cause to your neighbour. If you can't afford the insurance, you can't afford the house."

Using that argument, if the loss of a leg brings a scaled benefit of, perhaps, R30 000 a person, to whom this is inadequate, should he be expected to carry both personal accident and liability policies in his package?

Also, the commission's sense of equity overlooks the fact that the inequitable already exists. Comparatively few older vehicles are covered by balance of third-party policies and even fewer are comprehensively insured. So, the owner of a R100 000 luxury vehicle damaged by a 1970 bakkie has the right to recover damages but no real prospect of success. Presumably, the luxury car is covered comprehensively yet, factually, the inequity to which the commission refers is already in place. It surfaces in the premiums paid for comprehensive cover.

If the fuel levy is to be kept in check, ways must be found to reduce the fund's claims experience

That should happen in part as a result of the elimination of inflated claims and other abuses uncovered by the commission. As a matter of urgency, it is necessary to analyse the claims not yet paid as well as the R1,4bn of intimated but not yet reported claims.

Putting some sort of cap on the level of benefits should be given more consideration. The MMF should rethink a proposal given to the commission by Rod Pearson, a director of MIB Brokers, that wherever possible outright grants should be replaced by annuities, a step which would ease the fund's cash-flow problems. Swanepoel says this happens in certain cases.

Conversely, however, the commission has correctly criticised the system for the length of time it takes to settle claims, largely the result of legal tactics coupled with laxity in the insurance offices. If his suggestions lead to speedier settlements, this must have an adverse effect on the fund's finances. But that is one expense which the fund really should bear without discomfort.

Finally, a true free market among the insurers appointed as agents must be created. At the time the MVA (predecessor of the MMF) was about to start, there was a scramble for agency shares. Melamet notes suggestions that some insurers gave away tokens in order to assert their right to a share of the new type of business In the event, the 11 favoured agents received grossly distorted shares.

Santam was awarded 140 days in the year, or 38,3%. Mutual & Federal, the largest short-term insurer, was awarded only 16,1%. But President, a tiny insurer which subsequently had to run off its general insurance book, obtained 11,2% of the market.

Melamet notes that the agents are somewhat coy about how much profit they make from MMF business — but also observes the eagerness they have for the business. Under the present system, an insurer is paid upfront R902 for every claim handled, double the figure established in 1986. Swanepoel says it will now be open for any insurer to compete for a share — "the criterion will be if he has the resources, particularly modern systems, to handle claims."

The remuneration level seems lucrative, possibly too much so. Even if open competition does not reduce this cost element, it would ease the MMF cash flow — and prompt the agents to faster action — if the fee were paid 50% upfront with the balance when the claim is finalised.

Melamet has done an effective job of exposing fraud and laxity. When it comes to establishing a system that is appropriate to society, it is doubtful if his recommendations provide all the answers. ■

Banking on higher education

FM 26/6/92 (53)

Stuart Saunders is vice-chancellor of the University of Cape Town and is engaged in research on the restructuring of higher education.

Post-secondary education faces two major challenges. First, the need to ensure adequate access, particularly by blacks, and second, the need to maintain and develop quality in undergraduate and postgraduate teaching as well as in research.

Without the latter there can be no real human resource development at this level and little prosperity.

Fewer than 5% of the population of most countries attended universities in the Fifties. By 1980 the attendance was more than 20% of the traditional age group 18-22 years in most industrialised countries, and in the US more than 50%. In SA the figures are 60% for whites, 11% for coloureds, 33% for Indians and 9% for Blacks. This reflects a gross racial skewing of educational opportunity.

In many Western countries high standards have been maintained. By contrast, in African countries such as Kenya, students have been enrolled in numbers beyond which the system and individual institutions have been able to cope. This has resulted in a sharp and calamitous deterioration in quality. At present the universities in many sub-Saharan countries are faced with rapidly diminishing resources and strikingly increasing student numbers with a consequent decline in standards and a loss of morale.

There has been a short-to-medium-term overproduction of graduates in the public sector. Many graduates are underemployed or unemployed, despite a great need for graduates in the science and engineering fields, as well as for faculty in tertiary education and secondary school teachers. In most sub-Saharan African universities research was greatly reduced during the Eighties because of financial crises, and this has done enormous damage to postgraduate education particularly in the fields of science and technology. Inappropriate government involvement in university matters has been another major factor in the decline of sub-Saharan universities north of the Limpopo.

In 1991 there were 466 962 tertiary education students in SA of whom 104 652 were in technikons, 308 172 at universities and 54 138 at teacher training colleges.

It is plain that with the essential improvement of secondary education for blacks their numbers leaving school with a matriculation exemption will increase exponentially. A conservative estimate of the number of students, white and black, wishing and able to enter tertiary education by the year 2000 is at least 900 000, which will reflect a participation rate of about 25% of the traditional age group.

Tertiary education can meet community needs for both quality teaching and research, and adequate access, only if the diversity of institutions is recognised and adequate academic development of them is assured. One possible solution is a system similar to the California Master Plan. SA could develop one system of post-secondary education incorporating universities, technikons, teacher training colleges and technical colleges with mobility of students between them. This system should include either the technical colleges becoming in part community colleges or be associated with the establishment of new community colleges where students would be able to have enrichment programmes to equip them to enter universities, technikons or teacher training colleges, as well as equipping them for direct involvement in business and industry. (An academic support programme is in place in a number of universities and has shown how valuable and effective these can be.)

The distribution of the additional students could look something like this: an additional 20 000 in residential universities; 60 000 in universities involved in distance learning (and all universities should be looking at the possibility of playing a part in an imaginative way); 60 000 in technikons; 60 000 in distance teaching technikons; and 160 000 in technical colleges and community colleges.

Plainly, the post-secondary education system as well as the whole education system must be nonracial, and barriers such as language must not be allowed to interfere with access, particularly by blacks.

The system must produce the mix of graduates which SA will need to secure its economic future. The technikons are not concentrating sufficiently on technical education. Data suggests that 39% of students in the technikons are enrolled in the humanities. Furthermore, it seems that nearly 90% of students at technikons in 1990 were enrolled for three-year, vocationally orientated pre-diploma courses, so that it seems that in this sense the qualification structure is under-utilised.

In 1985 7% of students at universities were majoring in engineering. In 1990 this had fallen to 6%. In the same period those majoring in education had risen from 9% to 22%. Improved mathematics and science teaching in schools must go hand in hand with the greater emphasis on increasing the numbers of engineers, scientists and technologists graduating from universities and technikons.

While it is reasonable to expect individual students to contribute to the financing of their education, a solution needs to be found urgently to relieve the excessive financial burden that many students carry. Unless this problem is addressed soon financial considerations will prevent many from entering tertiary education and this, in turn, will result in social instability and lack of economic development.

The cutback in the funding of higher education by government has resulted in the unacceptable doubling of fees between 1985 and 1990. I urge the establishment of a major financial resource to meet the requirements of needy students through the formation of a fund or bank.

The education bank should be funded by the Treasury and I am confident that the EC and the US, among others, would be attracted to putting subtantial funds into such an education bank because of the long-term potential it has for human resource development.

Students could draw funds from such a bank as a contribution to the costs of their education and be required to pay back the funds later through additional taxation once they are earning. A scheme similar to this is being applied with success in Australia.

Something has to be done. It is not acceptable that financial considerations should exclude the majority of young people from tertiary education.

Time for retirement fund revamp

STAR 27/6/92

Arguments about the advantages of pension versus provident funds continue. Now it is suggested the best elements of both can be melded into one. MAGNUS HEYSTEK reports.

SCRAP the differences between pension and provident funds and create a new kind of retirement fund. This is the call by Francois Marais, general manager, group benefits, at insurance giant Sanlam — a call echoed by many commentators in the past.

"There certainly is merit in such a suggestion," says Roger Wellstead, group personnel manager at the Argus Group.

One fund with the best characteristics of both is far superior to the current system, which is not only confusing but also unproductive in certain instances.

"It is high time that the unproductive, artificial and sometimes discriminatory distinction between pension and provident funds be eliminated," he says.

"In its place there should be a comprehensive new type of retirement fund with uniform requirements and benefits, in which everyone can take part."

Differences

Although these two types of funds are viewed as alternatives, the alternatives are not equal.

In terms of legislation, there are only two differences between pension and provident funds.

Member contributions to a pension fund are tax-deductible up to 7,5 percent of salary, while similar contributions to a provident fund offer no tax relief. At retirement, one-third of the benefits from a pension fund may be taken in cash — while the rest must be paid as a pension. On the other hand, the full benefit of provident funds can be taken in cash.

"At the moment, many companies offer more than one fund with different benefits for different employees, because trade unions in particular prefer provident funds," says Marais.

"This could easily lead to accusations of discrimination in future, since factors such as benefits, member contributions and tax relief do differ. Pressure for equal treatment of all members can be expected in the future.

"The fact that contributions to provident funds offer no tax relief can be viewed as discrimination against the members of provident funds — the mode of provision for retirement most favoured by trade union members. The argument that tax considerations are less important to these members won't always be accepted."

What is more, the differences between pension and provident funds sometimes lead to long and unproductive debates, conversions, the formation of new funds and various administrative systems, without any real benefit to the members or the employers."

Parity can be attained without affecting existing rights and benefits of present funds, by taking the following steps, for example:

- Do away with the differentiating names of "pension fund" and "provident fund", and replace them with a general name such as "retirement fund".
- Afford all members of the new retirement funds the same tax relief as that which currently applies to contributions from pension fund members, namely 7,5 percent of salary.
- Eliminate the difference in the payment of benefits by allowing the full benefit up to a certain limit — R100 000 for example — to be taken in cash. One-third of the benefits over this amount could then be taken in cash, with a pension being compulsory for the rest.

Still available

"The benefits of most existing provident fund members should therefore still be available in full in cash at retirement, while existing pension fund members would have the option of taking a greater part of their benefit in cash," adds Marais.

Barend pulls out of race for top bank job

STAR 27/6/92. (58)

PETER FABRICIUS

CAPE TOWN — Former Finance Minister Barend du Plessis pulled out of the race for the presidency of the Development Bank of Southern Africa at the last minute, leaving his predecessor, Professor Owen Horwood, to take the job.

Du Plessis appeared to be front-runner for the important job until just before the Council of Goverors met yesterday. As the Government's candidate, he seemed a certainty, despite opposition from the ANC. The bank's council of governors include representatives of the SA and TBVC governments, which should have favoured Du Plessis.

But yesterday President F W de Klerk announced that Du Plessis had asked him to withdraw his candidacy — and also to relieve him of his position as one of the Bank's governors.

De Klerk said that although the overwhelming majority of governors had backed Du Plessis, there was not full consensus and Du Plessis did not wish to break the tradition of appointment by consensus. He was openly opposed by Transkei military leader Bantu Holomisa, an ANC sympathiser.

But it is understood that the pro-SA Government Bophuthatswana government also surprisingly opposed him — apparently because of some personal animosity from President Lucas Mangope.

The Development Bank announced yesterday that Andre la Grange — who has been Acting Chief Executive since the death of Simon Brand — had been confirmed in the position. The Council of Governors also appointed Horwood as president of the Council and chairman of the board of directors. Professor Wiseman Nkuhlu was appointed vice-chairman of the board while former Inkatha chairman Oscar Dhlomo was appointed one of the directors.

Pros and cons of reducing the interest rate

STAR 27/6/92

Finance Staff 58

RUMOURS have resurfaced that interest rates are to be reduced.

Investors have heard the story before and are wondering whether this time it will provide them with a real increase in purchasing power.

While this will be the second interest rate reduction this year, investors are still waiting for February's cut to have an influence on the market.

Market pundits are questioning the Reserve Bank's objectives. Is it to lift the economy out of the recession or merely to boost public morale?

The rumour on the JSE trading floor is that rates are to be reduced by one or two percentage points. The question now is whether such an amount will influence the market.

Economists are divided on the subject.

The optimists say such a reduction would be beneficial to the JSE and, in turn, to the market as a whole, basing their assumption on a three-fold argument.

Firstly, that a decrease makes holding interest-bearing securities less attractive. The alternative to such an investment (placing money in the bank, buying gilts or debentures) is for investors to channel these funds into the equity market.

Secondly, a decrease lowers the interest burden on corporations. A look at a number of companies across numerous sectors shows there will be a rise in pre-tax profits and bottom-line growth will improve.

Thirdly, if interest rates are low, companies and individuals are induced to borrow, for example, to expand businesses and acquire new equipment and machinery or other assets which they expect will yield a positive rate of return.

It follows that if business expansion does get off the ground, corporate profits will grow, unemployment levels will fall and the purchasing power of the individual will improve.

The pessimists' view — the gloomier, more realistic side to a rate cut — is seldom published.

An analyst and head of research says: "The rumour was recently started as a result of the one percentage point fall in bond rates, which usually preceeds a cut in interest rates.

"However, while we would gladly welcome such news, it would make little difference to stock prices."

He believes rates have to fall by at least four percentage points before a difference can be felt by the market.

For instance, a two percentage point reduction in the rate would hardly make a dent in a company's ability to finance a bank loan of R1 million.

If the company was paying prime of 19 percent, its interest bill would be more than R2 million a year, but a rate cut would save the firm only about R200 000.

Another problems associated with a cut in interest rates could be a weakening of the rand, increasing costs for importers, but be beneficial for exporters.

A lower interest rate would also dissuade overseas investors.

Go for sectional title say experts

STAR 27/6/92 MEG WILSON (58)

AS demand rises for apartment accommodation, property management companies are urging building owners to go the sectional title route — and making some startling promises about prospective returns.

For example, Ronnie Sevitz, MD of Kupers, the management company of the R3 billion Investec Property Group, says the value of properties can increase 50 percent with the opening of a sectional title register.

He reckons private owners of tenanted blocks in the northern areas of Johannesburg, Randburg and other desirable areas are losing out on their investments — and contributing to a "chronic" shortage of flats for sale in these areas.

There are several factors driving up demand and, consequently, prices sellers can demand.

Not least is the question of overall affordability, with the costs of houses now keeping many more people in the apartment market for longer periods.

However, Sevitz acknowledges the complexities of "sectionalising" may be offputting.

"Most owners of apartment buildings say they don't know how to go about incorporating a share block company and then opening a sectional title register. This can take anything from six months to two-and-a-half years — the worst case in our experience — and if you aren't geared to do it, it is not the business you want to be in, even if the investment appreciation is as much as 50 percent."

But, he says, his company is looking for stock and is prepared either to buy the buildings outright at market-related prices, or to seek sole mandates for marketing the individual apartments under sectional title, having handled the conversion.

"We have, during the past few years, marketed many upmarket buildings under sectional title, in deals amounting to more than R100 million and covering 750 apartments that are now individually owned.

"The original owners of the buildings realised additional appreciation in their investment of between 30 and 50 percent."

Nathan Trakman of J H Isaacs says those that might make liquidating their asset attractive include rising maintenance costs on tenanted buildings, or the chance to move the investment from residential to commercial property.

He, however, says the difference in return from selling the building as an entity, and through an agent as sectional title units, is unlikely to be more than 30 percent, at most.

And he cautions that owners should check first that there are no obstacles to conversion on the part of local authorities, or maintenance requirments that would make it unfeasible or affect the granting of bonds to buyers.

Neville Schaefer of H Lewis Trafalgar puts the average return on a sectionalised building, realised through a developer/agent, at 20 to 23 percent over 18 months. He says his company would not be willing to take less than 10 percent of the sale price as its cut if it were to sectionalise a building. However, he agrees that the holding costs on apartment blocks favour the sectional title route, as does the fact that upkeep costs become the shared responsibility of the owners.

R7m in the kitty for AA insurance claims

Business Times Reporter (58)

CLAIMS of R7-million, due to concurrent creditors of liquidated AA Mutual short-term insurance business, cannot be paid by the liquidators because they are unable to trace the claimants.

S/Times (BUSS) 28/6/92

The liquidators have had thousands of cheques returned because people have changed addresses without notifying them in spite of extensive advertising for claimants to do so.

In September, a third general distribution of 25c in the rand will be made, bringing the total to 80c.

A final distribution will be made next year when settlement of certain claims has been negotiated.

Uncollected money passes into the Guardian's Fund when the final distribution to creditors has been made. Ultimately unclaimed amounts are forfeited to the State.

The liquidators ask claimants to write to them at Box 9595, Johannesburg 2000, quoting policy or claim numbers, if there has been a change of address.

New pressure for interest cut

S/Times (Buss) 28/6/92 (58)

By CIARAN RYAN

THE Reserve Bank is under renewed pressure to drop interest rates after figures released on Friday show a sharp drop in M3 money supply growth to 7,14% in May from 11,2% in April.

The bank will probably wait for the consumer price index to be released in a day or two, before making a decision.

Econometrix's Tony Twine says the lower money-supply growth figures, at the bottom end of the Reserve Bank's target range of 7% to 10%, must be a precursor to an interest-rate drop.

"This is a mixed signal. It indicates the depths to which the economy has sunk, but it also gives the Reserve Bank latitude for an interest-rate drop. There is unlikely to be a rush for credit because of a percentage-point drop in rates."

Pierre Groenewald, Deputy Governor of the Reserve Bank, says a decision to cut rates will not be made on the basis of a single indicator.

"The Governor will make a decision based on all the information available."

The seasonally adjusted money supply figure for May 1992 was R187,76-billion from R190,5-billion in April 1992, a 1,5% month-on-month drop.

In spite of the Reserve Bank's money-market mopping-up operation which increased the shortage to R1,67-billion (R978-million), the 90-day BA rate hovers around 14,55%, nearly 4,5% shy of the retail prime rate.

Mr Twine says this leaves scope for an immediate cut in rates.

Through the roof for the bouncing cheque writers

S/Times (Buss) 28/6/92

58

By TERRY BETTY

BOUNCED cheques have increased by 800% in the past three years, says OK Bazaars group information systems director Taffy Hewson.

Mr Hewson says 40% of them have a serial number below 100, indicating they are signed by people with new cheque books.

It irks him that the banks "are making a fortune because they charge R20 to R50 for every RD cheque".

But a Standard Bank spokesman says the charge is to deter customers from issuing an RD cheque and to cover the bank's cost of reversing it through the system.

Retailers claim that the banks are not being selective enough when handing out cheque books.

Retailers have united under the Retailer's Bank Liaison Committee (RBLC) to pressure banks to be more careful in issuing cheque books.

Mr Hewson says: "We have written to the Reserve Bank and are holding meetings with the commercial banks to get them to change the system."

Edgars chain credit manager Andrew Gardiner says cashiers scrutinise cheques with a serial number below 100.

The value of bounced cheques is not public knowledge. The clearing bureau does not keep count, banks are unwilling to give figures because that would put them in a bad light and the retailers do not want to divulge their costs to competitors.

But one source estimates that cheques with a face value of about R3,9-million bounce in the Transvaal each month. He says this amounts to about 200 000 bounced cheques a month.

Mr Gardiner says retailers first met the banks two years ago. But the banks have not dealt urgently with the problem.

Formats

"For example, the banks will not give retailers details of the issuer of the cheque, making it difficult to trace the customer. Nor will the banks say whether a customer has funds to cover a cheque."

Mr Gardiner also complains about the banks taking too long to return the bounced cheque.

"We are still receiving cheques from a year ago."

Mr Hewson says retailers want the banks to issue a courtesy cheque card to customers stating what their limit is — as most countries do.

Mr Hewson says 32 different cheque formats exist in SA.

"The system is complicated and uncoordinated. Some have a bank guarantee, some require a number on the back while others require one on the front."

Mr Hewson suggests that the individual's details be printed on the cheque to save them and the customer time when filling out the cheque.

Banks and retailers agree that issuing an RD cheque should be made a criminal offence — as it is in most countries.

A Standard Bank spokesman says it is not up to banks to clamp down on RD cheques, although they might close an account if it regularly goes into overdraft.

Nedbank assistant general manager Tom Bangert attributes the increase in bad cheques to the poor economy and to the growth in the current account base. "The more accounts there are, the greater the likelihood of RDs."

However, he believes Nedbank customers are sophisticated and responsible and should have proportionately fewer bounced cheques.

Absa banks try to contain the increase in RD cheques by helping customers to maintain financial discipline.

Significant drop in growth of M3

B/Day 29/6/92. (58)

HILARY GUSH

GROWTH in the broad money supply dropped in May to the bottom of the 7%-10% guideline range specified by the Reserve Bank for 1992, Bank figures released at the weekend showed.

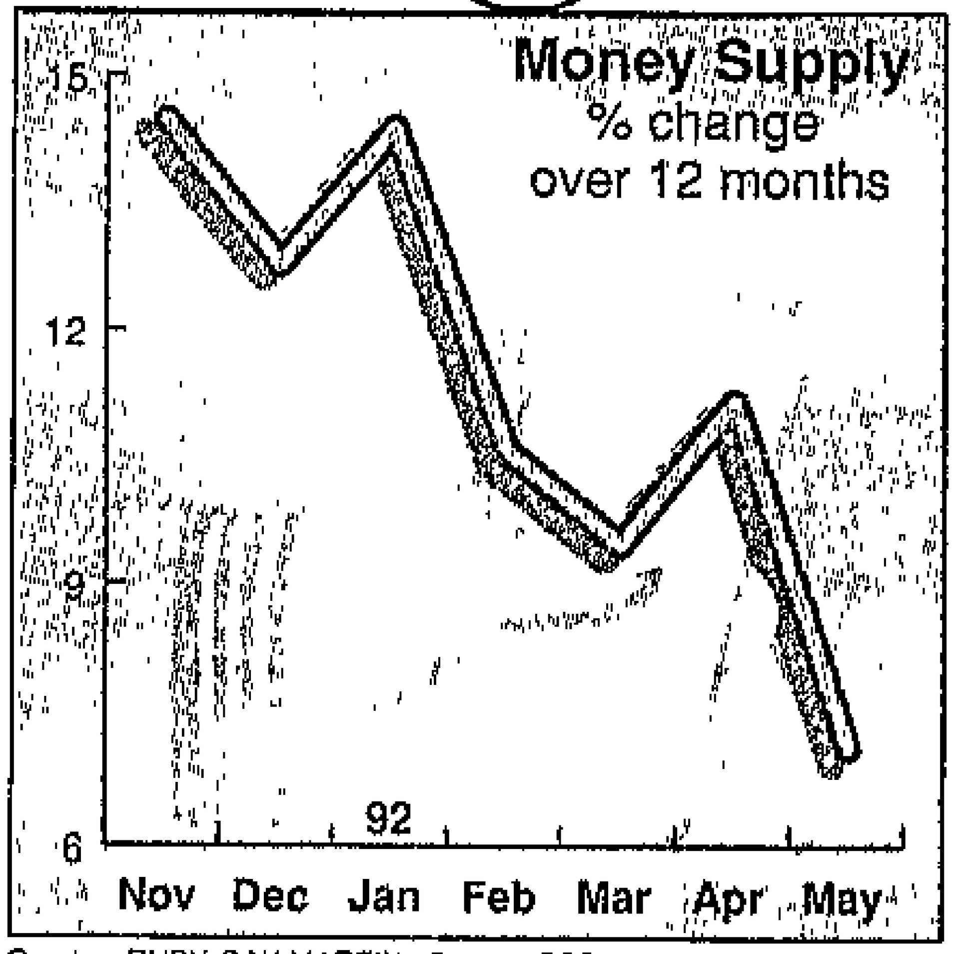
While year-on-year growth in M3 — which consists of cash in circulation and all deposits with banks — slowed to 7,14% in May from 11,2% in April, growth from the base of the guideline year (fourth quarter 1991) declined to 7,50% from 12,83%.

Sanlam chief economist Johan Louw said the fall in M3 growth was a good indication that government was getting high liquidity under control. "It also indicates a fall in the demand for credit."

Standard Bank group economist Nico Czypionka was surprised by the magnitude of the monthly drop. However the fall was not out of line with expectations in the light of subdued demand for credit.

The 12-month rate of increase in M3 has fallen from a peak of 27,5% in August 1988, to 10,2% in January 1991, and to the May 1992 figure of 7,14%.

In its latest quarterly bulletin, the Reserve Bank attributed the lower growth in money supply over the first quarter to "the sustained restrictive monetary policy stance, the deepening of the cyclical downturn in economic activity and disintermediation practices". Disintermediation resulted from the widening of the margin between lending and deposit rates among deposit-taking institutions.



Graphic RUBY-GAY MARTIN Source CSS

Total domestic credit extension slowed to 11,8% in the year to April from 15,6% in January. The Bank traced the general easing of growth in credit extension to "a lower demand for credit, reflecting the more depressed economic conditions combined with the effect of positive real interest rates".

Growth in money supply under control

By Sven Lünsche STAR 29/6/92

Money supply growth seems under firm control after the Reserve Bank reported on Friday that the broad money supply measure, M3, rose by a mere 7,14 percent between May 1991 and May this year.

Not only is this substantially down from the revised year-on-year growth rate of 11,2 percent in April, it is also well within the seven to 10 percent money supply guidelines set by the bank for 1992.

From the mid-November 1991 base of the guidelines, M3 has grown by 7,5 percent. In April M3 growth at 12,8 percent was still well above the guidelines.

The lower money supply growth rates are an indication of the marked slowdown in credit extension by the financial institutions to the private sector and should ease pressure on the inflation rate.

In its latest quarterly bulletin the bank says credit demand was low in the first quarter as a result of depressed economic conditions and the effect of positive real interest rates.

While mortgage advances and leasing finance remained fairly buoyant the bank notes that growth in hire-purchase credit and overdrafts receded sharply.

ndustrial property

Foreign governments queue up for Pretoria

B/Day 29/6/92 58

SANLAM Properties has recently signed lease agreements for office space with Japan, Denmark and Brazil following the opening of representative offices by many foreign countries, particularly in Pretoria and Cape Town.

Dramatic political changes over the past few years has seen the Danish government move to Sanlamsentrum Middestad in Pretoria, where it now occupies about 330m².

"However, it is Pretoria's eastern suburbs of Arcadia and Hatfield that have become increasingly popular for the location of foreign governments. The Japanese government moved its offices to the Sanlam Building in Hatfield last year," says Sanlam Properties regional manager Frikkie Botha.

The Hatfield Sanlam Building was completed at a cost of R13m last April and is popular with foreign missions because it is close to the Union Buildings and the Pretoria city centre.

"Another foreign office, the Brazilian Embassy, will also be located there within the next month."

Attracted

Sancardia, Sanlam's recently completed shopping and office complex in Arcadia, has attracted the US Agency for International Development, which is renting 2 322m² despite its new embassy currently under construction and due for completion next year being a few kilometres away.

"Arcadia and Hatfield's close proximity to the Pretoria CBD and the Union Buildings, as well as its easy access to all major routes to and from Johannesburg, make it a sought after area for foreign governments," Botha says.

More than eight countries, including Israel, Rwanda and the Russian Federation have already secured office space in surrounding areas.

As was the case with Namibia shortly after independence, countries are exploring all available premises for accommodation that will meet their requirements.

The Sanlam Centre in Windhoek was swamped with applications from foreign missions and was virtually fully let on completion.

Today tenants include the embassies of Germany, Denmark, Sweden, Norway and Finland. "It seems only reasonable to expect that as the political situation in the country improves, more and more international trade opportunities will arise and more countries and foreign companies will want office space in Pretoria," Botha says.

MONEY MARKETS by Hilary Gush

Capital rates damaged by political turmoil

BDay 29/6/92

CAPITAL market rates plunged last week in the face of continuing political upheaval, while money market rates remained steady.

A record 2 045 trades in government stock representing R6,1bn was reported by gilt broking firms on the JSE floor last Thursday, while banks proclaimed trading to be "hectic".

Capital market rates plummeted on Thursday with the E168 dropping from Wednesday's 15,78% to 15,61%, and rates on government's R150 stock falling 20 points to 15,84% from 16,06% on Wednesday. Yields on medium-dated R144 stocks slumped 50 points to 14,26% on Thursday, after closing at 14,79% on Tuesday. Thursday's volume was reported to have reached R717m, compared to R365m on Tuesday. Some correction took place on Friday and the stock last traded at 14,39%.

Traders attributed capital market hardening to the Reserve Bank's planned changes to commercial banks' liquid asset requirements and an expected increase in demand for short- and medium-dated government bonds. A dealer said the capital market overreacted to the announcement, and he expected a technical pickup soon.

Political uncertainties at the beginning of the week influenced capital market rates, with the Eskom 168 trading at 15,84% on Monday after closing at 15,73% the previous Friday. On Wednesday, however, the market was unperturbed and had largely discounted the ANC's decision to pull out of Codesa. Rates eased, with the Eskom stock trading at 15,78%.

Meanwhile Eskom is to go ahead with a zero-coupon bond issue despite government's poor showing in bringing its RSA issue to the market on June 16. The issue will be launched on Wednesday and no minimum price will be set. The bonds mature in 2002. Further details will be announced by Eskom's treasury manager Willem Kok later this afternoon.

Money market rates remained steady last week amid continued high liquidity. The market shortage yo-yoed from R1,49bn on Monday to R1,05bn on Wednesday and R1,676bn on Thursday. The 90-day liquid BA rate remained unchanged from last week's levels and traded in a range of 14,30% to 14,55% during the week.

Applications for the weekly three-month Treasury bill (TB) tender saw the Bank receive R269m in bids for the R150m on offer, at an average rate of 14,07% against the previous week's 14,03%.

The Bank attracted bids of R655m for the R150m offered in six-month TBs. The rate on these was 13,52%, compared to 13,61% the week before.

Threats of mass action and stayaways will, no doubt, take their toll on the equity market. One dealer claimed that facing this, real value could only be found in the capital market, and added a continuing stagnation of the economy would positively affect trade in fixed interest securities.

58

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Syndication offers a solid return for cautious investors

(58)

B/Day 29/6/92

THE syndication market continues to gain popularity among the investing public as a property investment with fairly limited risks.

However, finding prime buildings in strategic areas is becoming more and more difficult and margins are being squeezed, says Seeff Organisation Holdings chairman Lawrence Seeff.

"However, we would rather see our margins squeezed than acquire properties that are not suitable or not in our targeted areas."

The establishment of the Public Property Syndication Association as a division of Sapoa is a positive step for that industry. It is a voluntary organisation for the promoters of public property syndications. One of its tasks will be to provide a code of practice for the disclosure of information to the investing public and to strengthen investor protection.

"The syndication market is going from strength to strength ... The industry is expected to rise from about R1bn now to between R3bn and R5bn in the next few years," says Seeff.

Announcing its new syndication in Johannesburg's northern suburbs recently, the Board of Executors' Greg Culhane said property was a growth asset.

While investment in commercial property had its own set of risks, these were minimised by the selection of location and tenants. Taking these factors into consideration, BoE had selected a Northcliff site which fronted onto D F Malan Drive and served as a major access route northwards to the Western Bypass and southwards to Melville and Braamfontein.

"The present economic climate is seeing a perplexed group of investors emerge, who are both hesitant and cautious. There is a wait and see attitude in the market, resulting in many investors having high liquidity levels," he said.

The property, known as Board Syndicate Twenty Nine Limited, has a list of solid tenants. The initial capital requirement is R4,8m and the minimum investment is R20 000.

Invested

There was also the option of borrowing money up to an amount equal to the cash investment available. Both amounts are invested to receive a combined income sufficient to cover the cost of borrowing, he said.

"In terms of current income tax legislation, interest rates on borrowed funds may be deducted from the income received from the total investment. While capital gains remain tax-free and income received is taxable, the property market offers a suitable environment for investment gearing, which has enhanced taxed average returns by about 6% a year."

Dividends worry property analysts

B/Day 29/6/92

PETER GALLI

THE property industry was worried about whether listed property loan stock and property trust companies could maintain or improve dividends to shareholders under present market conditions, property analysts and market players said at the weekend.

There are 30 such companies, some of which are battling.

Abcon MD Niki Vontas said the past year had seen a relatively insignificant performance from all the companies in these sectors, with growth in an 11% to 11,5% range. This would be quite diverse this year.

Frankel Max Pollak Vinderine analyst John Rayner said vacancy levels were high, the number of bad debts was increasing and present market conditions were not allowing any rental growth.

Attractive

"All of these factors contribute to a very tough market until the middle of 1993 at the earliest. Listed property vehicles which normally react positively to an interest rate cut have shown no response at all," he said.

The market needed at least a 2% cut in interest rates to make the yields of these sectors look attractive. The index yields for the loan stock sector was 12,5% and for property trusts 11,2% at present.

"However, the sectors have already discounted a lot of bad news and I do not think they have much more downside potential beyond a further 5% to 10%. They are currently trading at a price that is far lower than the value of their underlying assets," he said.

However Vontas said there were two elements to these shares; capital appreciation and income growth. Regarding income growth, the present financial year would separate the good portfolios from the bad, he said.

On capital growth, the shares were rated on a historic yield basis and discounted events as far as 18 months down the road. Thus the present feeling was bearish as 1993 was not expected to show rental growth or any real improvement.

However, at the beginning of 1993 factors for 1994 would be discounted and the mood would be more bullish as rental growth on the back of reduced vacancies was expected.

"Abcon expects to beat its distribution forecast at the time of listing as we have secured rental income for 1993," Vontas said.

Property loan stock company KH Props financial director Peter Whewell said the company's portfolio was holding up well and was 98% occupied.

The company had budgeted for growth of between 10,5% and 11%.

Certain companies had overdeveloped as they had not properly investigated market needs or the economic cycle. "The industry needs to exercise caution and watch the development and letting scenarios closely, particularly in the decentralised nodes," he said.

"If a portfolio finds itself with vacancies, these affect rental income. However, the installation of new tenants also affects this as partitioning and other such expenses, as well as agents fees for letting the property, have to be covered," Vontas said.

Time for serious sellers and good deals in Jo'burg

BDay 29/6/92

58

DESPITE the continued economic recession and tight market conditions, the commercial market is reflecting a lot of movement, says Seeff Organisation Holdings chairman Lawrence Seeff.

"I know of some four or five buildings that have been sold over the past two weeks for a total of more than R30m and not sold to institutional buyers," he says.

There are a number of smaller players in the market as now is a good time to buy. The market reflects a number of serious sellers and good deals are to be had for those who have the money to buy.

"Interest rates have not come off as much as expected and many sellers are keen to offload their properties. The market will only turn once the political and economic position stabilises and interest rates drop further," says Seeff.

Unsure

Players in the market are unsure of whether to take short or long-term positions as it is unlikely the market will pick-up in the next year.

The rental market is very tight, with rental levels in the Sandton area down from R28/m² to R24/m² and the area reflecting a vacancy factor of about 17%, says Seeff.

Russell Mariott & Boyd Trust commercial broker Paul Maddison says Sandton takeup rates over the past three years reflect an interesting trend.

For the period February 1989 to February 1990, the net takeup was 45 000m², followed by 68 000m² for the same period to 1991 but only 11 000m² for the same period last year.

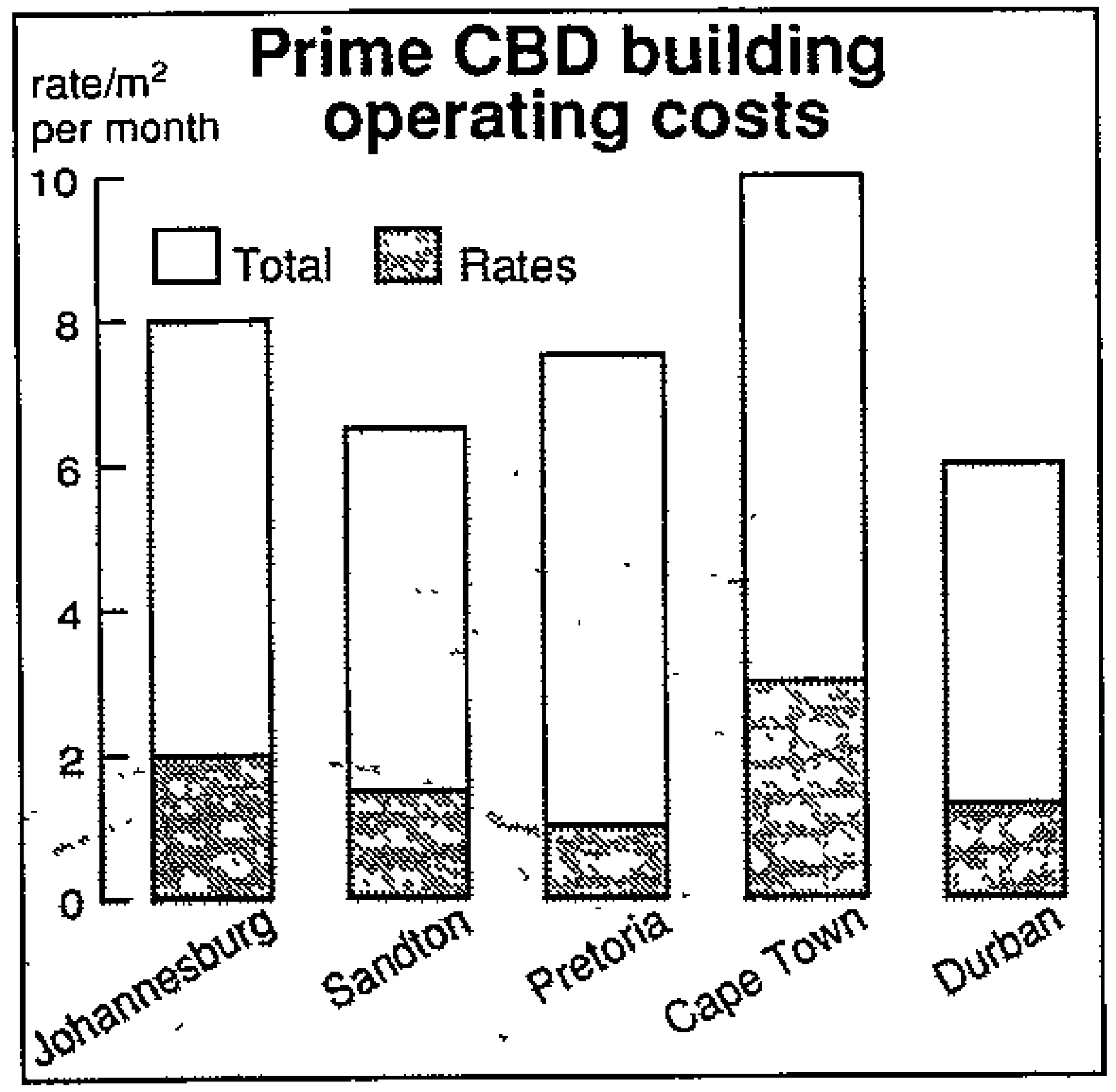
"A number of factors have contributed to this. The tendency of tenants towards low rise, low bulk developments with good parking ratios has affected the traditional occupancy of large Sandton buildings," he says.

Wierda Valley, the office node to the east of the Sandton CBD, had a takeup of 17 000m² in 1991, indicating a net loss of 6 000m² from the Sandton CBD.

"If one views this in relation to Sandton's Structure Plan which promotes development in the Woodmead, Rivonia, Fourways and Sunninghill nodes, then only limited development should be allowed to continue within the Sandton CBD," says Maddison.

If further rezonings are allowed to occur, notice should be taken of the demand for low rise, low bulk developments. To protect the investment potential of the older Sandton CBD buildings a situation needs to be created where supply is limited as development opportunities are scarce.

"The argument often put forward for increased development within the Sandton CBD is, we believe, ill advised at the moment."



Graphics: RUBY-GAY MARTIN Source RMBT

Huge oversupply makes Durban a tenants' market

Bday 27/6/92

THE market remains a tenants' market and landlords are still being forced to offer reduced rates, rent-free periods, relocation costs and other incentives, says JHI Durban commercial brokers director Guy Levine.

"The major source of inquiry is still in the 100m² to 200m² range, directed mainly at B-grade buildings. However, recently we have experienced a number of inquiries for A-grade accommodation."

The huge oversupply of office space remains a concern, but a recent Sapoa survey shows that the market has just about hit the bottom. A and B-grade space collectively, which had a vacancy rate of 2,3% a year ago, rose to 12,2% in February.

A-grade space, which recorded a vacancy figure of 0,8% a year ago soared to just under 30% in February. In April, JHI had about 142 000m² of lettable space on their books, he says.

Asking rates are similar to those six months ago — between R27 and R30/m² for A-grade space, R17 to R26/m² for B-grade space and R12 to R16/m² for C-grade space.

Escalating rates on basic rentals are between 12% and 13%, with escalations on operating costs running at 15% to 17%.

"The investment market remains active with a continued dearth of well located, well tenanted properties, particularly in the R450 000 to R1m range. Investors have become more discerning in selecting the property they wish to acquire, with the emphasis on the strength of the tenant," Levine says.

Resistance has been found to properties in the R2m to R5m range, as these are usually too large for an investor and too small for institutions.

Secure

This gap in the market has been filled by syndications which can provide a secure and financially rewarding investment opportunity, he says.

Capitalisation rates for A-grade leasebacks in CBD areas are 10% to 10,25% in Durban, 9,5% to 9,75% in Johannesburg, 9,5% to 10% in Cape Town and 10% to 10,25% in Pretoria.

The leasing market came alive in February after a quiet last quarter of 1991 that continued into January of this year. This impetus was ended by the referendum call and numerous property decisions were delayed until after this, says JHI Durban industrial manager Greg Elliott.

"Vacant lettable space in the industrial areas of Durban remains high at more than 185 000m², offering prospective tenants a wide choice of space. However, over the past six months we have seen an increased demand for premises larger than 250m² to 500m²," he says.

The market remains a buyers market, which is reinforced by the demand from both institutions and private investors for industrial property. However, good stock and willing sellers are difficult to find.

Yields still range from 11% to 13% and while, up to a short time ago, institutions would not consider buying property for less than R5m, they will now consider properties for R1m.

Logaro CE Gary Perlman feels that the Durban market is buoyant and offers good potential. "The new SA will need to look at expanding exports and Durban's location and facilities must facilitate increased demand for all types of space and an improved demand," he says.

Industrial sector will be first to grow

BDay 29/6/92

INDUSTRIAL property will be the first to reflect an improvement in the economy, says Old Mutual property investment manager Ian Watt.

"However, I think we can safely say this will not be this year," he says.

The economy is still not showing signs of turning around and the expected early improvement in industrial property has yet to materialise.

Growth in the industrial sector is needed, particularly if employment opportunities are to be created. While it is unlikely that a takeup in office space will do much to dent unemployment figures, the industrial sector could help ease this problem.

"While it is impossible to get a real handle on the vacancy position, it would appear that vacancies are generally at a low level. Industrial rentals on the Witwatersrand are showing some good growth, while Durban and Cape Town are on a plateau," he says

Rentals showed dramatic growth in the 1989/early 1990 period for smaller units as the initial demand took off, but it did not take long for this market to become oversupplied which, coupled with the downturn, resulted in rentals not showing the same growth.

The boom for mini industrial units has not lasted and several developers are now sitting with vacant buildings or expensive industrial land, the price of which has been driven up by speculative developers and not by demand from industrialists, Watt says.

'The larger end of the market has again started to move towards positive territory However, the general trend in real terms is still downward. Saying there is room for improvement in industrial rents is one thing, but whether industrialists can afford it is quite another," he says.

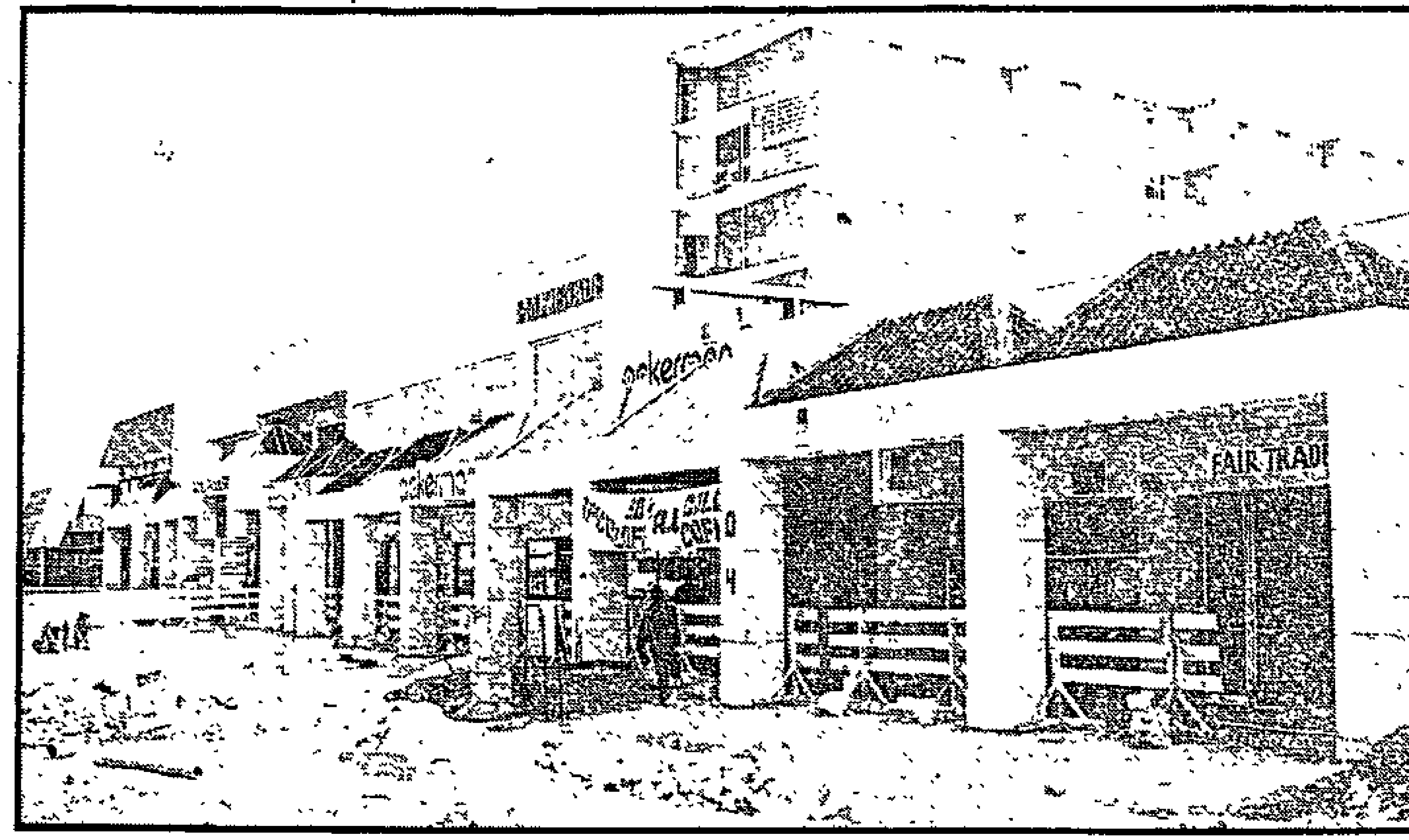
Oversupplied

Lead times in constructing industrial property are short and unless developers had done their homework properly they could be developing in a market that has become oversupplied overnight.

Watt says the market is seeing very little speculative development and hopefully the lessons of the past have been learnt Unlike an office tenant who can hand back or sub-lease office space when things go badly, an industrialist cannot generally offer back part of a factory.

"He has to weather the storm and find another way of dealing with the issue. The problem with this is that when the market turns around there is usually spare capacity which will only be used up gradually and there will be no sharp uptake," Watt says

Developers need to exercise discipline and stick to the basic principles of sound property investment, which will allow room for all to prosper.



Alberton's Promenade shopping centre, which Prima Property Trust sold recently.

Rents still low but rates set to rocket

BIDay 29/6/92

WHILE many players in the property field think rentals are keeping pace with inflation, nothing could be further from the truth, Russell Mariott & Boyd Trust director Nick Harris says.

"In general, I see rentals coming under further pressure next year, with rentals in the popular locations that have low vacancies like Rosebank, Parktown, Randburg, Bellville, Westville and Berea rising slightly," he says.

In other areas they are likely to remain steady at best and could drop up to another 5%. If one or more of the major property owners decide to cut their losses and attract tenants there could be even greater falls.

Annual rental escalations are also on a plateau as while one or two major owners are striving for 13% and more, a resistance threshold has been reached for two reasons.

Structured

"The major fight is to bring down inflation. Many leases are structured so that operating expenses are handled as a separate item. These are recovered either by way of an operating amount escalating at 15% and above, or the actual cost is recovered," Harris says.

While Cape Town has outstripped other metropolitan areas with substantially higher rates, this gap is rapidly closing. With the probability of black municipal areas being integrated into the larger cities and municipalities, the city fathers will have to accept that they cannot keep the lid on rates increases for much longer, he says.

Rates can be expected to rocket as the priority becomes upgrading areas with a low rate base. To protect the landlord, leases should be structured so that municipal rates increases can be recovered separately from tenants rather than having fixed increases covered in the overall basket of operating costs escalating at a fixed percentage.

"Local authorities and provincial government must resist the further proliferation of commercial nodes which have a direct cost impact of creating additional services, roads and infrastructure," he says.

Realistic

Instead, they should create realistic planning schemes that ensure the existing nodes are fully and viably utilised. This could be reinforced by applying realistic or actual costs of providing bulk and other services and roads and calling for independent environment impact studies at the expense of those seeking rezoning.

Only when market forces turn off the seemingly endless supply of unlet office developments will there be real rental growth, but this requires a responsible attitude from all concerned, Harris says.

"There are certainly opportunities for quality, well located office investments as these will secure tenants and provide the prelet investments all institutions seek. This will put downward pressure on purchase yields to the benefit of the responsible developer."

The country's CBDs have overall vacancies ranging from Johannesburg's 9,7% to 12,7% elsewhere. However, decentralised office locations push the vacancies up to 17,8% for Sandton and 13,7% for Pretoria.

Investec suffering a shortage of stock

BI Day 29/6/92

INVESTEC Property Group (IPG), the property arm of Investec Bank, is currently short of suitable stock to meet its growing property syndication and trading demands — in spite of the heavily oversupplied markets.

The group, which typically trades over R100m a year in property, concentrates on commercial and retail property, but also buys industrial property and office blocks if they are perceived to offer growth opportunities.

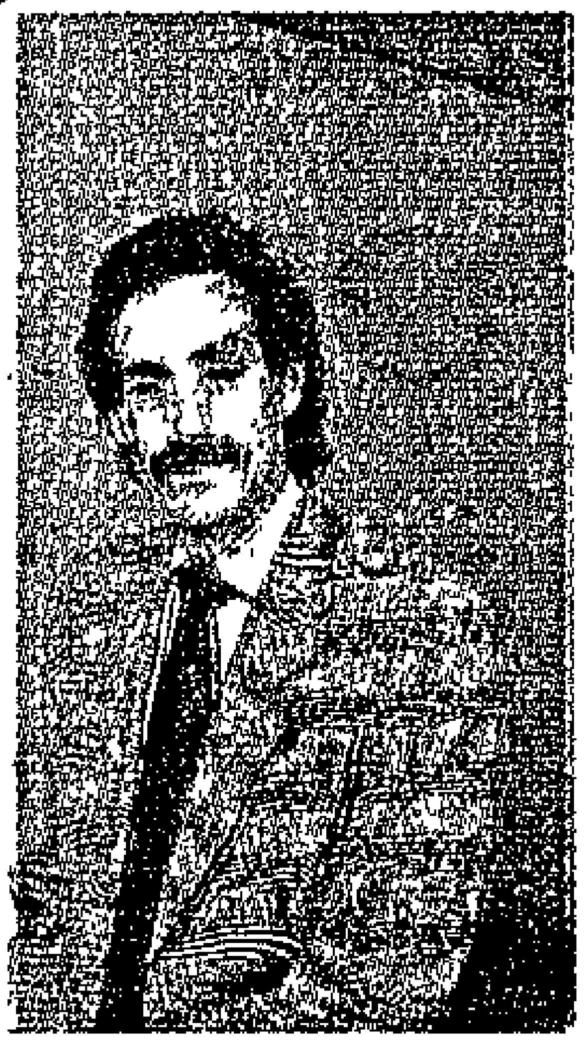
"Our trading division will buy wherever and whenever we see opportunities to add value to properties. It then on-sells them to buyers, including our private property syndicates or subsidiary Metboard to the mass syndication market," says joint MD Sam Hackner.

Jointly

With the departure of former MD Marc Wainer, IPG is now managed jointly by Sam Hackner and Bradley Tapnack under the chairmanship of David Kuper.

Responsibility for trading falls under Hackner, who feels IPG's basic strengths are adding value and making the asset work harder.

"This could take the form of improving the property, changing the nature or the structure of the building, improving the tenant mix, rationalising the expenditure or simply retaining possession and adding value to



SAM HACKNER

capital until the right buyer comes along," he says.

These criteria work well for the group, which also places importance on location. Attention is also placed on the integrity of the structure, tenant strength and the value of projected income and cashflow.

Tapnack says that when the big institutions buy, properties are generally removed from the market for a long time and there has traditionally been a shortage of A-grade properties due to the hunger of institutional cashflow for these buildings.

"But the rationalisation that has taken place in the financial institution sector and the need to become more and more competitive is shaking loose a considerable number of B-grade buildings, which are assets that present good opportunities for us to buy and add value," he says.

Commercial and industrial property

Recession drags market further into doldrums

B/Day 29/6/92

THE commercial and industrial market seems to be sliding further into the doldrums as the much talked about end to the economic recession fails to materialise.

Economists and senior property players initially predicted the recession would bottom out in mid-1992, but these projections have been revised and extend to between mid-1993 and the first quarter of 1994.

All of this does not bode well for an industry already faced with huge areas of oversupply, reduced demand and static to weaker rental levels.

The huge vote of support for President F W de Klerk and his reform initiatives given by the white electorate in the March referendum was taken by many in the industry as a godsend.

Failed

It was expected to result in renewed local activity and to spur offshore investors and companies to return in droves, thereby rapidly mopping up the glut of space, pushing rental levels to new highs and creating new demand.

Sadly this has failed to materialise.

3LE MARCH 1993

Foreign investors and companies are adopting a "wait and see" attitude as local violence continues unabated and political discussions become sidelined by rhetoric and accusations.

Foreign investment, if and when it does materialise, will alleviate many of the woes currently being felt. However, there has to be a sustained reduction in violence and probably an interim government in place for this to happen.

Token gestures have taken place but have had little effect on the property market. Local economic conditions are unlikely to improve for at least another year as that market lags the economic recovery by nine to 12 months.

In reality, rental levels are generally showing no real growth and only sought-after decentralised areas with low vacancies and little further development potential are showing any sort of rental growth.

Vacancy levels are static to increased almost across the board, with development also only really starting to taper off now.

In a positive move, the industry is also starting to call for less development and urging members to exercise caution.

However, this call probably comes too late as most of the major landlords find themselves with vast amounts of space to let and few propective tenants.

This has resulted in tenants becoming more demanding and aggressive, and landlords being forced to become more accommodating.

Rent free periods of up to a year seem to have become the norm, and a variety of other incentives like relocation contributions and actual moving costs are increasingly being borne by hard-pressed landlords.

Existing tenants are also examining the market and canvassing other landlords and agents for better deals which are then being presented to their present landlords.

Quality

While the days of speculative developments are all but gone, huge institutional cashflows and property quotas that need to be filled are seeing those players continuing to seek quality, well-tenanted buildings that offer sound returns.

Competition for these properties is, however, fierce as private investors and syndication schemes stalk the market for similar developments.

Therefore the market is most likely in for another tough year and a considerable "tightening of belts" will be required.

The economy is expected to start its recovery towards the end of the year and if violence can be contained and political negotiations move forward, foreign investors and companies will move into the market, thereby boosting its recovery.

Clouds have a silver lining in Cape Town

Bday 29/6/92.

(58)

THE western Cape commercial and industrial property market is feeling the pinch of the recession and is following the downward patterns experienced in other provinces, says Pam Golding Properties commercial and industrial division manager John Pistorius.

This is reflected in an oversupply of CBD property, at 11% in February, and declining shop and industrial rentals. "However, all is not gloom, and niche marketing is the path to success in the present economic climate," he says.

Both the institutional and entrepreneurial investors in commercial and industrial property are continually on the lookout for prime CBD buildings. The group has just concluded a multimillion rand sale of one of the city's landmark buildings, the Old Burger Building.

"An overriding feature of the market is a shortage of good stock in almost every sector. Unless properties are well let, investors are understandably nervous and are naturally looking for acceptable returns."

Good stock is tightly held in the Cape, people are not dumping their holdings and there have been few distress sales.

Market conditions no longer allow property brokers to sell only real estate. "We have to be creative business and investment consultants, able to advise on profitable ways of structuring deals and offering clients a good turnkey service".

Creativity is a key and investors need to broaden their vision, which can result in unlet factories or commercial premises being converted into sectional title residential units.

While the market is waiting for stimulus from the economic upturn, Cape Town is generally in better shape than other major cities, he says.

Preferred

"I believe it will continue to grow in status as a preferred investment area, which bodes well for the future of commercial and industrial property."

As the western Cape is now the heart of the tourist industry, the group has been inundated with inquiries about hotels from both local and offshore investors.

While the hotel industry is under pressure, investors are looking to the future and positive developments should materialise once violence is controlled and the political situation is settled, he says.

Land snatches will be chaotic — surveyors

CORRUPTION in ~~the system~~ of property registration is one of the most worrying factors for professional land surveyors and could get out of hand in a changing SA, says Owen Greene of the Natal Institute of Professional Land Surveyors. B Day 29/6/92

"I will be liasing closely with ANC members during my term of office. If the ANC, in its drive to redistribute land, takes a cavalier approach to property registration, looking at quick-fix methods rather than following existing procedures, the impact on property as a basis for loans and investments in SA could be chaotic," he says.

Meetings will be held with the ANC in coming months to ascertain its perceptions, since statutory controls may be influenced by a black government in the not too distant future.

While the property registration system is watertight, the tradability of land is being hampered by too many controls.

"I will be making representations to the Administrator of Natal and the Minister of Agriculture to address the situation."

Stifled

The number of black candidates coming up through the ranks is being stifled by the generally low quality of mathematics tuition in black schools. Higher grade matric maths is a prerequisite for a university degree in land surveying, says Greene.

The professional land surveyor is an expert in all matters relating to property ownership and development. Not only is he able to determine the physical size and shape of the land, but he is also able to determine and demarcate the existence, position and extent of any right that any person or authority has below, above or on the surface of the land.

Land surveyors are also able to give professional advice as to restrictive conditions under which property is owned, only some of which will appear in the title deeds to the property.

In short, any matter relating to property boundaries, expropriation of land, servitude rights, mineral rights, subdivision, township layout or sectional titles falls within the ambit of the profession.

Niche areas contain pockets of growth

BDay 29/6/92.

58

THE commercial market is generally not showing the level of growth it should, but there are still pockets of growth in niche areas, Leadenhall MD Philip Vermeulen says.

There is still a lot of business taking place in the market despite the tight economic conditions, with the smaller end of the market seeing a lot more activity.

MIKE DEACON

Improved

"Interest in this end of the market — the 500m² to 1 000m² range — is much improved from a month or two ago, but there is certainly no evidence of an upturn, which will only be precipitated by economic growth," he says.

While the offering of rent-free periods and relocation allowances is increasing, this is not the norm. While tenants are able to negotiate better deals, in most cases there is a level of reality in the market place.

"The past year has been the most successful year for us, which proves that brokers can do well in times of change, whether this be good or bad. Companies need to become more resourceful as the economy worsens and must be reputable and offer excellent service," Vermeulen says.

Guidelines

RMS Syfrets commercial division director Mike Deacon says while the leasing market is relatively quiet, it is not as lifeless as often depicted.

Some of the emerging office market trends are enlightening and can serve as guidelines for the future for both developers and leasing agents, he says.

"It is becoming more and more obvious that quality counts in the present market. Well designed office buildings in good locations are still letting well, but at the expense of mediocre buildings," Deacon says.

The attainment of correct design solutions is a subtle art that is time-consuming and demands experienced input from the full spectrum of the development discipline, he says.

Those buildings where the original architectural solutions were not executed with the market or future in mind are slow to let as today's tenant demands good location, cost and space-effective design, aesthetic appeal and quality finishes.

"We are also seeing a trend towards single occupier buildings, which needs to be taken into account by developers and architects alike," he says.

Tenants the winners in Braamfontein war-zone

B/Day 29/6/92. 58

THE era of tenant power is here to stay and survival in the market will depend on landlords formulating packages that sell, says independent broker David Wainstein.

"Landlords who believe they have exclusivity in the market place are going to find that unless they change their corporate attitudes and realise they are in a tenants' market, they are going to have problems filling empty buildings."

The Braamfontein area is a microcosm of what is happening internationally. Competition is so fierce elsewhere that in Western Australia, for example, a five-year free rent contract can be negotiated.

About 50 000m² to 70 000m² of A-grade unlet office space will become available in Braamfontein over the next 12 months, as well as a growing amount of sublet space.

Definition

This is in an area which offers 386 000m² of space, of which 366 000m² is let.

"This depends on your definition of let. For example, the 6th floor of 76 Juta Street is let as there is a lease in place until June 1994, but it is technically vacant and ready to receive a tenant," he says.

The big players in Braamfontein — Anglo and Liberty Life — may be tempted to wait for the large tenants for their

DAVID WAINSTEIN

Braamfontein Centre revamp and Jorissen Place projects.

Whether they will have to sit it out until all available sublet space is taken up before they can begin to fill these developments is a moot point. "Market forces dictate the need to fill buildings with smaller tenants at competitive rates and meaningful sized tenants at between R30/m² and R35/m² will be rare, at least in the short term," says Wainstein.

This climate is changing the tenant/landlord/broker equation heavily in favour of the tenant, with Braamfontein becoming a war zone and testing ground for what could happen nationwide.

For the first time, tenants are in a position to shake up and reshape the market. Customer relations will begin to take precedence, ushering in a new era of tenant power.

Anglo American Property Services national leasing director Grahame Lindop says many companies are taking advantage of this to negotiate their future leases. The nine-month free rental period offered is also seeing a large number of inquiries.

Creativity

"For brokers and landlords the days of order-taking are over. A degree of creativity should prise the leads out of a soft market and the stranglehold exercised by major landlords who abuse the broking fraternity should diminish," Wainstein says.

However, Lindop feels there is very little space available in Braamfontein, which offers the "best of both worlds" as it is not in the CBD nor that far decentralised.

Sanlam Properties decided to start the second phase of its Braampark office park after "considerable" tenant interest was shown. It will cost about R33m and will consist of about 9 300m² of office space. The R60m first phase was completed last year and is fully let.

"We believe the expected upturn ... next year will put us in a good position," says Sanlam's Gert Nel.

Recession is a good time to do some spring cleaning

BDay 27/6/92 (58)

REFURBISHMENT remains an option to property owners and developers, and, when times are tight, is often seen as the most cost-effective option available.

Ongoing refurbishment is a key factor in the maintenance of a good property portfolio, says Anglo American Property Services (Ampros) MD Gerald Leissner.

"Refurbishment rather than expansion has been a key part of our philosophy over the past five years. That is not to say that strategic acquisitions have not been made where the right opportunities presented themselves, but rather the state of the market has been appropriate for consolidation and housekeeping."

Ampros says in order to prepare for the years ahead, when competition for the best tenant mix and emerging new consumers can be expected to increase, quality will be vital.

While Ampros continues to refurbish, with its latest projects including the R6m revamp of the Carlton Centre Office Tower and the R95m refurbishment of Southern Life Centre, a watchful eye is maintained for suitable acquisitions or developments.

Southern Life regional manager Tony Moore says the company has invested about R200m in the refurbishment of a number of its commercial properties.

The Southern Life Centre/Thibult Square development in Cape Town is a prime example of the innovative rehabilitation and extensive upgrading of a delapidated CBD office/retail block, architect Louis Karol says.

The project, which involved co-operation between a public body and private enterprise, was recently awarded a Sapoa building merit award.

The development consists of the 18-storey Southern Life Centre, an office block with a retail podium and the Thibult Square parking garage, public amenities and relandscaping at ground level.

"With the realisation of the St George's Mall as a major pedestrian attraction in the Cape Town city centre, the need for increased parking facilities became apparent," Karol says.

Thibault Square at the northern end of the mall was a likely location, but its redevelopment was complicated by extensive city services under the square.

The ground under the square is mostly solid rock, further increasing the expense of developing underground parking. The municipality was approached with a joint venture to redevelop the square, putting three levels of parking underground and additional rental accommodation on the square as the Pavillion.

In exchange, the municipality would contribute the land and pay 25% of the cost of the garage.

"The redevelopment of both the office block and the square have been heralded as a great success.

Turnaround unlikely before end of 1993

THE property market is unlikely to pick up much before the end of 1993 as it usually lags nine to 12 months behind the general economic cycle, says Anglo American Property Services (Ampros) national leasing manager Grahame Lindop.

"Economic indicators show that the economy has not yet bottomed out, so to say the market will improve by the end of next year is starting to look optimistic and it could only be in 1994," he said.

However, past experience has shown that when the turnabout comes, it will happen very quickly.

As any upturn is related to supply and demand, an accelerated demand for space will see the supply of office space dry up. "Only then will the market turn as demand will outweigh supply," says Lindop.

BDay 29/6/92

Opportunity

58

What normally happens is that as the economy improves, companies tend to decide to expand at the same time, which sees a rapid take up of space and a huge rise in rental levels.

"An opportunity presently exists for the small developer to start putting up new buildings in anticipation of increased demand by the time the building comes on stream. Success in this field is all a matter of timing," he said.

The CBD markets are generally performing better than the decentralised markets, but are still not strong performers.

Braamfontein gives tenants the "best of both worlds" as it offers tenants easy access to both the Johannesburg CBD and the decentralised areas.

Bank to tighten regulations

58

TIM MARSLAND

THE Reserve Bank is planning to tighten up regulations governing liquid assets held by commercial banks.

The proposals are contained in a discussion document circulated by the Bank to commercial banks.

Analysts said on Friday that if the plan was implemented, commercial banks' own bankers' acceptances (BAs) would not qualify as liquid assets — only cash and government paper would qualify.

However, the Bank believes it should be possible to cut to 12% the ratio of liquid assets commercial banks have to hold against their short-term liabilities. This 12% will include a mandatory 1% cash element. At present the liquid asset requirement is 20% of liabilities and it has to contain a 4% cash element. A further 1% cash reserve must be held at the Bank.

BDay 29/6/92

The plan is expected to be implemented in the next few months.

An analyst said that in effect, only government-guaranteed paper with a maximum three years to maturity would qualify as a liquid asset and the step would make it easier for banks and the Reserve Bank to safeguard investors' interests.

The plan's effect on the money market would be minimal because of its lengthy lead-up time, he said.

Another analyst said dropping liquid

☐ To Page 2

Bank

BDay 29/6/92

58

☐ From Page 1

BAs from the liquid asset component could hit the investment market for the paper.

He expected the discount between the liquid and non-liquid BAs to close, with the liquid rate drifting up to meet the non-liquid instrument.

A BA borrowing covering an identifiable, once-off underlying transaction which is self-liquidating is regarded as a liquid BA. It has a maximum term of 120 days, and can be rediscounted for cash with the Reserve Bank. A non-liquid BA covers only accommodation finance and has no specific underlying transaction. It can extend for any period and cannot be rediscounted for cash.

An analyst said lowering the cash component in the regulations on liquid assets would benefit merchant banks which have a small retail base and consequently need little or no cash

The Bank has also proposed a simplified system through which it accommodates banks' cash shortages.

The plan is to have two rates of lending The first would be at the Bank rate and only Treasury bills, Reserve Bank bills and Land Bank bills would qualify as security for these loans. A higher rate would apply for loans taken out against other eligible securities, such as non-liquid bills of public-sector bodies.

● See Pages 3 and 6

Bankers get into sponsorships — art and soul

Bday 29/6/92. (58)

SHARON WOOD

THE media spotlight will fall on Grahamstown on Thursday when 36 000 people from all corners of the country converge on the town for SA's largest arts gathering — the Standard Bank National Arts Festival.

Standard Bank has been the sole sponsor of the festival since 1984, when it took over from Five Roses, and it pumps in several million rand a year to keep the show on the road.

But this is just the tip of the iceberg in bank sponsorships. Every year, millions are channelled from the banking industry into art, sport or the environment. Sponsorships are used to market the corporate image of the company concerned, so they tell the public something about a bank's desired image and target market.

Standard Bank's two main sponsorships are the annual arts festival and the world doubles tennis championships. FNB focuses primarily on sport, with support of golf and soccer, and is also involved in the arts and the environment, but under its social responsibility banner.

Nedcor Bank spreads its interests in all areas — the environment, sport, arts and culture. Absa currently has a hodge-podge of interests which it inherited from its previously separate component parts.

Absa plans to develop a more comprehensive sponsorship strategy in the next few years. It has made a start with the announcement of a group sponsorship of the Absa Skins golf tournament. It also holds the biggest sports sponsorship in the industry, through its R3m to R4m annual outlay on the Bankfin Currie Cup.

Business Marketing Intelligence director Johan Grobler explains companies' motivation for spending large sums of money on sponsorships: "In a market where competitive companies offer much the same products and services, sponsorships can play an important role in distinguishing your company from the others in terms of public awareness.

"Furthermore, on a rand-for-rand basis, it has been shown that sports sponsorships in particular can be as good, and often much better, than corporate advertising."

But he warns that the company must stick with the sponsorship for a long time if it is to get its money's worth. "If it is willing to put enough money into it and back it up, the sponsorship will do better than advertising," he adds.

However, a disadvantage with a sponsorship compared with advertising was that the company could not spell out a message. Therefore it was important to analyse the target market of the sponsorship and the numbers it would reach.

"The reason for the emphasis on sports sponsorships is that both black and white South Africans love sport, and it is seen as uplifting the community."

In a survey in which people were asked whether companies should plough money into sponsoring sport, 65% to 85% of the respondents said they should, said Grobler.

There is virtually no overlap in the type of sport each bank sponsors, with Standard Bank concentrating on tennis, FNB on golf and soccer and Nedbank on athletics. "Each company tends to stay out of the others' turf, and therefore they concentrate on different sports," said Grobler.

FNB senior GM Norman Axten agrees that banks are territorial when it comes to sponsorships, and adds that a reason for FNB's low profile in the arts is Standard Bank's firm entrenchment in the field.

Nedcor Bank communications executive GM John McCall likens the bank's sponsorship strategy to catering for all aspects of the human condition — sport for the body, art for the mind and the environment for the soul.

This is reflected in its participation in the Barcelona Olympics, the funding of various activities at the Market Theatre and its contributions to the Green Trust.

But at a time of economic recession in which business, including the banking industry, is cutting costs, the question arises whether banks will continue to plough such large sums into sponsorships.

Standard Bank group public affairs consultant John Gaunt recently said: "The funding of arts, like sponsorship in general, is under pressure because of the recession and because SA's social priorities are changing.

"Budgets for sponsorship, and especially social responsibility related expenditure, are already under heavy pressure and the economic portents are not good. The arts are going to have to work harder and be more creative in finding funding."

However, throughout the banking industry there is a clear understanding that the benefits of sponsorships will materialise only if the institution stays with the event for a number of years.

Axten says FNB will definitely maintain its sponsorship role, and may even consider increasing it

McCall regards money spent on sponsorships as an investment and not an expense.

"We get involved in mutually beneficial sponsorship and there is a direct business relationship between what we are doing and what we are spending "

Nedcor's involvement with the Green Trust, in which it makes a contribution of R5m in payments of R1m a year, brings the bank more business through its "affinity products" — savings accounts, credit cards and cheque books. Each time a transaction is done on these accounts there is a direct contribution to the Green Trust from the bank's profits "This is directly business-generating and the bank can measure precisely what benefit it is getting," says McCall.

Despite the difficulties ahead, the sponsorship show will go on — as long as South Africans remain glued to their television sets watching the country's teams re-enter international sporting arenas; as long as thousands flock to the arts festival in Grahamstown each year, and as long as the fight to limit man's damage to the environment continues to gain momentum.

BOOKS

Horwood takes top bank post as Barend withdraws his nomination

Bday. 29/6/92.

ALAN FINE (58)

THE planned appointment of former Finance Minister Barend du Plessis as president of the council of governors of the Development Bank of Southern Africa was scrapped last week, after political opposition to the appointment.

At its meeting on Friday, the council — comprising government representatives from SA and the TBVC states — instead reappointed Prof Owen Horwood to the post for a tenth term.

Horwood had already informed the council of his wish to retire, but was prevailed upon to stand again after Du Plessis's withdrawal. Bank sources said the Du Plessis nomination was on track as late as Thursday afternoon.

The council also appointed Horwood chairman of the board of directors — a post held by Simon Brand until his death in January. The IDT's Prof Wideman Nkhulu was appointed vice-chairman, and André la Grange was confirmed in the post of CE, also previously held by Brand.

New members of the board — which consists of development specialists — include two men sympathetic to the ANC — community leader Dr Nthato Motlana and Kagiso Trust director Eric Molobi.

In a statement on Friday, the SA Communication Service said Du Plessis had requested President F W de Klerk to withdraw his candidacy for the post, and to relieve him as a governor of the bank, a position he has held for some years.

The statement said the "overwhelming majority of those involved supported his candidacy, but full consensus could not be achieved among all the member countries in the preceding negotiations.

"In view of these circumstances, Du Plessis indicated that he was not prepared to accept the position since he did not wish to see the tradition of nomination by full consensus being broken."

Earlier in the day it became clear that the Transkei government was the main obstacle to Du Plessis's appointment.

Sapa reports that military leader Maj-Gen Bantu Holamisa had said his government "strongly objects" to the proposed appointment.

Southern Life to launch "socially responsible" trust

(58)

STAR 30/6/92

By Sven Lünsche

Southern Life will launch a "socially responsible" unit trust tomorrow with investments limited to about 60 companies on the stock market.

The new fund — the Southern Pure Specialist Fund — is aimed at investors "whose moral code and ethical values prohibit investment in certain industries," said general manager, investments, Shamsodien Pather.

In particular the investments will be aimed at the Muslim and Jewish communities, as well as environmental groups.

Mr Pather outlined the range of shares which would be excluded from the portfolio of the new fund:

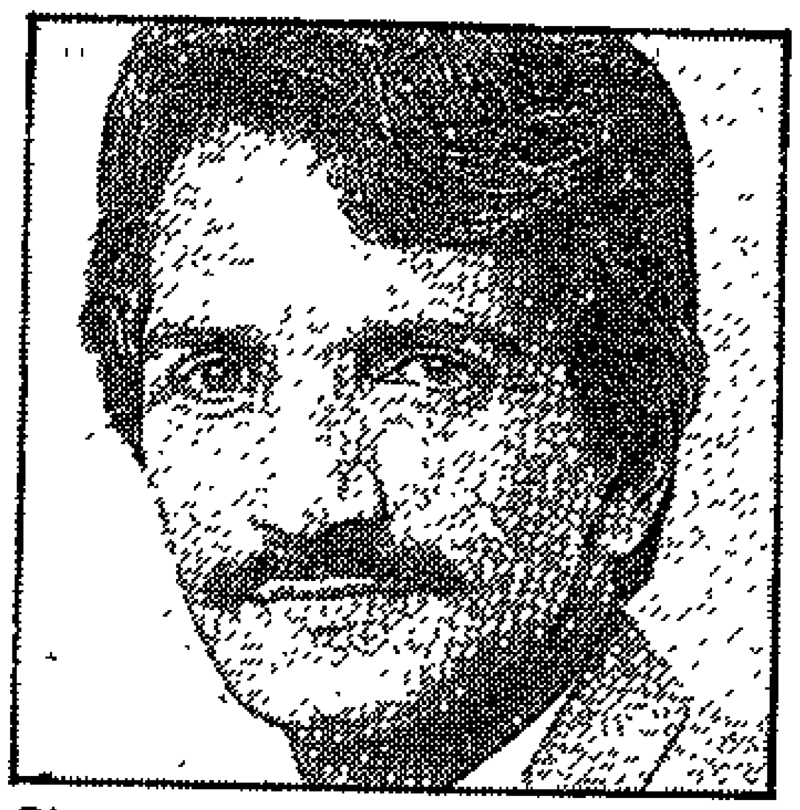
- Financial institutions which dealt in interest-bearing instruments, namely banks and life assurers.
- Companies whose main products were liquor and tobacco, and hotels, if they distributed liquour through their outlets or if they were involved in gambling.
- Distributors of pork, both at wholesale and retail level.
- Companies with a poor environmental track record.

Mr Pather said this selection criteria would exclude many blue-chip stocks and limited the number of shares in which the fund could invest to about 60, but he was confident that the fund would not underperform relative to the unit trust industry.

STAR 30/6/92

The fund's liquid assets will be held with institutions which practice interest-free banking. So far only two banks in South Africa comply with this criterion — the Islamic Bank and the Albaraka Bank, which was launched this week.

The earnings derived from these banks will be treated by the Registrar of Banks as a taxable dividend, but will be taxable only if the income exceeds R2 000 a year.



Shamsodien Pather . . . confident of performance.

Mr Pather stressed though that the fund's liquiditiy level would be well below that of other unit trusts, "to limit the lower income received from the cash content of the portfolio".

He said Southern had done research for more than two years and there was substantial demand for a fund of this nature.

Bank rate cut

(58) STAR 30/6/92

By Derek Tommey

Acting on evidence that consumer price increases are slowing down the Reserve Bank yesterday reduced its Bank rate from 16 to 15 percent.

This is good news for hard-pressed businessmen who can expect a similar cut in their overdraft rates.

The Reserve Bank took the decision to cut the rate late yesterday afternoon after it was informed by the Central Statistical Service that the inflation rate for May had fallen to 14,8 percent from 15,6 percent in April.

The CSS published the inflation figures this morning.

There was no immediate response from the commercial banks. But analysts are confident they will reduce their prime rates and other lending rates in line with the lower Bank rate.

The commercial banks' prime overdraft rate is now 19 percent — after reaching 21 percent in 1990 and part of 1991.

A cut in prime to 18 percent would reduce by about 5,5 percent the cost of borrowing money from a bank.

The banks have already announced a cut in mortgage costs from 19 percent to 18 percent, which takes effect tomorrow.

The reduction in the Bank rate was not unexpected in the light of the latest money supply figures.

These are an indication of the level of demand in the economy, and they show that it has been contracting fairly sharply.

The percentage increase in the money supply, year-on-year to the end of May, was 7,14 percent, compared with 11,2 percent growth in the 12 months to April.

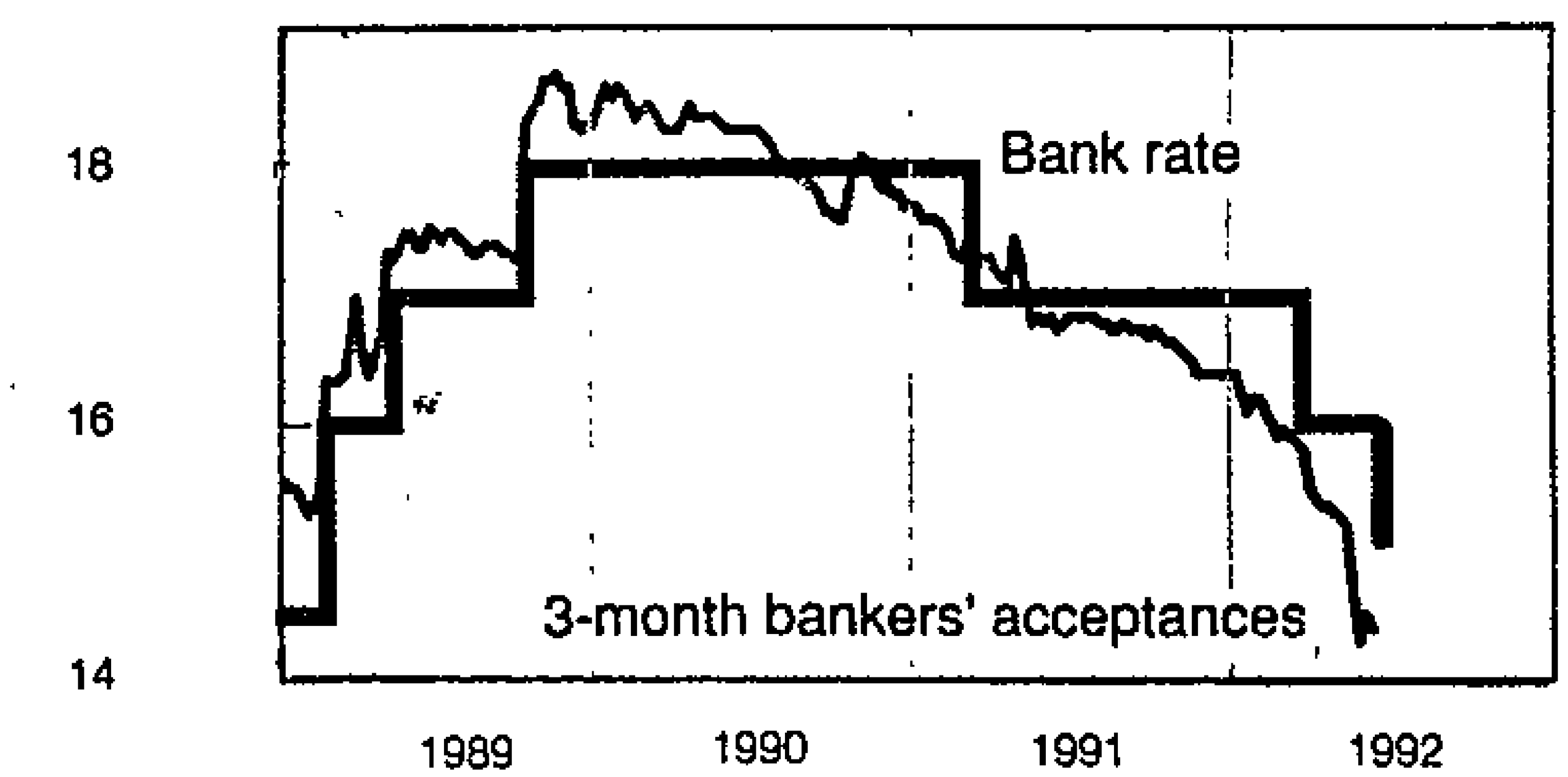
This percentage is only slightly above the Reserve Bank's bottom limit of seven percent for monetary growth this year and R17 billion below the Bank's upper limit of 10 percent.

The sharp fall in the money supply growth rate clearly shows the economy is in need of a stimulus. It also shows it could comfortably take another R17 billion in demand.

If the June figures show a further fall in the rate of money supply growth, then another cut in the Bank rate, prime rate and mortgage rates could be on the cards soon.

At the end of March, the banks had loans and advances, including mortgages outstanding, of R165 billion.

A one percentage point reduction in the rate of interest on this money, will save borrowers about R1,6 billion a year.



The drop in the bank rate follows the downward trend of the money market rate.

Economic analysts cautiously welcomed the Reserve Bank's reduction in the Bank rate last night, but remained pessimistic about its impact on economic growth, reports Sapa.

Standard Bank group economist Nico Czypionka said the reduction alone would not help the economy, as factors like the drought and investor confidence had to be considered.

Old Mutual chief economist Dave Mohr said the reduction would help some sectors of the economy hard-hit by the high-interest rate policy.

Prime expected to follow suit

Stals cuts Bank's key interest rate

BDay 30/6/92. (58)

HILARY GUSH and
SYLVIA du PLESSIS

THE Reserve Bank yesterday signalled a one percentage point cut in interest rates by announcing a one-point drop in its Bank rate to 15%, effective today.

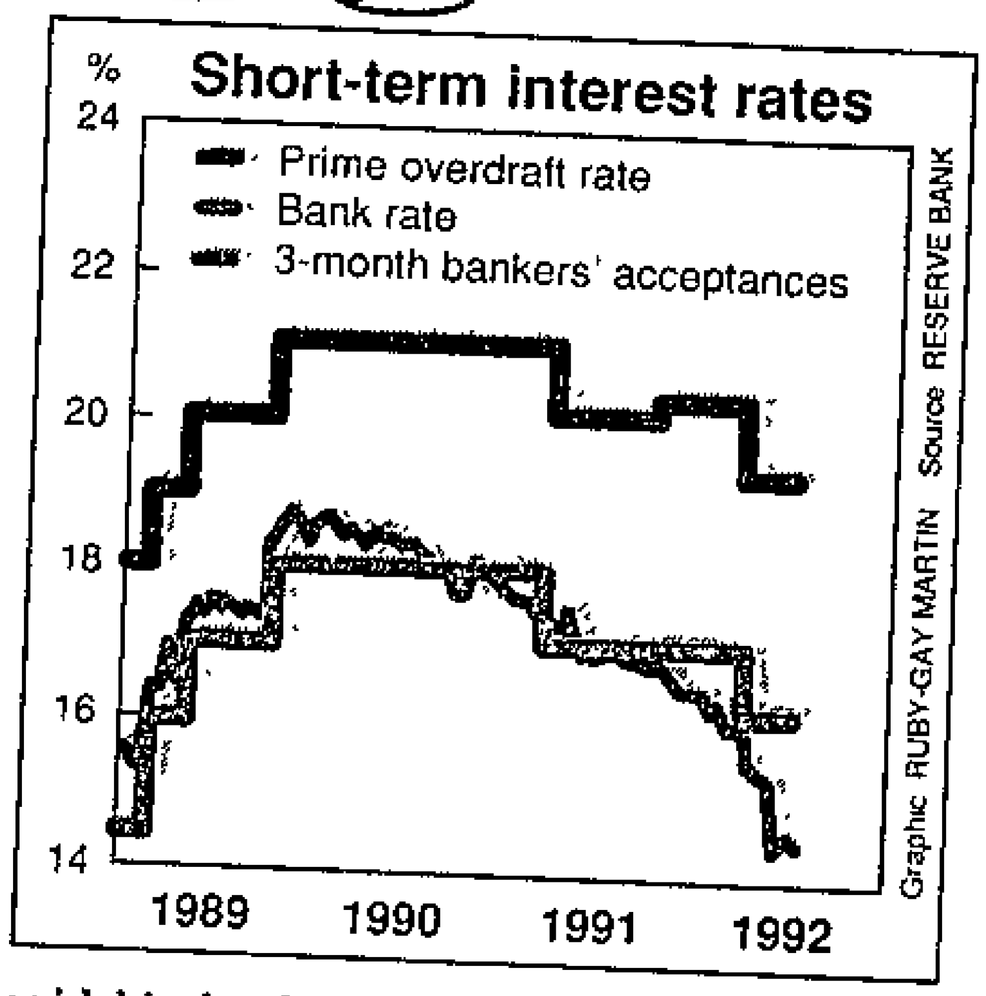
Bank rate, the rate at which the Bank finances the banking system, had stood at 16% since the last one-point reduction in March. Commercial banks indicated yesterday that prime overdraft rates, currently centred on 19,25%, would quickly match the cut in official rates, although mortgage rates were not yet expected to follow suit.

The cut follows a build-up of liquidity in the money market as the worsening recession has pruned consumer spending and eroded demand for credit.

RMB economist Rudolf Gouws described the cut as "wholly appropriate given the recent deepening of the recession, the very much lower underlying rate of inflation, the sharp fall in the money supply growth rate and the improvement in gold and forex reserves".

"It does not signal a deviation from the more conservative and medium-term orientation of monetary policy as it has evolved under Reserve Bank Governor Chris Stals," he said.

Nedcor Group CE Chris Liebenberg, who



said his bank would formally respond to the Bank rate drop later today or tomorrow, described the move as "obviously to be welcomed, especially by companies and those with debt".

"It will be welcomed by the business community in general as an act that the Reserve Bank understands the tight business and economic situation in which organisations find themselves.

"It will also be viewed as an act in which the Reserve Bank, certainly, is indicating that it wants confidence back in the market. There is a decided lack of business

☐ To Page 2

Rate cut

BDay 30/6/92 (58)

☐ From Page 1

confidence right now, due to both economic and political factors.

"It is also hoped that the cut indicates that the inflation rate has come down."

Gouws said he expected May CPI data, due for release today, to reflect a decline in the rate of year-on-year inflation growth to about 15% from April's 15,6%.

Liebenberg added that the Bank rate cut also "opens up the question" of savings accounts and fixed deposits. "There will be pressure for further rates cuts there."

But while overdraft rates would probably be adjusted in line with mortgage rates, it was unlikely there would be a further cut in mortgage rates , he said.

Gouws said the rate cut was unlikely to hold any immediate benefits for the consumer. "It will do absolutely nothing directly for the economy. Even at this stage, households are simply not in a position to go out and borrow heavily to fund new purchases of consumer goods. (The cut) will also not save cash-strapped companies from liquidation.

"However, it does start to lay the foundation of an economic recovery later this year or in early 1993, if the political situation does not deteriorate further."

Nedcor Bank chief economist Edward Osborn welcomed the move, which he labelled surprising in light of uncertainty surrounding the CPI. He believed the May CPI might be lower than the Nedcor 15,2% forecast. There was no danger of stimulating the economy through the downward movement, as credit demand was weak.

Osborn expected an immediate drop in the prime rate, while he believed a downward correction in mortgage rates would be delayed until about August.

FNB senior GM Viv Bartlett said the announcement was a little earlier than expected. "It follows the low increase in May money supply growth," he said, "and sounds like a good forerunner that May CPI will be down on April's figure."

Bartlett expected prime rates would move down immediately. He doubted whether home loan rates would be cut as "banks have already anticipated the Bank rate reduction".

JSE chairman Humphrey Borkum said the stock market would welcome the news as it had been anticipating and looking forward to it for some time.

Money supply targeting meaningless in SA

BDay 30/6/92 (58)

NEIL MARTIN

THE targeting of money supply and combating inflation have been advanced as reasons for not lowering the bank rate. In First World terms it seems logical that interest rates should be used to achieve these objectives. In SA, however, because of our large Third World component, this might not achieve the desired objectives.

Real money supply is significantly affected by the informal sector, which has been estimated by many economists as accounting for somewhere between 15% and 40% of GDP. By and large this sector bypasses the banking sector, with the result that the overlooked component of money velocity of this portion of money supply is significantly lower than in the First World component.

We are therefore overstating the level of money supply, because we have two money velocities in the system.

Very broadly speaking, assuming the informal sector accounts for about 27% of total GDP, and also assuming that this sector is a non-user of the banking system to the extent of, say, 60%, then the effect is 0,6 x 27 = 16% — the money supply figure might be overstated by as much as 16% given these assumptions. If we take the extreme cases of the informal sector representing 40% of the economy and that it does not use the banking sector at all, then money supply is overstated by 40%.

The targeting of monetary aggregates therefore becomes meaningless until we can accurately measure the informal sector for size and inherent money velocity.

Combating inflation through interest rates also appears to be problematic in an inherently inflationary economic structure. These inflationary tendencies are attributed to:

☐ The many departmental duplications — and even multiple governments — being supported by SA's tax money; and

☐ The state expenditure needed to eliminate historical gaps between population groups.

In addition to this, the only way the man in the street benefits from a rate cut is on his housing bond.

Interest on his other liabilities is usually kept at levels above 20% (a common problem with the US banking sector as well). The major variable borrowers, therefore, are the larger institutions, which appear to be able to borrow money at rates well below prime.

This would seem to indicate that money supply targeting and the use of interest rates to control inflation are currently a waste of time.

In the first instance we need to measure our economy more accurately. In the second, we need either to eliminate the imbalances in social expenditure or accept them and work around them. Until we do, we should be looking at least to stimulate some growth in the formal sector before the informal sector comes to account for 100% of GDP.

The authorities' approach to this problem suggests that they perceive the informal sector to be an insignificant part of the whole economy. This would appear to be an example of "ostrich" thinking.

The authorities should take a walk out on the streets to see how the hawker phenomenon has proliferated just in the past year, and this is merely one part of the informal sector that has mushroomed; there are many, many more.

How do we combat this problem? If we wish to continue using the technique of money supply targeting, then we need to have a much better idea of the size of the informal sector. If that is significant, we then need to measure the velocity of money in that sector. If the velocity is different from that of the formal sector, we can develop a model to measure the real money supply, and this can be targeted.

Interest rates? The answer to this is much easier than the money supply question. Interest rates will control the economy only when the application of those rates is applied equally across all markets.

In SA we have forced the man in the street to be interest-rate insensitive by making him pay penal rates at all times, while large institutions are operating on borrowings paying less than prime.

In other words, the relationship between the cost of borrowing for the man in the street needs to be closer to that of the larger institutions, otherwise we will experience the problem that is occurring in the US today. Deposit rates are at about 3% to 4% while borrowing rates are more than 16% for the average man. The borrowing rate is prohibitive, while large institutions can fund their activities relatively cheaply, forcing imbalances on to an already unbalanced structure.

Further, in SA we are going to have to address socio-economic problems. This will be inflationary, as will the continued existence of the top-heavy public sector.

Since we have little choice but to address the social issues, the only option available is to redesign the bureaucratic structure to eliminate replications.

Once we have done all of this, we might be able to use First World techniques to manage our economy.

☐ **Martin is a dealer at Turner Paterson Faure Inc.**

LETTERS

...that Mr Johann Rupert thinks he is

High rates take their toll on lease credit financing

58 SHARON WOOD

HIGH interest rates took their toll on lease credit financing, which shrank by R600m to R31bn in the first quarter this year, Reserve Bank figures show.

Nedfin CE Christopher Beatty says it is the first drop in instalment credit and leasing business by financial institutions in recent years, and comes despite government sector efforts to encourage capital investment.

"Amendments to the Credit Agreements Act have yet to work their way through. The slight relaxation signalled by these changes won't really influence the figures until next quarter. However, I do not anticipate any major impact," he adds.

A Nedfin study of credit-leasing business at the banks in recent years shows 27,7% growth in the year ended March 1990, while in the year after growth was down to 15% and this year it was halved to 7,4%. B/Day 30/6/92

"Interest rates were kept high throughout the period. Inflation remained stubbornly high as well ...," he says.

The DI 900 analysis provides further ammunition for economists who argue that high interest rates are not effective in bringing down inflation.

This may encourage some observors to step up calls for relaxation of the interest rate climate.

"It is apparent that certain parts of the economy are hurting badly and that consumers and businesses are reducing debt where possible and delaying new commitments," Beatty adds.

The sectors feeling the pinch are agriculture, mining, the motor industry, housing and construction, he says.

to SA getting into the 1994 World Cup as a late entry.
It is not clear how the latest turn of events will affect the Fifa decision. — Staff Reporter and Sapa-Reuter-AP

doused the national flag outs flying it at half mast, to sym

● Flag ripped down — Page 2

Bank rate cut to 15 percent

CT 30/6/92 (58)

Own Correspondent

JOHANNESBURG. — The Reserve Bank yesterday announced a one percent drop in its bank rate, from 16% to 15%, and this could signal another cut in interest rates.

The bank rate, the rate at which the Reserve Bank finances the banking system, had stood at 16% since the last one-point reduction in March.

Commercial banks indicated yesterday that prime overdraft rates would quickly match the cut in official rates, although mortgage rates are not expected to follow suit yet.

The cut follows a build-up of liquidity in the money market as the worsening recession pruned consumer spending and eroded the demand for credit.

Rand Merchant Bank economist Rudolf Gouws described the cut as "wholly appropriate given the recent deepening of the recession, the very much lower underlying rate of inflation, the sharp fall in the money supply growth rate and the improvement in gold and forex reserves".

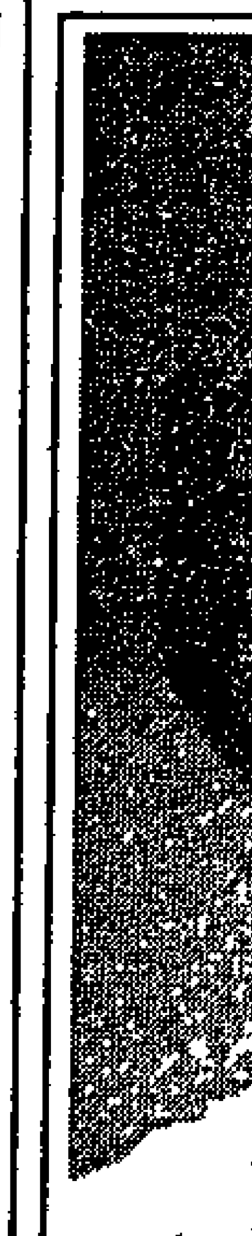
Chief executive of the Nedcor Group Chris Liebenberg, described the move as "obviously to be welcomed, especially by companies and those with debt".

"It will also be viewed as an act in which the Reserve Bank is indicating that it wants confidence back in the market. There is a decided lack of business confidence right now, due to both economic and political factors."

But while overdraft rates would probably be adjusted in line with mortgage rates, it was unlikely there would be a further cut in mortgage rates, Gouws said.

He said the rate cut was unlikely to hold any immediate benefits for the consumer. "It will do absolutely nothing directly for the economy. Even at this stage, households are simply not in a position to go out and borrow heavily to fund new purchases of consumer goods. (The cut) will also not save cash-strapped companies from liquidation.

"However, it does start to lay the foundation of an economic recovery later this year or in early 1993, if the political situation does not deteriorate further."



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Sage property funds hold up well in depressed market

STAR 30/6/92.

Property Staff (58)

The two property funds in the Sage stable have managed to show a combined net income of R76 million, in spite of the continued decline in economic activity which pushed up vacancy levels and depressed rentals in all sectors of the market.

However, Sage Property Trust Managers (SPTM) reports after-tax profits in the year to end March of R361 217, compared with R675 609 in the 15 months to March 1991.

The annual report shows that gross rental income from properties in the CBD Fund increased 13,4 percent in the review period. The fund is primarily invested in office and retail properties located on the Witwatersrand and in other major centres — including a portfolio of 13 properties leased to OK Bazaars.

Property income rose 11,1 percent, despite increased assessment rates and higher provision for bad debts. However, this was offset by a substantial reduction in interest income.

A final dividend of 17c a unit has been declared, making a total for the year of 31,03c.

In line with SPTM's belief that the trend for businesses to relocate to decentralised office nodes around Johannesburg, it is now negotiating to buy a prime, fully let office complex in Sandton.

Meanwhile, the company anticipates taking part in the pedestrianisation of Eloff Street, Johannesburg, between De Villiers and Pritchard streets, a plan now approved by the city council.

Gross income from properties in the second SPTM fund, Pioneer, rose 14,9 percent in the year to end March, while expenses increased only marginally due to a preventative maintenance programme.

However, interest income declined 24 percent, due to development activity carried over from the previous year and a decline in cash balances, as well as a reduction in interest capitalised during construction.

Consequently, total net income rose just 5 percent, to R38,4 million. A final dividend of 17,4c a unit has been declared (total 34,46c).

The Pioneer Fund has a portfolio of some 270 industrial buildings and significant land holdings on the Witwatersrand, valued at a total of R442,9 million, or 398 cents a unit.

The management company says the industrial sector experienced another year in which rental levels fell in real terms, but that a positive feature this market is that it has not been over-supplied by new developments to the same extent as other sectors.

The fund has only one development under way — a mini-factory complex at Benrose Extension 14, Johannesburg, which will cost some R5,3 million.

However, a total of R2,2 million was spent during the year under review on improvements to its portfolio.

Bank rate drop won't cut bonds

STAR 30/6/92

Finance Staff 58

The Reserve Bank announced a cut in Bank rate yesterday from 16 to 15 percent after learning that the inflation rate had dropped below 15 percent in May.

It is unlikely the cut will lead to reductions in bond rates; banks and building societies have announced a one percent cut from 19 to 18 percent, effective from tomorrow.

It is good news for hard-pressed businessmen and consumers, who can expect a similar cut in their overdraft or credit finance rates with commercial banks likely to reduce prime lending rates and other lending rates within the next few days.

Central Statistical Services reported today that the inflation rate in May fell to 14,8 percent from 15,6 percent in the previous month.

Food prices last month still showed an unacceptably high increase of 27,8 percent compared with May 1991.

● See Page 16

FINANCE – GENERAL

1992

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UNISA

DEPARTMENT OF ECONOMICS

Tutorial letter 101/1989

Economics II (ECN201-K)

1. TUTORIAL MATTER
2. INVENTORY
3. COMMUNICATING
4. ASSIGNMENTS: INFORMATION
5. PRESCRIBED BOOKS
6. EXAMINATION PAPERS
7. ASSIGNMENTS 01 TO 05
8. ANSWER SHEETS

UNISA P.616A

COMPANIES

Investec's Metfund wins fight with inflation

MICK ELLINGHAM

METFUND, the Investec group's unit trust, has earned an inflation-beating 19,8% return for the year ended June 1992.

Fund manager Hendrik du Toit said the fund's exposure to the mining sector had been increased, despite the reduction of its Anglo American holdings.

"This action is consistent with Metfund's stated strategy of increasing exposure to commodities and other beneficiaries of an expected US recovery," he said.

In the mining sector, De Beers was partially switched into Anamint on rating considerations, while Metfund's direct gold holding was reduced to around 2,7% of the portfolio through the sale of Vaal Reefs.

"The disposal of Tiger Oats, Shoprite and a portion of the SAB holding is consistent with a move away from consumer stocks," Du Toit said. (58)

It was highly unlikely the SA economy would attain a positive rate of growth during 1992. BDay 1/7/92

"Due to the drought and recently created political uncertainty, the onset of the local recovery is unlikely to commence before 1993," he said.

No clear trend away from CBD for cheaper rentals

B/Day 11/7/92

ANDREW KRUMM

PROPERTY players seem divided on whether smaller companies have established a recessionary trend in moving from prime office and industrial areas to decentralised locations in search of lower rentals.

RMS Syfrets commercial broker Derek Jacques said lower office rentals in Randburg appeared to attract smaller companies from the Sandton, Rosebank and Rivonia areas.

The Randburg office market was characterised by companies requesting lower rentals and less space than the average for the same time last year, he said.

However, Ampros office leasing manager John Maynard said although there were "many good deals for tenants", most would not sacrifice quality for lower rent.

"There are cheaper premises elsewhere, but tenants in A grade buildings are not swopping this for lower rentals in C or D grade office blocks," Maynard said.

Seeff Organisation Holdings chairman Lawrence Seeff said there was definitely a trend for smaller companies to decentralise in favour of lower rentals, mainly for economic reasons due to tight market conditions.

"City landlords tend to be institutions that are presently able to hold out for high rentals. In general, the opposite applies in decentralised areas, where smaller landlords react more to economic circumstances, dropping rentals to fill space.

"However, I cannot say there is a similar trend in the industrial property sector."

J H Isaacs industrial director Wayne Wright said there was a move to keep industrial overheads down, but that relocations were driven primarily by safety considerations.

"Previously company decision-makers lived in the north and located their factories close to home in prime industrial areas like Eastgate and Wynberg."

Now, in the unstable political climate, security came first and companies were relocating away from industrial areas with adjoining townships like Kew's Alexandra, Chloorkop and Tembisa.

"Areas like Nancefield and Devland — close to Soweto — have had no increase in demand for industrial space in the past two years.

"The industrial trend is more of a move to safer areas in the east like Isando and Spartan, where lower rentals also help keep overheads down," he said.

Strydom Park, Kyasands and the northern part of Randburg were also proving popular. However, the discerning tenant would not sacrifice quality for lower rentals and "go for a downgrade building", Wright said.

Metfund yields acceptable return

STAR 1/7/92.

By Stephen Cranston

Metfund yielded a total return of 19,8 percent in the year to June, beating the consumer price index, but lagging behind market leaders such as Guardbank and Old Mutual Investors' Fund.

Fund manager Hendrik du Toit says Metfund outperformed the JSE overall index, which he calculates returned 13,7 percent over the past year.

Mr du Toit says the optimism surrounding the Yes vote in the referendum has given way to a sombre mood because of the continuing violence and a worsening political and economic scenario.

Mr du Toit says: "It is highly unlikely that the economy will attain a positive growth rate in this calendar year."

58

Slump

He says the equity market has of late started to take note of the prolonged slump, which has for some time been reflected in low money market rates.

The industrial index, which rose by almost eight percent in the first quarter, moved sideways in the second quarter.

The overall index, which rose by almost three percent, also looks vulnerable.

Metfund cut its exposure to the consumer sector, disposing of Tiger Oats and Shoprite, giving a vote of no confidence to the management teams headed by Clive Wolpert and Whitey Basson respectively. It also disposed of a portion of SA Breweries and Anglo American.

There was further accumulation of the ferrochrome producers Samancor and Midwits.

Life Offices come to the aid of the under-privileged

STAR 1/7/92

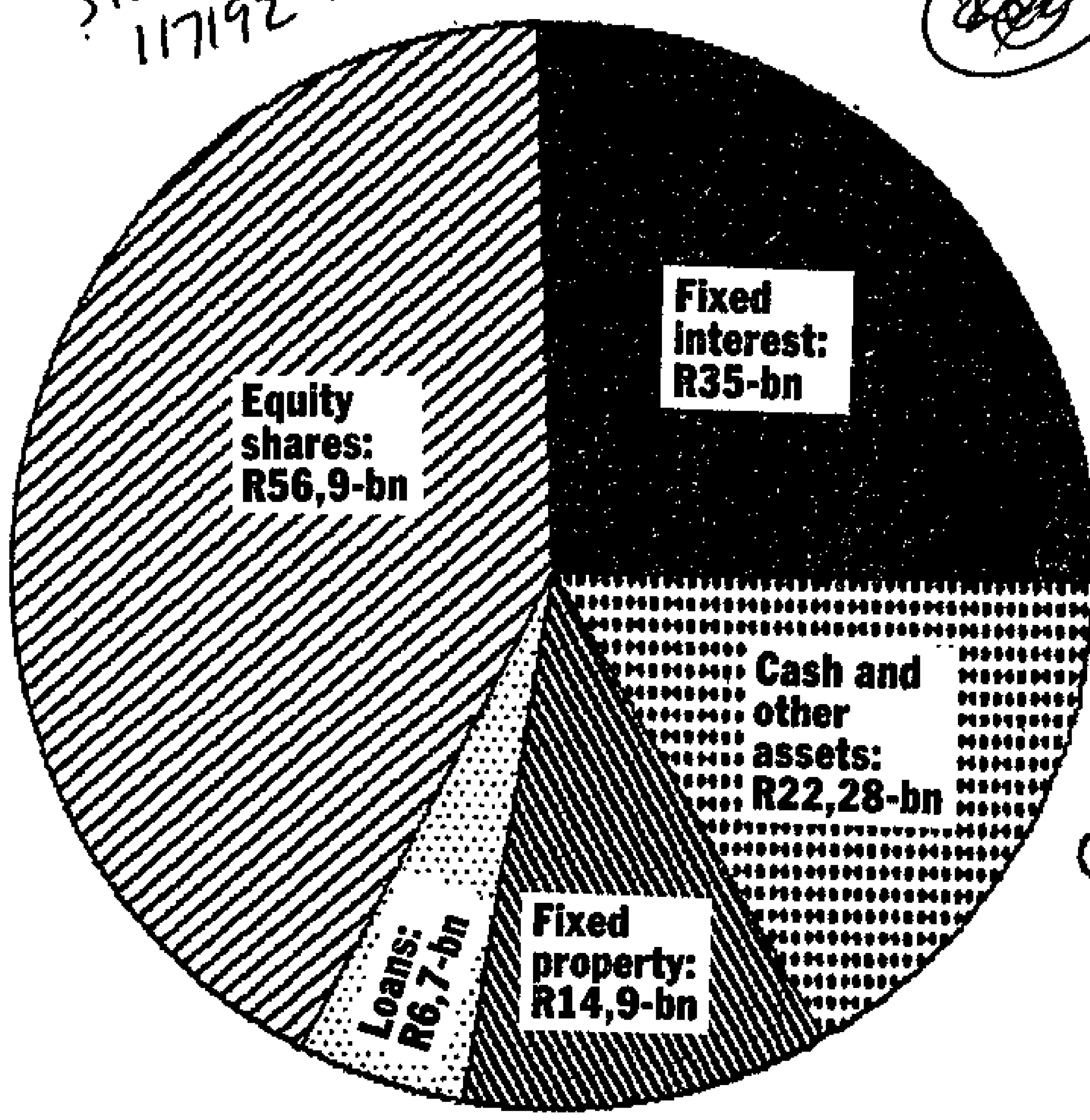
By Derek Tommey

The life insurance companies have formed an investment development unit to assist in projects helping the under-privileged obtain funds from the life industry.

But companies made it clear yesterday they did not intend simply to hand out cash to any supplicant with a plausible case.

Finance would be forthcoming for projects only if they satisfied reasonable investment criteria, they said.

Louis Shill, chairman of the Life Offices' Association, said the task of the investment development unit would be to evaluate and develop investment projects benefiting deprived communities, while providing investors with security and adequate long-term returns.



Assets of the Life Offices total R135,7 billion.

Criteria

Mr Shill said it was not possible to say how much the insurance companies would invest through the unit.

"The only limitation will be the ability of a project to satisfy reasonable investment criteria.

"If acceptable projects are made available, the money will be forthcoming."

He said that Barry Adams, former managing partner of Arthur Andersen & Co, and currently chief executive of ABR Corporate Finance, and David Geary, a former Sanlam executive, and until recently managing trustee of an investment trust, had started work at the unit.

They would initially set investment criteria and establish project ratings.

It was intended that initial investments would be in the areas of greatest need, such as housing, education, health and related infrastructure.

The unit would also actively seek investments to create sustainable employment in the commercial and industrial sectors.

The move is seen as a reply by the life offices to the continual criticism by labour unions and political groupings in recent years that they have not used any of their billions in investment funds to benefit the socially and economically deprived communities.

Mr Shill strongly denied that the insurance companies had not helped the under-privileged.

He said the life insurance companies had already committed some R10 billion to social development projects.

It also had some R45 billion invested in the broader infrastructural sector.

This excluded their substantial investments through shares, properties and other instruments which provided the country with long-term development capital.

The unit was a more obvious manifestation of the life insurance industry's more intensive support for development investments which would provide both social upliftment and adequate returns, he said.

"Given the current socio-economic situation in South Africa, the life insurance industry feels that a more focused approach is necessary, if it is to assist in developing a phase of societal and economic growth."

The unit has been under development for some months.

Extra-parliamentary groups such as the ANC, PAC, IFP, Cosatu and Nactu, together with the Government, have been involved in the development of the unit, or have been kept informed about its development.

58

Banks cut prime, retain bond rates

HILARY GUSH (58)

THE major commercial banks yesterday announced a drop in their prime lending rates to 18,25%. However, they did not reduce mortgage rates following the one percentage point cut in Bank rate on Monday.

Standard Bank was the first to move, effective from next Monday. Absa, FNB and Nedbank were quick to follow suit.

FNB is to drop its rate before the other banks, on Saturday.

Falling money market rates in May resulted in banks announcing a series of one percentage point cuts in home loan rates from 19% to 18%, some of which take effect today.

Absa domestic treasury GM Fanie Leach said its home loan rate was not being adjusted in the wake of the latest Bank rate cut, but was under continuous revision. BDay 1/7/92

The last bond rate cut was an indicator of increased liquidity in the market and low monetary demand, he said.

FNB senior GM Norman Axten said mortgage rates were cut in May in anticipation of a further Bank rate cut.

In October last year clearing banks' prime rates were increased by a quarter of a percentage point to offset a government tax on financial services.

Money market rates dropped yesterday in line with the Bank rate cut.

Dealers quoted six- and nine-month NCDs at 13,5% after trading at 14,4% on Monday, while rates on 12-month NCDs fell to 13,5% yesterday from Monday's 14,35%.

The 90-day liquid BA rate dropped from 14,3%-14,5% to 13,8%-14,1%.

Anglo's R176m new head office 'within budget'

PETER GALLI

ANGLO American had remained within budget in spending R176m on its new head office for operating divisions at 55 Marshall Street, alternate director Philip Baum said last week.

The 18-storey building has 28 000m² of usable space and five basement levels with 297 parking bays. The top floor will house a conference centre and auditorium seating 150.

More than 850 staff members from the finance, coal, gold and diamond divisions would occupy the available space from mid-September, three years after construction began, Baum said. BDay 1/7/92

"The development was part of our planning for the long term needs of the corporation, but was also undertaken at a time when the building industry was hard pressed for work and we achieved extremely advantageous prices."

58

While a number of buildings in the area would be affected by the consolidation of staff into the new building, Anglo's 9 West Street building and another of its properties would be sold or rented.

Anglo American Property Services (Ampros) office leasing manager John Maynard confirmed the corporation was looking to either sell 9 West Street for R19,25m or rent out entire floors.

Saficon wants listing moved from motoring to industrial

Bday 1/7/92.

58

EDWARD WEST

SAFICON Investments — with assets of more than R800m after gaining control of Boumat — has applied to change its listing and that of its holding company Sakers Finance and Investment from the JSE's motor sector to the industrial holdings sector.

Traditionally, Saficon was regarded as a motor retailer with only a 32% holding in Boumat. It holds the Mercedes-Benz and Honda franchises in its Cargo group — accounting for 43% of group turnover; Volkswagen and Audi franchises in the Lindsay Saker group (44%); Porsche and Jaguar franchises in LSM Distributors (5%); and other materials handling equipment and motor manufacturing interests.

Saficon's increased stake in Boumat from 32% to 51% subsequent to the March year-end dramatically changed the composition of Saficon's earnings and assets, said chairman Sidney Borsook in the group's annual review released today.

On a pro forma basis as at March 31, 1992, Saficon's consolidated turnover climbed to R2,7bn from R1,5bn while operating profit nearly doubled to R84m from R44,8m. However, because of the greater number of shares in issue, earnings a share slipped to 50c from 53c a share.

For the same reason, Saficon's net worth fell to 572c from a pro forma 586c a share. The pro forma balance sheet showed that gearing would drop to 32% from 42%. Borsook said Saficon directors had become actively involved in determining the strategic direction of Boumat.

Borsook also said that Saficon had abandoned its traditional practice of providing shareholders with forecasts based on specific assumptions, because the recession, political undertainty and the threat of mass action made it virtually impossible.

However, the group still aimed to improve profitability and productivity in the year ahead, he said.

The group forecast that trading in the motor industry would remain difficult in the next six months with monthly sales expected to improve only during the latter part of 1993.

Vehicle prices were expected to increase above the CPI this year.

Office syndication takes off

PETER GALLI

(58)

TIMELIFE Property Investments has been established as a subsidiary of Timelife Insurance to manage its syndications and resale scheme.

B/Day 1/7/92

Timelife Insurance MD Bill Haslam, speaking at the opening of McCarthy House after a R7m subscription sell-out, said the move showed there was a place for the small man in the office syndication market.

"With Timelife's establishment of a guaranteed syndication resale scheme, syndication is now a viable option for smaller private investors," he said.

Three major financial institutions had given Timelife a written undertaking that they would each buy up to 10% of the property value from sellers in any one year.

This meant an investor would be able to sell his syndication with relative ease after a year, Haslam said.

Social investment unit formed

LINDA ENSOR (58)

CAPE TOWN — The Life Offices Association (LOA) has formed an investment development unit to tackle the issue of socially desirable investments to provide life assurers with security and an adequate long-term return on funds.

The unit will be run by ABR Corporate Finance CE and former Arthur Andersen MD Barry Adams and former Sanlam executive David Geary who will investigate, evaluate and develop investment projects to benefit deprived communities.

The unit has been under development for some months and government and extra-parliamentary groups such as the ANC, PAC, Inkatha, Cosatu and Nactu have either been involved with or been kept informed of the LOA's plans.

The ANC had indicated that if the life assurance industry could not voluntarily find ways to channel funds into socially desirable investments then prescribed assets might have to be reintroduced to force them to do so, LOA chairman Louis Shill said yesterday.

It was intended that initial investments would be in the areas of greatest need such as housing, education, health and related infrastructure. The unit would also actively seek investments which created sustainable employment in the commercial and industrial sectors.

Shill said it was impossible at this stage to quantify precisely the magnitude of additional investment expected to be brought about by the unit's establishment.

Probe into syndicate's R160m forex fraud

B/Day 1/7/92 (58)

SHARON WOOD

THE international trade centre of the Standard Bank in Johannesburg yesterday confirmed it had detected a R160m fraud attempt by a major syndicate operating internationally.

A bank spokesman said last night police investigations were under way and arrests were expected shortly.

The fraud attempt was detected at its source in Johannesburg.

The spokesman said controls in the bank's system picked up the forged application for £31m in foreign exchange when the contrived voucher was sent for data capture.

Interpol, the FBI and the police liaison office in London had conducted investigations overseas, he added.

He said the transaction would have been "executed in minutes" had it not been detected.

The attempt, made on June 12, would have been executed through the Society of Worldwide International Funds Transfer system (Swift).

He said the bank was unsure of the number of people in the syndicate but said frauds of this nature usually involved several people.

Swift is a network which enables banks throughout the world to transmit secure, encrypted messages between banks.

The banks overseas were alerted immediately by the Standard Bank, he said. It appeared that the syndicate planned to transfer the money to a bank in Germany, minutes before the bank's closing time, after which the money would have been immediately transferred to the US.

"The Swift system is very secure and has rigorous controls. It is extremely unlikely that anyone will be able to crack the system," he said.

A spokesman for the SAP Commercial Branch refused to comment on the investigation.

Syfrets has designed range for the cautious

BDay 21/2/92 (58)

SYFRETS has designed its latest range of investments to meet the needs of the cautious over-50s investor.

Syfrets investment management division assistant GM Ollie Atkins says new products offer investors security, high returns and a guarantee of the initial capital invested.

"This has become all the more important since the Masterbond affair in which many investors could lose their initial capital."

He says the new range is the first of a series of innovations since the company combined its expertise and resources in the field of investment products with UAL last November.

They include the Guaranteed Performance Trust that locks up a portion of the initial investment in zero-coupon bonds which, on maturity, provide the capital guarantee.

The balance is invested in a spread of Syfrets and UAL unit trusts to provide capital growth. Flexibility is allowed as investors can switch between the different unit trusts.

Other products include the Strategic Investment Plan and the Equity Linked Life Annuity. The former is especially suited to the cautious investor who does not wish to commit his money to the share market at once.

Minimum

"He can place a minimum lump sum of R10 000 into a money-managed account which gains interest at rates not normally available. The investment capital is then paid into Syfrets or UAL unit trusts in equal instalments of at least R1 000 a month over a pre-selected period not exceeding 12 months."

Atkins says the Equity Linked Life Annuity, which represents a serious alternative to traditional retirement products from life institutions, is a growth annuity.

OLLIE ATKINS

Linked to the performance of Syfrets and UAL unit trusts, the annuitant is able not only to decide on the unit trust mix but also on the initial rate of annuity payments.

"Further, on the annuitant's death the balance of the annuity is not lost as in the case of a traditional life annuity but is paid to the beneficiary."

Norwich launches first frail care policy

BDay 2/7/92 (58)

LINDA ENSOR

CAPE TOWN — Norwich Life has launched the first frail care insurance policy in SA as part of its improved package of medical insurance benefits.

Life division GM Robin Sharp said at the launch yesterday that the frail care policy guaranteed the holder cover for his entire life when, as a result of frailty, he was dependent on regular assistance to perform daily activities.

The frail care policy was available as an independent plan with a minimum entry age of 55 years (maximum 75 years). Sharp said the benefit would be a specified tax-free monthly amount which would be determined by the severity of the frailty, defined into three categories: where the person was mobile but required occasional daily nursing assistance; where day-care assistance was required; and where permanent assistance was needed.

At the time of death an additional month's payment would be made to the policyholder's beneficiary to help with funeral or other expenses," Sharp said.

In another new development Norwich Life's Medical Security Plan, which insures against listed diseases or surgical procedures, would now pay a tax-free lump sum up to an increased maximum of R75 000 to offset medical costs.

Expansion 'promotes cash flow'

58

Business Day 2/7/92

SHARON WOOD

STANDARD Bank's recent international expansion into the UK will support clients' regional and international business needs and promote money flows between SA and the world economy, Stanbic group MD Eddie Theron says in the bank's latest in-house journal.

"We need a significant international presence if we are to remain competitive, especially now that SA's trading relationships are normalising," he adds.

The bank recently acquired UK merchant bank Brown Shipley and was granted a banking licence for Standard Bank London.

With a banking licence, says Theron, Standard Bank London can offer a far wider range of services to clients than a representative office can.

The treasury operations of the London branch are being expanded and primary trading operations will be foreign exchange, equity and capital markets, derivatives and emerging markets, he adds.

The previous staff complement of 18 is expected to increase to more than 70 by July. Most will be recruited in the UK, but will have SA experience.

The acquisition of Brown Shipley will enable Stanbic to deploy expertise in all major areas of foreign asset management, he says.

The Jersey and Isle of Man operations will complement the group's facilities in Britain, Europe and the Far East.

"The group decided to buy Brown Shipley interests rather than start a new bank as they were already well established in the areas the group wished to enter," Theron says.

Investment for the over-50s

No short cut to wealth, says Fedlife's Ehmke

CHOOSE your investment advisor with care as this could make the difference between financial success or failure. (58)

This is the advice of Institute of Life Pensions Advisers (Ilpa) vice-president Gerard Ehmke, with particular reference to the over-50s.

He says it is not only crucial for people close to retirement because they happen to have substantial sums to invest but because more senior people "do not have time on their side to attempt to recoup losses arising as a result of poor investment decisions".

To ensure money for investment purposes does not fall into the wrong hands, Ehmke, Fedlife's employee benefits deputy GM, offers guidelines on choosing an investment advisor. One should ask oneself:

- ☐ How long have you known him;
- ☐ Is he independent or associated with a sound financial institution;
- ☐ How long has he been in business;
- ☐ Can he adhere to a code of conduct;
- ☐ Can he supply references from satisfied clients;
- ☐ Does the advisor carry professional indemnity cover for the protection of clients; and
- ☐ What are his qualifications?

B/Day 2/7/92

Understands

Ehmke further suggests that the investor ascertains whether he fully understands the nature of the investment or, if not, has it clearly explained — preferably in writing.

"Risk and reward have a direct bearing on each other. Remember, there is no short-cut to wealth — unless you are prepared to speculate. If so, are you able to live if your entire investment is lost?".

Generous pensions trend is easing, says Sanlam

58

B|Day 2/7/92

LINDA ENSOR

CAPE TOWN — The trend towards more generous pension benefits had continued over the last two years, although it had recently tended to level off, Sanlam group marketing GM Francois Marais said yesterday.

Speaking on the release of Sanlam's sixth biennial survey of SA pension and provident funds, he said benefits had improved consistently over the last decade as funds gained from high investment returns.

But this trend was not likely to continue as investment returns were likely to be lower.

The survey covered 330 pension funds and 99 provident funds in the public and private sectors.

Particularly encouraging, Marais said, were steps taken to adjust pension benefits to take inflation into account. The period for determining the average salary on which a pension was based had been shortened — the shorter the period the higher the average salary. About 66% of the funds used a three-year average in 1987. Last December, 68% used the last two years and 31% the last year.

Secondly, the funds were making more generous provision for pension increases after retirement. Of all the funds, 32% granted pension increases on a par with the inflation rate, compared with 12% of them two years ago. The average pension increase between 1987 and 1991 was 11,4%, or about 75% of the increase in the consumer price index, and 80% of funds said they planned future pension increases of 75% or more of the index.

The trend was towards more comprehensive withdrawal benefits. The survey found interest on the repayment of contributions by provident funds was generally higher than with pension funds.

About 67% of provident funds allowed the total employer's contribution or part of it to be paid out at withdrawal, against about 33% of pension funds. Equal benefits for men and women were increasingly being introduced as the gap in retirement ages narrowed. Spouse's pensions were becoming more popular.

Other trends noted included that 11% of funds were considering a switch from a fixed-benefit to a fixed-contribution fund or had already done so, while 27% of companies had recently established a provident fund. There had also been a significant trend to include fringe benefits in pensionable remuneration.

The survey found that 86% of provident funds were based on a fixed-benefit structure with the average rate of employer contributions at 7,5%, compared with over 10% for pension funds. The average member contribution to provident funds was 5,5% compared with 8% in pension funds.

W&A in R118m foreign acquisition

DUMA GQUBULE

INDUSTRIAL holding company W & A Investment Corporation has made a strategic offshore acquisition of an undisclosed scaffolding business for R118m.

Late last night chairman Jeff Liebesman refused to disclose the name of the company or its location. "The matter is still too sensitive," he said.

However, sources said the acquisition was the Kwikform scaffolding business in Australia which was in direct competition with the W & A group. Kwikform is said to have net assets of about R150m.

Liebesman said the deal had been funded by equity and all major future acquisitions would be funded in the same way. The deal would be settled in five tranches, the first of which had already been raised.

The group had, in the past few days, raised R88,5m by way of a placing of 21,9-million W & A 12% "C" unsecured debentures of 400c each and 1-million ordinary shares issued at 400c each with selected SA financial institutions.

Sources said the institutions included Momentum, Sanlam, SA Eagle and Genbel.

The W & A statement said application would be made to the JSE for the listing of the ordinary shares and convertible debentures on July 10 and July 23 respectively.

The statement said the remaining

To Page 2

2/7/92

W & A

Bday 2/7/92

From Page 1

tranches, falling due over a four year period commencing July 1 1994, would be effected from future cash flows emanating from the acquisition.

W & A, through its AAF subsidiary, recently bought a number of scaffolding companies in England and Liebesman said his group was now one of the biggest companies in the world in this sector.

He added it was group strategy to dominate certain world markets where strong growth opportunities had been identified and where entry into the maintenance and service applications of the industry could be seen.

The acquisition would enable W & A to increase product offtake and service overseas markets more effectively.

Little is known about the group's offshore interests, except for UK-based AAF Investments. It is estimated that the group's offshore interests now have a net asset value of between R350m and R400m.

The W & A statement said the acquisition, if it had been effective for the year to December, would have resulted in a 6,86% decrease from 78,7c to 73,3c in fully diluted earnings a share.

58

RMBT is celebrating 130 years in business

6 Bday 2/7/92

ONE of SA's oldest investment groups, Russell Marriott & Boyd Trust, is celebrating its 130th year in business.

The Durban-based financial services and property group, which manages assets worth R1,2bn, has a strong focus on the over-50s group, with 2 600 of its 4 000 clients in this age bracket.

RMBT MD Michael Mun-Gavin says that 10 years ago the company had no more than R60m of client funds under its management. "A major contributing factor to this growth was RMBT's concerted drive in the late-1980s to become a recognised diversified financial services organisation.

"This is in addition to maintaining the strong position it has traditionally held in the property investment market."

The independent company currently administers two equity trusts and acts as portfolio manager to the Natal Building Society fund.

It also manages four listed property trusts in addition to its broader range of financial services activities.

In the space of a few years financial services, including equity portfolio and cash management, have grown from almost nothing to R400m of total client funds under its management today.

Mun-Gavin says RMBT will continue its strong thrust into the financial services market and look to providing more gilt-edged investment options for more senior citizens.

Simple principles are frequently overlooked

6 Bday 2/7/92

OVER-50s should follow some simple but often overlooked financial principles if they are to retire in comfort, says Fincorp (Ernst & Young) financial consultant Vernon Cresswell.

Financial planning is seldom more challenging than when one is at this age, he says.

It is often a time when one must fund tertiary education and when making provision for retirement becomes more demanding.

What exacerbates matters is the lack of certainty in financial markets, he says.

Assuming a 50-year-old is looking at another 10-15 years of a paid career, his current situation could be:

☐ Monthly cash flow is likely to cover expenses with a small surplus;

☐ He almost certainly will own his own home;

☐ He should be receiving or be due to receive the proceeds of matured endowments; and

☐ There may be extra cash invested in unit trusts, or he may have received some form of inheritance.

VERNON CRESSWELL

Cresswell says his major expense would probably be teenagers' education.

Had he not provided for this his monthly surplus cash would be used for it.

He suggests a fairly low-risk approach to investment, which should be growth related.

It is not a time to view new life assurance products as the ultimate form of investment.

"This is because of the long period (at least 10 years) required.

"I believe better growth and flexibility would be found in other instruments such as unit trusts."

However, life assurance such as matured endowment contracts could form a most valuable part of one's portfolio as they have distinct advantages, Cresswell says.

"The cost of acquiring these contracts is far superior to the upfront costs usually associated with new contracts — not to mention their flexibility."

It is essential to have a balanced portfolio, made up of a sound spread of property (a home plus possibly a small holiday home) and equities (unit trusts and a small portfolio).

In addition, some form of cash holding for emergencies should definitely be considered as this provides a hedge against retrenchment, which is prevalent during this career phase.

Property must be chosen carefully

6 Bday 2/7/92

BULLISH sentiment is returning to the homes market, but aspirant investors should look carefully at what and where to buy if they seek value and good resaleability.

Options include well-situated and properly managed flats, which are in growing demand — ostensibly as they provide better security for residents — cluster home complexes and retirement villages

Investment in retirement village units could offer investors and owners the biggest returns at present, say property specialists.

Camdon's retirement village divisional MD Laureen Schneider says factors behind pressure on retirement village prices include:

☐ The percentage of the overall population officially classified as "aged" is growing faster than demographers expected; and

☐ The decline in the number of new retirement village units coming on to the market arising from "meddlesome" legislation.

Camdon's group MD Scott McRae says the Retired Persons Housing Act requires developers to provide costly financial and completion guarantees which translate into higher prices. This discourages smaller developers and leaves the market open to larger institutional developers with heavy overheads, which also mean higher prices.

Increasing lawlessness makes the secure environment of a retirement complex highly attractive.

"We have a classic case of rising demand and falling supply — a scenario which is bound to cause prices to rise," says McRae.

Camdon's, which claims to have the largest national cross-section of properties in this market, has only about 20% of the retirement village stock it had a year ago.

Schneider says the emerging scenario offers attractive investment opportunities "Returns over the medium-term could arguably outstrip other property investments, and the message is buy now."

Boosting pensions can pay off later

6 Bday 2/7/92

PENSION benefits can be boosted to help take care of retirement needs by making extra contributions.

Fedlife deputy GM (employee benefits) Gerard Ehmke says no matter how attractive a person's pension scheme, it is unlikely to be such that inflation will not take its toll during years of retirement.

Generally the average person turning 50 is likely to have about 120 to 180 pay days left.

Preserving

"But by setting aside, say, R150 a month during the rest of their working life they can do something about preserving the value of their pension."

Ehmke says at about the age of 50 many people start looking forward to retirement which is probably 10 to 15 years away

Assuming they have 15 years before retirement and pay an additional R150 a month contribution to the pension fund, at retirement the fund will be worth an additional R120 000 (at an assumed interest rate of 18% per annum).

Beauty

This "maturity" value of R120 000 must be used to buy an annuity (pension), says Ehmke.

"The beauty of this sort of investment of R150 a month is that such additional contributions to pension funds by an employee are tax deductible up to R1 800 per annum.

"Hence, if a marginal tax rate of 43% applies to the member, they are effectively only paying just over R84 a month — a small price for the handsome return they will enjoy once they retire," he says.

or the over-50s

Areas of concern as retirement looms

BIDay 2/7/92

PEOPLE with limited earnings years should take note of possible pitfalls before deciding where to invest their money.

Metboard investment marketing manager Greg Nowitz says there are five main areas to be wary of when earning power is about to be reduced:

☐ Credit risk. The investor must carefully choose an institution with a proven track record and good risk rating. "Better still, the older investor may prefer to spread his funds among several financial institutions, spreading the risk."

☐ Price risk. The price or value of one's investment funds may change. Nowitz again suggests diversifying to reduce the volatility of, say, equity investments.

☐ Purchasing power risk. This is mainly the risk of inflation. The over-50 should look at investment mechanisms that will grow faster than inflation, taking "cognisance of the future cost of living and mix the investment to yield sufficient income now and capital growth for later years".

☐ Changing legislation. The over-50 is usually paying maximum tax and might have significant property investments which could attract high tax rates under a new government. "Moving into retirement annuities (RAs) is one answer, but again there is always the threat of changing legislation which alters the tax shelter status of RAs."

☐ Flexibility. Here Nowitz suggests investors consider accepting lower returns to maintain liquidity as they must having quick and easy access to funds.

"This is especially important when one starts to consider medical costs and other emergencies. Obtaining an overdraft from a bank at age 60 is extremely difficult," he says.

MAKING PROVISION FOR MEDICAL EXPENSES SHOULD BE A PRIORITY

BIDay 2/7/92

A GOOD investment plan should not only include investing in tax-effective mediums such as assurance products and property, but also make provision for higher medical expenses later on.

Liberty Life legal and technical marketing manager Helita Mankowitz says given the inflationary rate of medical costs, one should invest in the health care products offered by life assurers.

"Comprehensive cover for the future is a must as it is usually in a person's later years that he or she needs such cover."

Mankowitz suggests over-50s ask:

☐ Has consideration be given to potential estate duty liabilities;

☐ Has the spouse been properly provided for in the event of the death of the other partner;

☐ How recently was your will reviewed;

☐ What will it cost to continue living in the style to which you are accustomed;

☐ Do you have any amount outstanding on your mortgage bond; and

☐ Are sufficient funds available to meet emergency needs?

58

Vehicles

"There are many investment vehicles that meet these needs, but among those most commonly used are whole-life policies — for potential estate duty liabilities and which provide benefits for one's dependants.

"Other popular vehicles include (tax-free) maturing endowment policies, unit trusts for their capital growth and retirement annuities (RAs) with their reduced tax liability," she says.

One's home should be virtually paid off.

Avoid speculative investments and look for low-risk retirement planning vehicles that offer some sort of guarantee.

"The minimum guaranteed returns offered by life assurance products are a unique feature among those investments with inflation-beating potential," she says.

"For instance, if you retire from an RA fund the one-third cash lump sum received should be wisely invested to provide capital appreciation or to generate high income."

She recommends opting for the one-third lump sum and not using the entire proceeds of an RA fund to purchase an annuity, since it is fully taxable. "About R120 000 of the one-third cash lump sum is tax free and can be more beneficially invested," she says.

Lifestyle sacrifices essential

Time Life 'is the fastest growing life assurer'

B/Day 2/7/92.

PETER GALLI

(58)

TIME Life has shown good growth, in line with parent company Time Holding's view that it should have both assurance and related property interests, chairman Colin Hibbert said.

"Time Life has been the fastest growing life assurance company over the past two years, albeit from a small base," he said.

TimeProp MD Mike Raggett said this would not decrease the size of the group's commercial activities. While the commercial market was generally oversupplied, TimeProp identified niche markets and developed there.

"An example of this is Wierda Valley in Sandton, where we have just completed our third development. As developers, it is our job to respond to market demand and market demand for Wierda Valley has been very strong."

The new building was being occupied by building contractor R McCarthy and advertising agency The Whitehouse. It was almost fully let. McCarthy had taken the 2 000m2 building on a headlease and was subletting space at R25,50/m2. The other two TimeProp developments in the area were fully tenanted, he said

The group, which only operated in the Johannesburg area, did not hold properties itself but managed between R150m and R160m worth of properties for investors.

TimeProp believed that head leases were profitable if carefully applied. Under this scheme, it secured finance over a 15 year period at a straight escalation of 11% a year.

Any profits over the head lease commitment were split equally between both parties.

Raggett said this encouraged the sensible pricing of rentals.

"We have tried to position the group as developers that would not only provide opportunities for institutional investors, but also share some of the risk involved," he said.

Its 13 000m² Oxford Manor development in Illovo had seen enquiries exceeding available space. Negotiations were underway for this.

About 31% of the space was let, and Raggett was confident all four blocks would be let by the end of the year.

"A R1,6m provision has been made to cover vacancies in the development and we do not expect to exceed this," he said.

Excluding housing, the group expected pre-tax profit to show 15% growth on last year.

TimeProp would continue to provide opportunities in niche markets while reducing its dependency on development profits by increasing construction profits through project management and construction.

"We have also moved into the residential market, but only in secure areas. In addition, 50% of the units have to be sold off-plan before construction begins," he said.

Absa expects high level of defaults to continue

BIDay 2/7/92 (58)

SHARON WOOD

DEMAND for credit is likely to remain sluggish and the high level of defaults among borrowers is expected to continue, notwithstanding the prospect of further interest rate reductions during 1992, Absa chairman Herc Hefer says in the bank's 1992 Annual Report.

Economic and investor confidence will not be underpinned by the continuing negotiations for political change, but international attitudes towards SA will continue to improve, he adds.

"Once again the group's operations were conducted against a background of unsettled political conditions, keen competition and escalating debt arising from prolonged high interest rates and recessionary economic circumstances.

"Nonetheless the group achieved commendable financial results, especially taking into account the demands and challenges inherent in the merging of three autonomous groups and the high degree of change and relative instability which usually occur at the business unit and operational levels during such a merger."

Hefer adds that taking into account further major rationalisation savings arising from the merger with Bankorp, he anticipates attributable profit will improve during the 1993 financial year.

Staff rationalisation through normal attrition and, to a minor degree, retrenchments will continue during the 1993 financial year because of the opportunities for additional rationalisation created by the Bankorp aquisition.

"Absa is conscious of the adverse economic climate facing the country and the hardship that may result from staff reductions," Hefer says.

"All practical alternatives to retrenchments are being pursued."

During the year under review the board, management and staff of Absa laid solid foundations for the achievement of the group's goals and to enable Absa to compete effectively in the increasingly globalised banking and financial services sector.

Two big banks 'may squeeze small rivals'

Bid ay 2/7/92 (58)

SHARON WOOD

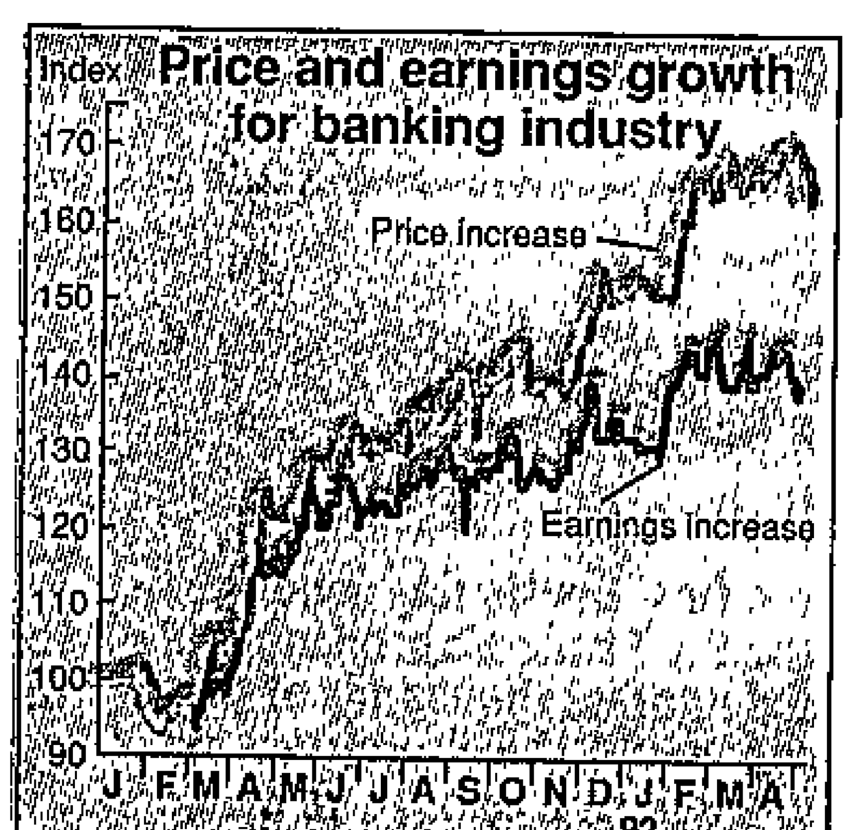
THE Absa/Bankorp merger could change the face of banking forever, creating a massive low-cost, high volume banking group, Ed Hern, Rudolph banking analyst Alan McConnochie says in a KPMG Aiken Peat banking survey.

"This contrasts with the strengths of Stanbic which has been significantly increasing costs in an endeavour to open a lead over its rivals in terms of technology and product enhancement," he said.

McConnochie predicted that within a few years smaller banks could be squeezed between low-cost Absa and the industry leader Stanbic.

Conditions facing the banking sector this year should remain similar to those prevailing in 1991.

Economic activity and money supply growth would remain at low levels. Margins would remain wide and could even improve slightly as rates decline. Bad debts should remain problematic but manageable.



Graphic RUBY-GAY MARTIN Source CSS

He forecast earnings growth for the four major banks of 15%-20%, which compared very favourably with most industrial companies, which were battling to maintain earnings at 1991 levels.

Last year the economy showed minimal growth, banks' volumes growth slowed, bad debts worsened and inflationary cost pressures continued unabated. But despite the tough climate the banking sector registered significant earnings growth of more than 15%.

In addition, SA banks reported their best interest margins in more than a decade, large corporate and property-related bad debts were low and risk management improved.

However, there were exceptions, with some banks failing to perform well. "Bankorp suffered continuing bad debt problems and the time horizon for the predicted turnaround in profitability was again extended.

"Saambou suffered enormous losses for the six months to September 1991 when massive write-downs against its relatively huge property development speculations became necessary due to worsening economic conditions; and a previously incurred gilts loss was recognised."

Foreign competition for the local banking industry was not yet in sight. Foreign banks are unlikely to make any impact on the local scene until the political situation is properly stabilised, he said.

Unit trusts declare distributions of R9,6m

LINDA ENSOR

CAPE TOWN — Four of Old Mutual's unit trust funds have declared distributions totalling R9,6m for the period to end-June.

The Top Companies Fund will pay out 6,36c a unit for the six months to end-June, bringing its total declaration for the first eight months of its existence to 9,09c a unit.

The Old Mutual Mining Fund will pay out 5,15c a unit for the six months to end-June, bringing its total for the year to 11,09c a unit; the Old Mutual Gold Fund has declared a distribution of 2,53c a unit, giving a total of 5,6c for the year to end-June. The Income Fund has declared a distribution of 3,55c a unit for the three months to end-June, bringing the year's total to 14,98c a unit.

S8

☐ MICK ELLINGHAM reports that Fedgro Unit Trust has declared an income distribution for the six months to end-June of 2,91c a unit after achieving growth of 20,1% for the year Bday 3/7/92.

During the second quarter of 1992 FNB, Amgold and Middle Wits were added to its portfolio and a number of existing shareholdings were topped up. Assets under management grew to almost R35m.

Southern Unit Trusts sees assets grow R22m

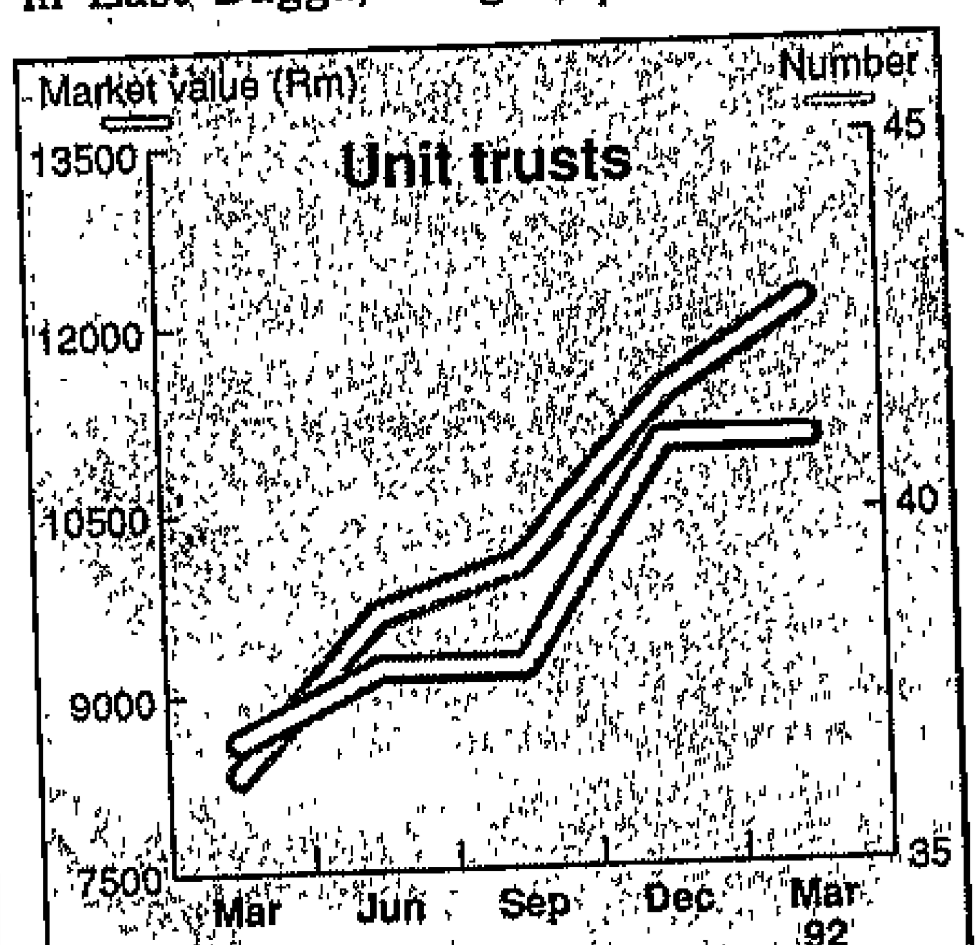
Bday 3/7/92 S8

MICK ELLINGHAM

SOUTHERN Unit Trusts reported a R22m growth in assets under management to R151m for the quarter ended June 1992.

Unit prices in the Southern Equity Fund increased to 183,51c from 175,86c a unit and to 130,82c from 125,01c in the Southern Mining Fund.

All shares held by Southern Equity Fund in East Dagga, Tongaat and Sasol were sold while Genbel stock was reduced.



Graphic. RUBY-GAY MARTIN Source ASSOCIATION OF UNIT TRUSTS

Anglovaal, Bevcon, SA Breweries, Dimension Data, Afrox and Consol were introduced into the fund.

The holdings in a number of companies, including Rembrandt, Tegkor, Keely, Anglos, JCI, Richemont, Southern and Safren, were increased.

Liquidity increased marginally to 15,6%.

The Mining Fund returned 4,25%, having yielded a 13% annual compound growth since inception.

Elandsrand, Lebowa Platinum, Keeley and Lonrho stocks were sold by the Southern Mining Fund and exposure to Implats and Genbel was reduced.

De Beers, Randfontein and Vaal Reefs shares were increased and liquidity rose to 13,8%.

Southern Life GM (investments) Carel de Ridder said trading conditions and economic growth remained under pressure globally.

While the current recession had not been particularly deep, it had lasted "for an exceptionally long time", he said.

Codesa a beacon of hope, says Southern's Chapman

B/Day 3/7/92 (58)

LINDA ENSOR

CAPE TOWN — The setbacks and areas of failure experienced in Codesa should be neither surprising nor alarming, Southern Life chairman Neal Chapman said in his annual statement.

"That so many groups with histories of conflict and future aspirations so varied have continued to meet, to work together and to seek solutions is at once a miracle and a beacon of hope."

Chapman said that the key parties to the negotiations had stressed the need for SA to have a sound market economy if it was to meet the needs for housing, health, welfare and education and added that business too had to play its role in addressing these needs.

International support and funding would also be required to meaningfully address social needs.

"Veiled threats of reneging on loans, of nationalisation or of arbitrary behaviour in respect of dividends are capable of doing long-lasting damage to our country's credit rating," Chapman said.

He noted that the prevalence of the HIV virus was increasing at an alarming rate.

Whereas the first 100 000 infections in SA occurred over a 10 year period, the second 100 000 took less than a year. Conservative estimates put the current HIV infection rate at more than 300 new cases every day.

"We continue to investigate and make changes to our policy design, aimed at holding premium increases to a minimum while at the same time ensuring that the most vital needs of our customers are met.

"We have progressively tightened our underwriting limits for HIV testing in line with the rest of the market. Prudent transfers to our AIDS reserves have continued."

Chapman highlighted the trend of pension and provident fund trustees to increasingly place funds in off-balance sheet portfolios. Last year a number of funds underwritten by Southern had taken this route and its own off-balance sheet assets managed for clients had reached R1,8bn.

"We expect the trend to continue and are broadening our range of services offered to customers who require asset management by way of unique portfolios."

Southern Life's total assets increased by 19% to R17,7bn (R14,9bn) and investment income by 14% to R1,1bn in the year to end-March 1992. Earnings increased by 19% to 97,5c (81,9c) bringing the average annual growth for the last eight years to 21,9%.

Policyholder benefits showed an average annual growth rate of 31,9%.

Marketing and administration expenses rose last year to 8,3% (7,4%), of total income while the return on average shareholders' funds increased to 27,9% (25,6%).

Chapman said shareholders could expect continued growth in earnings and dividends this year.

Southern funds perform well

Finance Staff (58)

STAR 3/7/92

While a mild economic recovery can still be expected in South Africa, this has already been reflected in share prices on the JSE and most counter are not cheap, says Carel de Ridder, general manager (investments) of Southern Life.

"The cut in the official Bank rate will help to underpin JSE prices. However, the current political uncertainty can delay economic recovery and even do lasting damage to an already weakened business sector," he said in the Southern Unit Trusts quarterly report.

Both funds in the Southern stable performed well in the June quarter, with unit prices in the Southern Equity Fund increasing from 175,86 to 183,51 cents per unit and from 125,01 to 130,82 in the Southern Mining Fund.

Assets under management grew by R22 million over the quarter to reach R151 million.

The strong performing Southern Equity Fund continued its above-average performance with a 12 month return of 24 percent. "This is the only general equity fund to have consistently performed above average over the past six quarters," said Mr de Ridder.

Liquidity levels increased marginally to 15,6 percent while investments in the various sectors of the JSE remained relatively constant over the quarter.

The Mining Fund returned 4,25 percent. "In spite of the pressure on the mining sector of the JSE and the global weak demand for commodities, prospects now appear more positive for mining counters," Mr de Ridder said.

Old Mutual to pay out R9,6-m

STAR 31/7/92

(58)

By Stephen Cranston

A total of R9,6 million will be paid out to Old Mutual unit trust holders in distribution at the end of August.

The Top Companies fund, which was launched late last year, has declared 6,36c per unit for the six months to June. The total for the eight months since the fund was formed in November is 9,09c a unit.

The Old Mutual Mining Fund has declared 5,15c per unit for the six months to June, and has declared 11,9c for the year to June.

The Old Mutual gold fund has declared 2,53c per unit for the first half, bringing the total for the past 12 months to 5,6c

Old Mutual will pay R1,19 million to Gold Fund investors.

The Income Fund is paying 3,55 cents for the three months to June. It has declared 14,98c a unit for the past year.

A total of R2,44 million will be paid to investors.

Fedgro's trust beats inflation

Finance Staff (58) STAR 3/7/92

Fedgro Unit Trust is making an income distribution for the six months to June 30 of 2,91c per unit.

Growth (capital plus income) achieved for the year to June was 20,1 percent — comfortably ahead of the JSE overall Index and the rate of inflation.

Fund manager Ian Fraser is optimistic about the future of the stock market. "Much will change and the shape of the new South Africa will certainly be different from that of the old. So, I believe, will be the shape of stock markets.

"In South Africa we will experience our own version of the Big Bang, resulting in less regulation, greater choice, more opportunity, and in certain areas, larger returns for greater risks. New markets will emerge, entrepreneurship will be encouraged and, yes, some will lose their shirts, while others prosper.

"There may be a shift in focus from "big is beautiful" and we may see unbundling of large corporations.

"We have an exciting future but we must be prepared. It will demand innovative and nimble portfolio managers.

"The increasing complexity of the marketplace will create an even greater need for professional portfolio management, making unit trusts an increasingly popular option for most investors."

SPECIALIST FUND FM

Exclusive vehicle 3/7/92

(58)

The Southern Life Association launched the Southern Pure Specialist Fund this week. This third unit trust fund in its repertoire will be marketed to investors "whose moral code and ethical values prohibit investment in certain industries."

Shamsodien Pather, GM Investments at the Southern, says the trust's portfolio will exclude investment in interest-bearing instruments, life assurance, intoxicants, hotels and gambling as well as commodities thought to harm the environment.

While the fund is patently aimed at Muslims, Pather is emphatic that it seeks to accommodate a much wider spectrum of investors. It will also attempt to comply with requirements, for example, of environmental groups.

Pather points out that in a capitalist society, which has the long established norms of the SA financial markets, it would be almost impossible to fulfil any single sector's strict religious or ethical requirements through a vehicle like a unit trust. Those needs cannot be met "absolutely."

Compromises will have to be made. For example, nearly all the companies that will be found in the trust's portfolio will use the

continued →

FOX FM 3/7/92 (58)

banking sector to earn interest on surplus funds at some time. But, adds Pather, the trust will place its liquid assets with institutions that practice interest-free banking.

By definition, the fund will have to exclude many of the country's blue-chip shares. Examples are SunBop, Rembrandt and SA Breweries. Also, by definition, screened investments reduce the choice of stocks to make up the portfolio. In theory, then, performance should suffer. But Pather believes the Pure Specialist Fund will not underperform the unit trust industry. Many shares already in the Southern's unit trusts will be included in the new fund.

Pather's strategy is to select certain "core" shares. These will be chosen because of, among other things, excellence of management over a long period, the company's dominance in the sector in which it operates, historical earnings record and the sustainability of earnings growth. These shares will be held indefinitely. Other shares, chosen for their cyclicality, will be traded. The portfolio will comprise gold, mining, industrial and property shares as well as cash.

While cash does not earn interest at "interest-free" banks, a return is earned in the form of a "taxable dividend" which is treated in the same way as interest received.

Perhaps the most appropriate comment about the fund at this stage is: to each his own.

Gerald Hirshon

LOSING HIS LIBERTY (58)

FM 3/7/92

Blood, and perhaps chauvinism, turned out to be thicker than money for SA financier Brian Myerson in his attempt to beef up Liberty, the landmark London textiles and home furnishings store reputed to be the Queen's favourite. Myerson's vehicle, Concerto Capital, was resoundingly seen off by family shareholders and friends when its plans to restructure Liberty were put to an extraordinary general meeting last week.

Concerto, which bought 15,1% of Liberty's voting shares last year, had proposed the enfranchisement of the non-voting stock — 30% of the total issued capital. This would have diluted the just-over-50% control held by the descendants of the 117-year-old business's founding family. When the vote was taken, Concerto was flattened — shareholders holding 77,8% voted against.

Myerson (33), a Wits-schooled lawyer who worked for UAL before moving to London in 1987, claimed a moral victory because some institutional holders — who oppose non-voting shares in principle — had backed Concerto. He also rebutted suggestions that he was a corporate raider in the greenmail business.

That tag follows from a similar operation in 1990 against clothier Aquascutum — patronised by ex-Prime Minister Margaret Thatcher — when Myerson and friends acquired a chunk of non-voting stock and flushed out a Japanese bidder to take a profit of more than £5m.

After his Liberty defeat, Myerson said: "This is very much the first stage. I am in this for the long haul. We shall be watching, we shall be pushing."

When Myerson first moved in 10 months ago, following a slump in Liberty's profits, he proposed a rights issue that Concerto would substantially underwrite to raise its stake to 28%. He planned to expand the Regent Street-based Liberty to exploit its famous brand name and to introduce new outside blood into the family-dominated management.

Liberty, he said at the time, was not making the most of its name and had underperformed compared with Gucci, Hermes or Dunhill. Myerson foresaw a trebling of Liberty's sales over five years — without taking it downmarket.

It is unclear how he proceeds from here. Adding to Concerto's £14,4m investment in Liberty's seems unlikely to improve relations with the board, though it may well bolster the company's appeal for someone else who has similar ideas to Myerson's.

There is no sign of a potential bidder — the Japanese have ceased buying assets for the sake of their famous names — and meanwhile Concerto faces a considerable opportunity cost. Liberty's yield is just 1,5% (and on a multiple of 35), while sterling certificates of deposit offer around 10%.

FM 3/7/92 (58)

CIB FM 3/7/92

Blocked deposits (58)

The SA Rail Commuter Corp came within a whisker of switching a R200m deposit from the former Cape Investment Bank (CIB) to Prima Bank after Prima took over the ailing CIB, which was subsequently liquidated. Had this deal been allowed to proceed, the State-funded corporation would have avoided heavy financial loss.

Prima Bank MD Johan Bellingan signed for and accepted corporation short-dated bills to replace the R200m deposit which the corporation had invested with the CIB. However, two days before the Reserve Bank withdrew its own R300m deposit from CIB, Bellingan claims he was stopped by the Bank.

After the Reserve Bank withdrawal (unknown to the Commuter Corp), CIB was put into liquidation on April 11 last year and, during a secret arbitration recently, the Commuter Corp was denied its claim against the Bank for the losses (see *Current Affairs*).

This information has emerged from taped telephone conversations between Bellingan and Commuter Corp GM Willem Louw and formed part of an internal investigation into the losses which occurred at the corporation.

The *FM* has a copy of the document — on a Commuter Corp letterhead — on which Bellingan had signed for R200m short-dated bills (*sikluseffekte*) issued to Prima Bank. The document, dated April 2 1991, was co-signed by Louw and another Commuter Corp official, Kobus Smit.

According to further information, the deal relating to the short-dated bills was proposed by Bellingan to Louw on March 26 when the Commuter Corp investment with CIB was discussed. The document was, however, dated April 2 to give Bellingan time to discount the bills on the money market.

On March 28, in a telephone conversation with Bellingan, Louw again raised the matter. But he was told by Bellingan that the Reserve Bank had instructed him not to change the deposit situation of CIB. At that stage, an amount of R103m — part of the Commuter Corp's deposit with CIB — was due to have been paid out to the corporation.

Bellingan told Louw that he had discussed the Commuter Corp payment (which was due) with the Bank. "(They) phoned this morning and told me that I may not pay back the deposit . . ." said Bellingan.

Later, on the same day, Louw phoned Bank official Karel Oosthuizen to discuss the corporation's deposit. Oosthuizen reiterated what had been told by the Bank to Bellingan and said that the Bank was waiting for an auditor's report and that "no changes must now take place."

However, documents show that Oosthuizen had been present on March 18 at a CIB board meeting which heard that liabilities exceeded assets by R110m.

When Louw raised the matter of R103m which was due to have been paid out (on that day) to his corporation, Oosthuizen told him to roll it over. Later, during a liquidation application, Deputy Registrar of Deposit-Taking Institutions Christo Wiese admitted in a sworn statement that "Oosthuizen had convinced" Louw to roll over the payment which had been due to be paid out.

Louw, in another telephone conversation with Bellingan on April 11, the day of CIB's liquidation, described a breakfast meeting which he and Kobus Smit had with Wiese and Registrar Hennie van Greuning, at the Burgerspark Hotel in Pretoria, on December 13 1990. He told Bellingan that Van Greuning had told him not to withdraw the Commuter Corp's deposits because "CIB would be taken over, (and) that there will be a bank merger."

Despite Wiese's affidavit and the conversation between Louw and Oosthuizen (on March 28), Van Greuning, in a *Rapport* interview three weeks ago, denied that he or any other Bank official had ever made such a request (not to withdraw its deposit from CIB) to the Commuter Corp. He also denied that he at any time assured the Commuter Corp that the Bank would stand surety for any possible losses which the corporation may suffer through its deposits with CIB.

At one stage during his conversation with Louw, when Louw asked him what could be done (to save the deposit), Bellingan said that he would have to listen to a few taped telephone conversations (between himself and the Bank) "to hear what undertakings I have received."

However, he added, "As far as I am concerned, you should also get your money back, but don't quote me because I am involved with sensitive discussions with them (the Bank)."

Eddie Botha

MONETARY POLICY (58)

A stronger rand? FM 3/7/92

Reserve Bank Governor Chris Stals says the Bank "will feel freer to allow" the rand to appreciate in view of Finance Minister Derek Keys's indication that SA cannot, at this stage, abandon its protective import tariff policy.

Addressing the Afrikaanse Sakekamer in Johannesburg this week, Stals noted that the Bank spent R2,5bn in the first four months of 1992 buying dollars to prevent the rand from appreciating. "While I personally favour a weak rand as the right weapon to keep import levels low, and while the Bank's exchange rate policy, until now, has been based on the assumption that tariffs will gradually

 FM 3/7/92

fall, the Minister's decision has now placed a different light on the issue.

"If it should be decided that tariffs will not come down, there will be less need to depress the rand and we will not be compelled to buy in such high volumes of dollars. This will help to keep inflation low, as the R2,5bn used to buy dollars in effect offered a wider window for money creation, allowing commercial banks to pump an additional R2,5bn into the system."

Stals says that, at the request of Keys, he has appointed three top Bank officials to assist in devising a proposed structural adjustment programme for the economy. The group will report to Keys "within the next three months. Interested parties are welcome to provide inputs into this study and we would like to encourage a national debate on the necessity of structural changes to the economy." ■

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Fintech saves for the taxing years

STAR 3/7/92

Fintech shareholders may have lost out on substantially higher dividends in the past two years because of the group's tax accounting policy.

This emerges from an analysis of the past two annual reports in which auditors have qualified their audit opinion.

The latest report, which reached shareholders recently, reveals Fintech continues using a tax equalisation account. Had this not been the case, the auditors' say, earnings per share would have increased by 35,4 cents in 1992 and 25,7 cents in 1991.

The use of a tax equalisation account is contrary to generally accepted accounting practice. However, Fintech's financial director, Bruce Laing, says other major South African groups have used the tax equalisation accounting practice.

In the last two financial years, the group has knocked a tax expense of R6,1 million off its attributable earnings. This tax charge will never be paid by the group however, as it has considerable estimated tax assessed losses from which to set-off taxable income.

The 1992 annual report says the estimated tax losses were R70 million in 1991 and R48 million in 1992. Effectively, the group will not pay tax until its cumulative taxable profits equals the estimated tax losses.

Full disclosure has been made by Fintech of the effect of the tax equalisation provision in both annual reports.

The 1992 report states that the net impact after outside shareholders is to reduce income by R4,12 million in 1992 and R2,86 million in 1991. The earnings per share (which has been calculated on a fully diluted basis) would have been 207,3 cents in 1992 and 109,7 cents in 1991.

Diagonal Street

58

LEIGH HASSALL

The group says in its accounting policy note that the tax equalisation account will minimise the potential future distortions in attributable earnings as a result of the progressive utilisation of the estimated tax losses.

However it may also be argued that the use of the tax equalisation account may be detrimental to shareholders causing them to receive a dividend based on the lower earnings per share.

The 1992 dividend cover was 4,3 times on the fully diluted earnings per share, had this ratio been applied to the enlarged earnings per share the dividend payout would have been 48,21 cents per share instead of the actual 40 cents paid out in 1992.

In 1991, applying the same approach, the dividend per share would have been 26,12 cents instead of the 20 cents paid out. This represents an increase of 21 percent and 31 percent respectively.

David Redshaw, executive chairman, agrees that shareholders have received lower dividends, but says "Shareholders will receive higher dividends in the future when the tax equalisation provision is ploughed back against actual taxable income".

"It will benefit shareholders in the long-term as it will provide a constant level of earnings," he adds.

Mr Redshaw estimates the tax equalisation account will continue to be employed in the next two years.

It appears that Fintech shareholders should hold on to their shares to reap the promise of higher future dividends.

SUBURBAN OFFICE DEALS

A time for sweethearts

58 FM 3/7/92

As with the stagnating central business districts, the office rental business in decentralised areas — especially the suburbs — is battling with the oversupply. RMS Syfrets director Mike Deacon confirms that properties are not moving quickly.

However, he argues that there are two tiers in the office letting market in the suburbs. Good properties in prime sites are letting well at rentals of between R21/m² and R26/m² net. "In the poorer quality office blocks, rentals vary from R18/m² net upwards and the space moves slowly."

Deacon says sweetheart deals — rent-free periods and other forms of assistance — are being negotiated for decentralised areas but not on the scale of the offers being made for CBD space. In some of the city deals, property managers offer rent-free periods of up to 12 months.

Deacon says a number of factors influence property managers negotiating letting for a suburban office building. These include the quality of the building and its position, the size and quality of the tenant and the rental levels under consideration. For example, Deacon says that a major prospective tenant, negotiating a 5 000 m² and upwards lease over 10 years, could reasonably expect up to six months rent-free, depending on circumstances. Prospective tenants negotiating for smaller premises would be more likely to get one month or two months rent-free.

RMS Syfrets MD Pat Flanagan says much of the industry has been taken aback by the aggressive letting policies adopted by some property managers and owners. He does not believe it unwise for a letting firm to have an aggressive leasing policy "but it is quite another thing for this to be marketed so openly."

Flanagan says his principal area of unease about such policies is the effect they have on existing tenants. "Why should a newcomer receive all kinds of favourable treatment at the expense of long-standing, reputable tenants? Effectively, they are being asked to subsidise the new tenant and no-one should be surprised if they feel aggrieved."

LITTLE CHANGE ...

But Durban and CT offices mushroom

	May '92 m²	May '91 m²
Johannesburg CBD	76 600	70 700
Braamfontein	11 700	11 000
Rosebank	17 000	13 400
Parktown	17 800	16 000
Sandton	59 700	63 000
Randburg	21 300	22 600
Cape Town CBD	49 900	26 600
Claremont	8 900	16 400
Belville	10 100	2 000
Durban CBD	37 300	1 300
Westville	1 700	1 100
Berea	2 500	400

Flanagan confirms that property development has fallen markedly in recent months. "The level of activity has dropped quite noticeably," he says, adding that some large architectural firms have reduced their working week to four days instead of retrenching staff.

Sizeable quantities of prime property development land are now being offered to the market. "If you take a contra-cyclical view," says Flanagan, "this is an excellent time to buy and build on the basis of good bargains."

Deacon says tenants should note that it is not only demand for space which pushes up rentals, but the major cost-push which must arise when new stock is created in an economic upturn.

Meanwhile, the latest Sapoa statistics for A-grade offices around the country show no noticeable change over the last year (see table).

New properties

In many cases, available space increased because new properties have come on to the market.

The exception is the Durban CBD where there is now 37 300 m² available, compared with only 1 300 m² a year ago. The reason for this is what RMS Syfrets manager Bruce Forrsman calls "the Durban syndrome". More than a year ago, it became clear that there would be a substantial increase in demand for office space and rentals rose dramatically. Property developers reacted by initiating new projects, with the result that about 160 000 m² has been released on to the market more or less simultaneously.

"It'll be a few years before we work our way through this present overhang," Forrsman comments. But he concedes that Johannesburg-style "sweetheart" deals have not yet arrived in Durban. ■

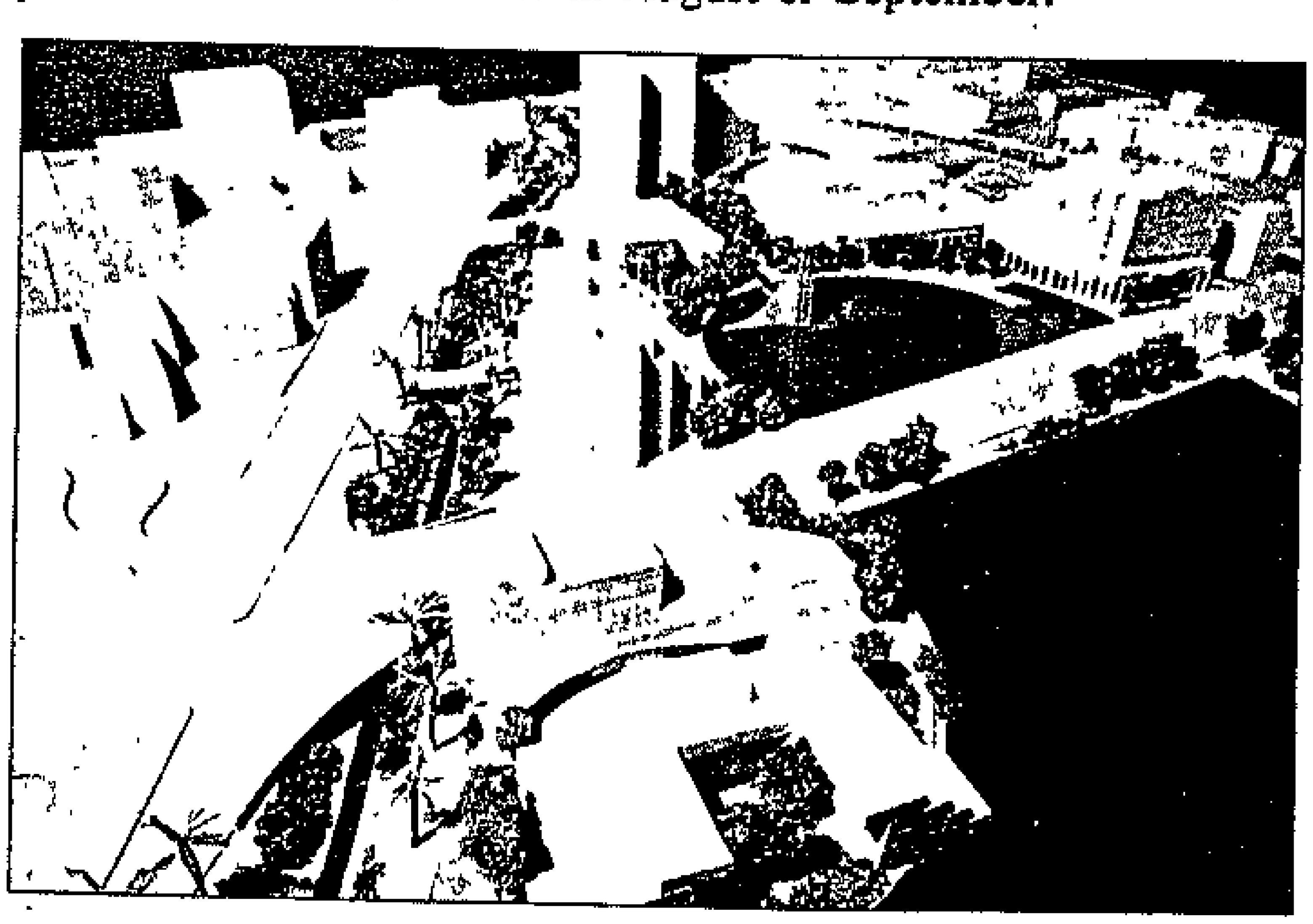
PRETORIA BY THE SEA

Given a notable body of water close to or in the Johannesburg CBD, developers would doubtless have attempted to do a Cape Town, *à la* V&A waterfront development. Bruma Lake is about as close as the City of Gold comes to it.

Pretoria City Council vows that it is doing something completely different. However, its recent launch of a programme of public participation in the City Lake Project in Sunnyside — in other words the making of a waterfront — sounds familiar. The scheme is designed to link Sunnyside with the CBD and, in its run-up, resembles Propnet's efforts countrywide to involve the public in various waterfront schemes. Pretoria mayor James Leach calls it a project of urban renewal and improvement which "cannot take place overnight."

The development calls for offices, shops, flats and recreation areas around a man-made lake to be developed from the confluence of the Walkerspruit and Apies rivers. The area lies between Church and Esselen, Beatrix and Edward streets.

The participation programme aims to solicit input from ratepayers' associations, Sapoa, environmental and conservation groups, organised business and commerce and the Oost-Eind primary school, which will have to be relocated. All of this will be reflected in the final tender document that will go to developers in August or September.



FM | FM 3|7|92 (58 CURRENT AFFAIRS

8

to CIB had been "totally simulated" and that it had been a donation which had been "simulated on the basis that it was the most practical one we could have worked out at that stage"; also that the loan had merely been "an instrument" which was used to transfer R15,37m to CIB.

CIB chairman Jan Pickard jr had been informed earlier that the Bank would deposit R300m with CIB at an interest rate of 1% pa on condition that CIB re-deposited the same amount with the Bank at 17,12%. This resulted in the R15,34m profit over 116 days.

On behalf of the Commuter Corp it was argued that both Stals and Van Greuning wanted to operate within the Reserve Bank Act and that ...

FM 3|7|92

58

COMMUTER CORP

Total simulation

The Reserve Bank never had any intention of entering into a loan agreement with the now liquidated Cape Investment Bank (CIB), despite its having placed a deposit with the bank. That was the finding of former Chief Justice Pierre Rabie, who said that the R300m deposit which the Bank had made with CIB in December 1990 was nothing more than a "simulated transaction."

Consequently, Rabie denied the Commuter Corp its claim against the Reserve Bank for investment losses — totalling R249m —

80% ... to settle by the Reserve Bank.

The offer was made in Cape Town by Reserve Bank attorney Tippie Luttig to Commuter Corp attorneys Antonie Gildenhuys and Alec Brooks after Judge Oscar Galgut (then presiding over a Section 417 investigation in terms of the Companies Act) requested the parties to settle.

The corporation's management has also been severely criticised in another secret report which was handed to Cabinet last year. The *FM* has obtained the findings of the report — the result of an investigation into the matter by economist Pierre Faure (a former Reserve Bank official) and stockbroker Jannie Mouton. Faure was asked to investigate the matter after former Corbank official Bill Pienaar withdrew because of a conflict of interests. Corbank had been taken over by CIB.

After the arbitration findings and the Mouton/Faure report, Commuter Corp board chairman Bart Grové and the corporation's MD Kobus Nel were demoted by Welgemoed. Nel's position changed to that of senior GM while Grove was ousted and given the task of conducting a study on light rail commuter systems. Faure and Mouton criticised the Commuter Corp's top management for ceding "too much responsibility to the financial team."

The *FM* has learnt from Cabinet sources that President F W de Klerk supported Grové but that the Cabinet sided with Welgemoed and Barend du Plessis in the decision to demote the two officials. At that stage Du

suffered when CIB was liquidated on April 11 1991. The Commuter Corp lost its investments after a Reserve Bank official, Karel Oosthuizen, on March 28 1991 persuaded the corporation's general manager, Willem Louw, to roll over R103m which was due to have been paid out earlier to the corporation by CIB.

Two days later, on March 30, the Bank withdrew its R300m deposit. This was four days before Prima Bank MD Johan Bellingan had agreed to take over the Rail Commuter's R103m debt into Prima's books (see *Economy*).

The *FM* reported last year that Rabie had been asked by government to act as an arbitrator in a secret arbitration between the Bank and the SA Rail Commuter Corp in an attempt to settle the row which erupted after the Commuter Corp lost its investment with CIB. (*Current Affairs* September 13). Despite Registrar of Deposit-Taking Institution's Hennie van Greuning's statement on July 7 1991 that "the truth will be established by an inquiry," Rabie's finding is still being kept secret.

Rabie's finding was criticised by the Commuter Corp's legal team which — in correspondence — claimed that the arbitrator had not dealt with the numerous legal arguments which had been raised during arbitration.

Rabie said that Reserve Bank Governor Chris Stals testified that the R300m deposit

continue →

Van Greuning ... *wanted security to comply with the Reserve Bank Act*

which earlier on December 18 1990 had merged — under instructions of Van Greuning — with Prima Bank, totalled almost R700m (the Commuter Corp's R249m, the Reserve Bank's R300m and R120m comprising other deposits).

In September 1990, according to a quarterly statement of assets and liabilities (Section 13 of the Bank's Act) total assets were R1,368bn. The Commuter Corp's limit of R60m at that time fell well within the 10% Reserve Bank guideline.

Former CIB CEO Andy Schwartz later said in an interview that until the stage when he resigned from the bank on December 14 1990, all deposits to the Commuter Corp had been repaid on schedule. According to documents R8,6m which had matured on August 14 was paid back on November 13 and R28,6m which matured on August 28 was repaid on November 27. An amount of R21,5m which was due to be paid back on December 28 had not been paid.

...rlier, in July, the treasury team was ...ucted by top management to change the ...at of financial reporting, and only to ...ct the total loans and interest paid. Nel, ... asked whether he had been aware of ...xtent of the deposits with CIB, said. "I, ...ll as the chairman, the board and the ...ter were (only) aware of the extent of ...ans and the deposits but no one of us ...een aware — up to the day of CIB's ...ation — of this specific deposit with

...calls

...ever a signed document which out... the Commuter Corp's money market ...tions shows that Nel, as late as No... 1990, was aware of the exposure ...IB.

...at time it was approximately R280m. ...a letter dated January 9 1991 former ...rt Minister George Bartlett in... Barend du Plessis that the Commut...'s Treasury activities reduced the ...g costs considerably within the cur...ncial year. (Du Plessis was informed ...s had resulted in a net profit of ...1 on the money market activities). ...end of September a special audit by ...Pim Goldby on the liquidity of CIB ...short-term deposits of R506,2m, ...term of R209,3m and long-term of

According to the auditors, the major depositors were Bank of Namibia (R20,25m), Transnet (R45,28m), De Witt Morgan (R47,6m), SA Reserve Bank (R35,1m), SA Mutual (R129,9m), Momentum Life (R25,38)and C M Interbank (R79,75m). The Commuter Corp's deposit of R216,11m was 24% of total major deposits. Two months later Van Greuning sent his own team to audit CIB's books.

In August, however, transactions with CIB — which were only published in September — exceeded the prescribed limits by R103m. But a fax to Paul Erasmus signed by CIB's Hannes Lourens stated that securities (as was required in terms of the corporation's internal investment policy) for that amount were held by CIB on behalf of the Commuter Corp.

Later, after the CIB merger with Prima in early December 1990 and before the corporation could withdraw its deposits that had been due to them, Prima's Bellingan informed the Commuter Corp that no such securities existed. After CIB's liquidation, Bellingan, in taped telephone conversations which formed part of all the investigations, said that he, Van Greuning and Oosthuizen had told the Commuter Corp not to withdraw its deposits.

Transnet and other money market sources say that the financial investment procedures followed by the Commuter Corp had been normal market practice.

☐ The *FM* has also learnt that senior police officers last week spent a couple of hours at the corporation. Their visit followed an instruction by the Attorney-General. *Eddie Botha*

LIQUID ASSETS FM 3/7/92

On balance (58)

Several legislative changes relating to banks' liquid asset and cash reserve requirements have been mooted by the Reserve Bank. They are designed to assist implementation of monetary policy, to streamline prudential requirements and to simplify administration of Reserve Bank accommodation, says Deputy Registrar of Deposit-Taking Institutions (DTI) Christo Wiese.

Bankers argue that, if implemented, the measures will reduce banks' funding flexibility and increase the cost of intermediation.

One set of proposals, which relates to the implementation of monetary policy, excludes banks' own vault cash from the definition of minimum reserve balance. This cash represents more than 75% of the present level of industry cash reserve requirements.

In future only the credit balance in an account with the Reserve Bank will qualify. This will reduce liquidity in the system by forcing banks to hold additional reserve balances. The cost of unused vault cash will reduce banks' revenues.

But Wiese says that the requirement will be reduced from 4% to probably 1%. The level will be based on monetary policy needs.

The Bank argues that the change will create "a more equitable situation" between different types of banks; merchant and general banks hold little or no vault cash and thus now have to hold higher reserve balances with the central bank than do commercial banks.

However, Standard Bank chief accountant Henry Shaw says: "Commercial banks will reject this premise on the same principle — of inequity among financial institutions. There are structural differences among commercial, general and merchant banks. In the SA environment, the commercial banks' cash holdings form the basis of the day-to-day liquidity needs of a predominantly cash society. If these holdings are deprived of their legal cash reserve status, it will cost them more to service their depositing client base."

The second discussion paper proposes changes for prudential reasons. These include the disqualification as liquid assets of:

☐ Call loans with former discount houses. This is a logical outcome of the changed status of the former discount houses; and

☐ Acceptances of deposit-taking institu-

continue

tions. This presumably flows from fears that many of these instruments are not based on genuine trade transactions

The paper advocates that liquid assets "consist of a buffer stock of high-quality, truly liquid assets" and that banks should maintain these at a level of 12% (instead of the existing 20%) of their adjusted short-term liabilities. Bankers argue that, by limiting liquid asset status to short-term government debt, the proposed changes will inhibit the market for bankers' acceptances and that a mix of private and public debt would be more appropriate.

The third discussion paper proposes a simplified system of accommodating cash shortages in the banking sector, for easier administration. It suggests that the two-tier procedure for central bank accommodation should be replaced by a uniform system of one-day repurchase agreements. At present, banks which need to borrow from the central bank can:

☐ Rediscount Treasury and RB bills at 16%, Land Bank bills at 16,5% and liquid bankers' acceptances at 17%. All must have a maturity of not more than 91 days; or

☐ Obtain an overnight loan against certain instruments with a maturity of more than 91 days — Treasury and Reserve Bank bills at 18,5%, Land Bank bills at 18,75%, bankers' acceptances ranking as liquid assets at 19,25%, long-term gilts and semi-gilts at 20,75%.

(All these rates were in place before the latest reduction in Bank rate.)

Under the proposed system, Treasury, Reserve Bank and Land Bank bills would qualify for the minimum lending rate on repurchase agreements while other eligible instruments would attract a higher rate.

Wiese stresses the papers present "points of discussion on which the Reserve Bank welcomes constructive comments" ■

9,95% — or 0,82% over the month. As expected, the credit figure for April is in line with the slight upturn in M3 to April.

Over 12 months the major impetus to domestic credit extension came from mortgage advances (up 17,14% to R73,9bn), bills discounted (25,53% to R12,8bn) and leasing finance (19,33% to R13,9bn). This was dampened to some extent by smaller increase in other loans and advances (up 8,19% to R73,3bn) and HP (3,13% to R18,6bn). ■

INTEREST RATES FM 3/7/92. 58

Surprise, surprise!

Reserve Bank Governor Chris Stals took the market by surprise on Monday when he announced a fall in Bank rate (the official rate at which the central bank lends to the banking sector) from 16% to 15%. After his recent decision to raise the level of cash reserves which the banks are required to hold against short-term liabilities, the market was resigned to a longer wait.

The new requirements are in place as from July 21.

Presumably figures on money supply and CPI published this week set the scene for a lower level of interest rates.

Stals's latest move does not represent a softening of monetary policy, says Standard Bank group economist Nico Czypionka, but is a reflection of more favourable inflation figures published this week.

Though the year-on-year figure remains high, it is on a declining trend. Moreover, the 12-month level is distorted by the effect of VAT, introduced in October on a wide range of foods not previously subject to sales tax. The underlying trend is revealed by comparing rolling three-monthly increases. When these figures are annualised, it is clear inflation (see p32) is much lower than the official inflation rate.

At the same time, says Czypionka, very low money supply growth confirmed that credit creation is under control. Apart from a rebound in April, underlying growth in money supply has been decelerating for some time. And a provisional figure for May shows seasonally adjusted annualised growth from the base of the current target year was in the lower guideline range (see p30). Very low demand for credit is likely to keep it that way for a while.

What is relevant to monetary policy is real interest rates — the difference between nominal rates and the inflation rate. As the inflation rate slides, there is room for a downward adjustment in interest rates. And the trend in money supply is reassuring because it shows inflationary pressures are not building up.

UAL economist Dennis Dykes contrasts the Bank's approach with that of previous years: "In 1985 and 1986, the Bank cut rates sharply over a short period. Now it is acting cautiously, reducing the rate one percentage point at a time."

The fall in Bank rate, effective from June 30, has been followed by a fall in prime. Standard, Absa, First National and Nedbank all announced decreases in the prime overdraft rate to 18,25%, effective from next week. Markets were also quick to react. The 90-day liquid bankers' acceptance rate fell from a band of 14,35%-14,55% on Monday to 13,8%-14,1% on Tuesday morning. Negotiated certificates of deposit (NCDs) also fell, with First National quoting 13,9% on the six- and nine-month instruments and 13,8% on the one-year NCD.

These developments will be followed by a reduction in prime related rates and eventually feed through to rates not directly linked.

Dykes says the impact of the cut will only be felt next year. "In a weak economy such as ours, cuts do little straightaway. In the previous recession, it was only after 12 months and a 9,75 percentage point fall in Bank rate that the economy started to respond. (Then, of course, the rate went down a further 2,5 percentage points when credit demand was already well on the way to recovery.)"

However a reduction in Bank rate is usually an important psychological factor in business and consumer decisions. Private consumption expenditure has been falling since the second quarter of last year. And the latest Reserve Bank figures showed a 4,4% seasonally adjusted annualised fall in the first quarter.

The lower interest rates will eventually inspire some confidence and trigger a resumption of the consumption-production cycle.

The improved fundamentals are simply setting the scene for growth. What is really needed, of course, is a reduction in violence and a resumption in negotiations (see *Leaders*) which will improve levels of consumer and investor confidence ■

NBS HOLDINGS FM 3/7/92 (58)

Broader income sources

Activities: *Provides mortgage finance and instalment lending, together with a range of financial services through a national network of branches and agencies. Holds 39% of French Bank and 30% of Norwich Life.*
Control: *Norwich Life 26%; Barlow Rand 18,2%.*
Chairman: *H G Chapman; MD: J W Gafney.*
Capital structure: *66,1m ords. Market capitalisation; R728m.*
Share market: *Price: 1 100c. Yields: 3,6% on dividend; 10,5% on earnings; p:e ratio, 9,5; cover, 2,9. 12-month high, 1 250c; low, 925c. Trading volume last quarter, 534 000 shares.*

Year to March 31	'89	'90	'91	'92
Total assets (Rbn) ...	4,46	5,76	7,46	9,07
Total advances (Rbn)	3,48	4,62	6,00	7,51
Attrib income (Rm) ..	31,9	44,6	56,3	73,3
Earnings (c)	55,2	76,6	96,6	115,6
Dividend (c)	23,0	29,0	34,5	40,0
Net worth (c)	480	530	644	731
Return on equity (%) ..	11,5	14,4	14,9	15,1
Return on assets (%) .	0,72	0,77	0,75	0,81

Financial 1992 can be viewed as a year of consolidation for NBS Holdings as the group bedded down the merger of its building society and banking activities and its acquisition, for shares, of 39% of French Bank from Barlow Rand.

Benefits from both are apparent in the latest results. Among other factors, the internal merger has given NBS a useful, one-off tax break by using tax allowances available to banks and timing differences on deferred tax, reducing the tax bill by 21% to R23,6m.

This helped to boost attributable income by 30%, diluted down to a 20% increase in EPS by the 6,6m new shares issued for the French Bank acquisition. Secondly, diversification from the new acquisition, as well as NBS's 30% stake in Norwich Life, is diversifying the income sources and has wrapped up control of NBS to the point where it would be very expensive for a predator to try to gain control.

French Bank gives the NBS access to trade finance, foreign exchange and securities, as well as the international connection with parent group Banque Indosuez.

Norwich Life increased its earnings attributable to NBS by 50%, to R4,2m Besides the bottom-line boost, it helps to get NBS away from what is still a heavy exposure to interest turn income, which with 60% of the group's assets in mortgage bonds is vulnerable to drops in the prime rate.

But while the group settled down, the ailing economy and a more cautious ap-

FM 3/7/92

NBS Holdings' Gafney . . *a shift in the business*

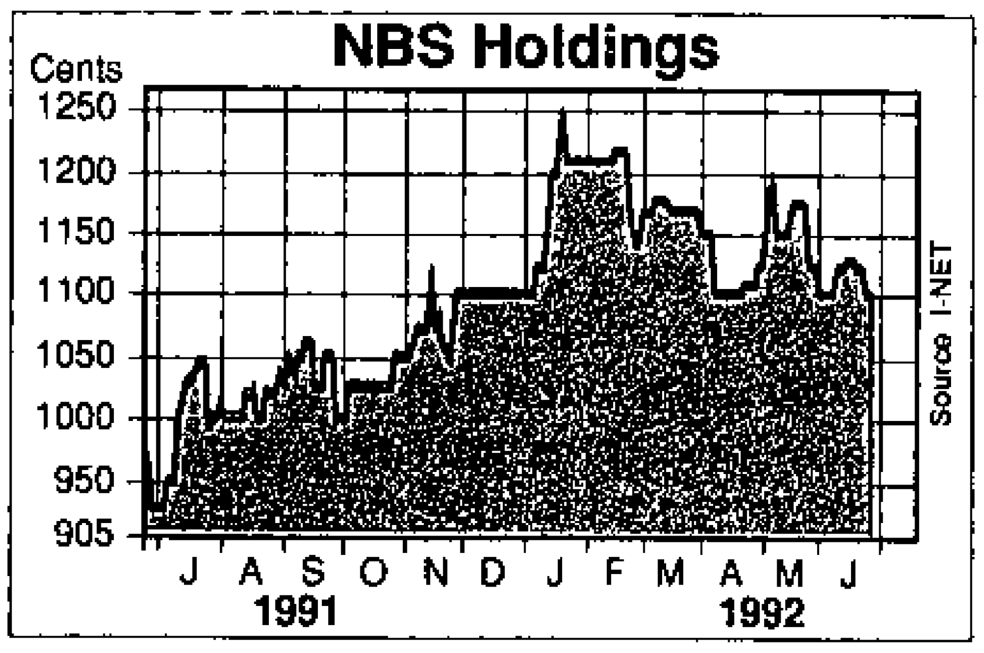
(58)

proach to lending saw NBS's growth slow from the strong, almost upstart results (*Economy* June 19) recorded in previous years.

That is seen in the EPS growth of 20% compared to compound growth of 29% since listing in 1987, the dividend up 16% compared to 21%, asset growth at 22% compared to about 30% annually over the past three years, and growth in advances down to 25% from last year's 30%.

GM Paul Leaf-Wright says the slowdown is deliberate becaue the group is being more cautious about lending during the recession and high unemployment that comes with it. Repossessions, at R80m — about 17% up on last year — have slowed considerably but still represent a sizeable amount. "That indicates how hard times are," says Leaf-Wright, "and is one of the reasons we've slowed asset growth."

Increased risk — the bad debt provision is up 51% to R53m — has seen NBS reduce its exposure to the black home loan market



from 12,2% of total assets last year to about 11%. Leaf-Wright says, however, that this is not policy but a reflection of the general tightening up of loans to all customers.

MD John Gafney is therefore pleased to see a shift in business, with corporate advances up by 57% over the year, to R1,1bn Chairman Gordon Chapman also notes that having Barlow Rand as a substantial shareholder gives the group an opportunity to develop products for Barlow and its staff

Off its January high of R12,50, the share

cont →

FM 3/7/92 (58)

still does not look cheap at R11, with a dividend yield of 3,6%. But NBS seems well positioned behind the big four to become a significant financial services player, and is well worth watching.

Shaun Harris

LIFE ASSURANCE (58)

Opening the coffers

Life assurers, who together control R170bn of funds, have formed an Investment Development Unit "to benefit socio-economically deprived communities while providing investors with security and adequate long-term returns."

But this week's announcement (predicted in *Economy* April 10) by the Life Offices Association (LOA), while emphasising that all 34 members have given wholehearted support, leaves unanswered some intricate problems relating to fiduciary duty.

Continue

Shill ... *"the matter is open-ended"*

FM 3/7/92 (58)

LOA chairman Louis Shill says the unit's task will be to investigate, evaluate and develop projects.

Shill says no fixed percentage of life offices' funds has been earmarked for development projects — "the matter is open-ended." Even if only 1% went to the unit's projects, he adds, it would make available R1,7bn. But an ANC source has indicated it wants a far higher proportion than 1% of LOA members' funds spent in the unit.

The unit is to be an independent organisation, acting as intermediary to the individual life offices, which will make their own decisions on the unit's recommended investments. But Shill is confident the funds will be available. "The only limitation will be the inability of a project to satisfy reasonable investment criteria."

There will be argument whether a life office can properly invest in a direction which produces returns that are not market-related. To that, Shill says there will be some instances where it will be necessary for projects to be subsidised. Also, he adds, life offices frequently make investments that have a low return in the short term but which possess good longer-term prospects.

It could be argued that had the LOA not set up the unit, it might have been faced with the reintroduction of prescribed asset ratios — a situation considered far more onerous than diverting some funds into development projects ■

Boland aims to strengthen capital base

LINDA ENSOR

58

CAPE TOWN — Boland Bank aims to strengthen its capital base by creating 200-million redeemable cumulative non-participating par value preference shares which will be issued at intervals as determined by the bank's capital needs.

In the bank's annual report, released yesterday, chairman Pietman Hugo said the proposal to increase the authorised share capital would be submitted to shareholders at the July 23 AGM.

He said the bank's capital base needed strengthening to comply with the phasing-in requirements of the Deposit Taking Institutions Act. Boland would focus on consolidation and credit risk management in the current financial year. Last year, earnings increased to 141,3c (126,4c) due mainly to substantial increases in commercial banking, commission services and treasury incomes. These services were expanded to offset the limitation of financing growth to 6%.

Emphasis was given to promoting cheque accounts and broadening the bank's electronic card base.

Drastic measures were taken to manage risk. Hugo said there had been a sharp increase in bad debts last year.

The bank's total assets at the last year-end amounted to R3,5bn (R3,3bn).

Hugo said SA's short term economic growth prospects were unfavourable.

Rainbow forecasts strong performance improvement

BDay 3/7/92

MARCIA KLEIN

RAINBOW Chicken had a bad year to end-March, but has forecast a strong improvement in earnings in financial 1993.

Rainbow, SA's major chicken producer, reported a 12% drop in earnings to R48,5m to end-March on the back of overproduction and poor economic conditions.

MD John Geoghegan said in the annual report that selling prices were particularly low in the first and last quarters.

In spite of the results, the newly acquired Bonny Bird had turned around from a R13,2m loss in 1991 to a R17m profit in 1992. Geoghegan said that Rainbow had excellent resources, a sound financial structure and a clearly focused strategic direction, and its earnings should show a strong improvement in the coming year.

Geoghegan said the past year had been extremely difficult, and Rainbow had the additional task of managing its acquisitions — Bonny Bird Farms and Epol. It also bought the remaining 50% of Hyflite Breeders for R6,75m cash.

There had been little volume growth due to the recession, the drought and the introduction of VAT on Rainbow's products, which were previously exempt from GST.

Overproduction and a low level of demand resulted in significant sales promotions. While volume growth in the fast food and major retail chains sectors had been strong, volumes were reduced in the mining contract, small retail and other outlets.

Geoghegan expected the selling prices of chicken to be low in the first quarter while excess stocks were being depleted. But there would be a significant recovery in the second half "due to the balancing of supply and demand for poultry products and a rising meat price".

The rationalisation of Bonny Bird and the commissioning of the new Rustenburg feedmill would also make a contribution to earnings. In this light, he has forecast a strong improvement in earnings.

Geoghegan said improved mortality, feed conversion and body mass in Bonny Bird had contributed to keeping the cost of production increase to less than 10% for the year.

Geoghegan said reduced demand and margins in the animal feed industry had led to the closure of certain Epol competitors. To accomodate future demand, Epol had expanded one factory and built a new plant. Geoghegan expected little growth in sales volumes and a marginal improvement in earnings in this division.

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Confidentiality

Fund turns in another bright performance

BDay 3/7/97.

LINDA ENSOR

CAPE TOWN — The Southern Equity Fund produced a return of 24% over the past 12 months, Southern Life investments GM Carel de Ridder said yesterday on the release of the quarterly unit trust figures.

"This is the only general equity fund to have consistently performed above average over the past six quarters," De Ridder said.

Total assets under management in the Southern Equity Fund (R127m) and the Southern Mining Fund (R23,7m) increased by R22m to R151m over the quarter, with unit selling prices rising to 183,51c (175,86c) and 130,82c (125,01c) respectively.

The mining fund, which has yielded an annual compound growth rate of 13% since its inception in October 1988, produced a return of 4,27%.

(58)

All shares held by Southern Equity Fund in East Dagga, Tongaat and Sasol were sold while the Genbel holding was reduced.

Anglovaal Industries, Bevcon, SA Breweries, Dimension Data, Afrox and Consol were introduced into the fund and the holdings in a number of companies, including Rembrandt, Tegkor, Keeley, Anglo American, Richemont, Southern and Safren, were increased.

De Ridder said liquidity levels increased marginally to 15,6% while investments in the various sectors of the JSE remained relatively constant. Major holdings in the fund were Richemont (5,5% of the market value of the portfolio), De Beers (4%), Mobile (4,4%), Johnnies (3,9%) and First National (3,8%).

The mining fund sold off Elandsrand, Lebowa Platinum, Keeley and Lonrho.

Boland aims to strengthen capital base

LINDA ENSOR 58

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Hugo said SA's short term economic growth prospects were unfavourable.

Insurers battle for the 'luxury' market

W/Mail 3/7-9/7/92 (58)

By MONDLI MAKHANYA

AS the crime wave pushes short-term insurance premiums out of reach, insurers are looking at ways of keeping a clientele that is increasingly abandoning this "luxury".

Although the crime rate is said to have levelled off it is nevertheless still very high and claims are denting insurers' profit margins. With motor vehicles, for instance, which constitute a large proportion of insured property, the recovery rate is very low. According to the South African Insurance Association, of a total of 1 349 insured cars stolen in March, only 117 were recovered.

Furthermore, South African motorists' notorious driving habits are exerting pressure on insurers, who have to fork out for damaged cars. This is exacerbated by the increasing inflation rate which is pushing up the cost of spare parts. And in such times fraudulent claims usually increase and insurers have to devise means of preventing these.

Premiums rose an average 30 percent last year, with similar increases predicted for this year. Personal lines insurance — for individuals — has borne the brunt of the increases above that of the commercial lines — that of businesses and corporates.

Now competition among insurers is no longer only about attracting custom but is moving more and more towards keeping existing custom.

IGI, for instance, has launched a programme marketed via employers — thus keeping administration costs down and cutting premiums. It is aimed at people in the B and C income groups (those earning less than R24 000 a year). According to IGI urban business development manager Gene Fivaz, it will be a "no frills" policy, covering only catastrophes such as fire and burglary and special perils such a floods.

Other insurers are following suit. Commercial Union's David Poole says his company is telling clients "there are alternatives to stopping insurance altogether.

"We are telling our brokers to get the message through to clients that they should not drop cover altogether. They can keep catastrophe that will insure them against major perils such as fire."

But this may just be a short-term precaution and the ultimate answer may lie outside the ambit of the insured. As a means of increasing the recovery rate, insurers have set up an ongoing liaison with the police. They are also working with the Vehicle Security Association to improve anti-theft devices in vehicles.

Prestasi Brokers chief executive Jan Erasmus — a vocal critic of industry practices — feels that the long-term answer lies in the structure of the industry. He feels the concentration of power in the industry — with just three companies dominating — gives them power to increase premiums as they like. Furthermore, he argues, the reason for the greater increases in personal lines than in commercial lines lies in the fact that individuals do not have as much clout to resist increases as the corporates.

"It may this may be the fact that individuals are more prone to be burgled and have their cars stolen or hijacked than are corporates — but when corporates are victims the volumes are much greater," says Erasmus.

However Poole dismisses this as simplistic, saying that the reason why it is difficult to increase commercial lines is that competition is much stiffer for this business as it brings in the volumes.

Another rate fall... (58)

BUSINESSMEN smiled a little this week as interest rates fell by one percentage point.

The Reserve Bank's cut in the Bank rate — the rate at which it lends to commercial banks — from 16 percent to 15 percent was followed the next day by commercial banks' reduction of the prime lending rate to 18,25 percent. This is the second fall in interest rates this year, the last one having occurred in March.

Although the cuts will make credit cheaper, it is unlikely to have any major stimulatory effect on the economy. W/Mail 3/7-9/7/92

More good news

THERE was more good on the economy. Central Statistical Services' May figures reported the lowest inflation figure in 13 months.

At 14,6 percent the year-on-year increase in the Consumer Price Index is the lowest since April last year. Small increases in transport costs (14,3 percent), footwear (7,2 percent) and clothing prices were the main contributors to this low increase. Food, however, remained untamed at 27,8 percent. W/Mail 3/7-9/7/92

HOUSE REPOSSESSION: *Unemployment has been the biggest single factor*

Take these tips to keep the wolf from the door

(58) STAR 4/7/92.

HOUSE OWNERS were given a shot in the arm with the announcement of a cut in bond rates from July 1. But for some the relief will be only temporary and the spectre of instalment default and repossession still looms large. The Saturday Star asked NBS assistant manager TREVOR OLIVIER to comment.

HOW many houses are repossessed every year?

There is no national figure available, but a lot more properties have been repossessed in the past couple of years. On a national basis the NBS repossessed between 600 and 800 houses.

The reason for the increase is the additional volume of lending. Financial institutions are doing an enormous amount of lending.

Unemployment

The competition from banks has created many difficulties for the traditional house lenders because the banks have taken a "banking" line on loans and have made home ownership more accessible. We have had to amend our tried and tested procedures to meet that competition. The result has been an increase in repossessions. But, seen against the background of the large number of new loans granted, repossessions are a tiny proportion.

Who is being hit?

There is an across-the-board profile of people affected — from the lower income groups through to the higher income. The unemployment problem has been the single biggest factor.

When will a house be repossessed?

Reminder

That depends on individual circumstances. At the NBS we look at each account every month. If the instalment set — which is based on a repayment term at a certain interest rate — is not paid, we send out a reminder notice. If a house owner walks in and says "I can't pay — here are the keys," we suggest selling the property and other options and if this fails, we institute legal action.

What alternatives are there?

There are several.

- In an "advance" situation where excess amounts have previously been paid into the account, it is possible to skip an instalment;
- If there is sufficient margin between the balance owing and the value of the property, another alternative is to register a further bond to cover the arrears;
- Extending the term of loan can make a difference, but a negligible one. For example over 20 or 30 years in a R100 000 loan is about R30 a month;

Collateral

- Asking your employer for help in advancing funds against pension assets or from accumulated leave.
- Cashing in on insurance policies with surrender value, using them as collateral security or borrowing against them to pay the arrears,
- Paying interest only for a while; and
- Using the government deferment scheme that provides the financial institution with a guarantee and allows a repayment based on a 17 percent rate.

What about other debts?

Pay your house loan first. The cost of acquiring and then losing your house is very high. Other movable assets are not inflation-linked in the way that your house is.

Many defaulting house owners stay on as tenants?

That is a possibility if we can't find a tenant, but it seldom happens.

What happens to repossessed houses?

The financial institution becomes the owner after the "sale in execution" and has to manage the upkeep. An effort is then made to sell the property on the open market.

How many repossessed houses are still empty?

That is not a major problem because of the demand for housing.

Who is responsible for the upkeep of repossessed houses?

The lender.

If your house is sold for less than your mortgage, are you still in debt?

Yes, there is a personal obligation by the borrower. We try, as far as possible, to collect that money, because it is unfair to borrowers, investors, shareholder and other house owners to do otherwise.

If you have defaulted in the past, can you get another mortgage?

Defaulting makes it very difficult. A lot depends on whether judgment was obtained against the house owner and whether it was recorded in the credit records.

OUT IN THE COLD: Even if you have other debts, pay your house loan first. The cost of acquiring and then losing your house is very high and other movable assets are not inflation-linked in the way that your house is.

Fund managers doing well

STAR 4/7/92.

Unit trusts are money spinners for their management companies as well as unit holders. The Registrar's figures show that top earner Old Mutual's gross income from the trusts for 1990 was R43,9 million. By DEREK TOMMEY

UNIT trusts are well-known for their propensity to make money for holders.

What does not seem to be so widely appreciated is the amount they draw in for their management companies.

Figures issued by the Registrar of Unit Trust Companies show that in 1990 the management companies, controlling R7,55 billion in unit holders' assets, earned R119 million in revenue and had a net profit before tax of R34,4 million.

The Old Mutual Unit Trusts Management Company, which started in the late 1960s, was the top runner in terms of revenue and profits. In 1990 it had a gross income of R43,9 million from managing five unit trusts — the Investor's Fund, the Mining Fund, the Income Fund, the Gold Fund and the Industrial Fund.

Purchase and sale of units in the five trusts brought in R6,05 million; the service charge another R10,7 million and "other income" (usually from the creation of new units) R17,1 million.

Expenses took some R32,6 million, leaving R11,3 million in pre-tax profit. Taxed profit was R5,8 million, giving a return of 116 percent on the R4,95 million invested in the management company.

The total value of the assets of the five funds administered by the Old Mutual was R2,5 billion.

Next was Guardbank, which started operating in the early 1970s. Its investment in its management company at R8,26 million was higher than the Old Mutual's, mainly as a result of a significant ploughing back of profits.

Guardbank's 1990 revenue from managing its three unit trusts was R21,0 million. However, net profit before tax at R10,8 million was only slightly less than that of Old Mutual. After-tax profit, at R5,66 million, was virtually the same as Old Mutual's.

Guardbank's three unit trusts together had assets of R1,035 billion at December 31 1990.

Because of a change in financial year, no figures were available for Investors' Mutual Funds, which managed the Sage Fund and Sage Resources Fund.

The next two big earners were Sanlam with a gross income of R19,35 million and Standard with a gross income of R15,2 million.

Sanlam's profit before tax in 1990 was R3,7 million and Standard's was R3,4 million. Sanlam had R5,6 million invested in its unit trust management company and Standard R2,18 million.

Revenue of the other unit trust management companies in 1990 and, in brackets, their pretaxed profits were Syfrets: R6,89 million (R3,08 million), UAL: R6,46 million (R1,78 million): Southern: R2,78 million (loss of R1,6 million) Momentum: R1,27 million (R150 000); NBS: R828 000 (R48 800); Investec: R647 000 (R20 300); and Senbank: R358 000 (R237 000).

Southern launches a fund with a conscience

By Quentin Wilson

SS

A UNIT trust fund geared towards investors whose "ethical values prohibit investment in certain industries" was launched this week by insurance giant Southern Life.

This follows the positive response by investors to a "socially responsible" investment fund launched by trade unions last month.

After two years of research in which its viability was determined, the Southern Unit Trusts Management Company launched the Southern Pure Specialist Fund this Wednesday.

Although the latest fund is open to all, it's commitment to socially-responsible investments clears the way for Muslims, who are governed by religious injunctions regarding business dealings.

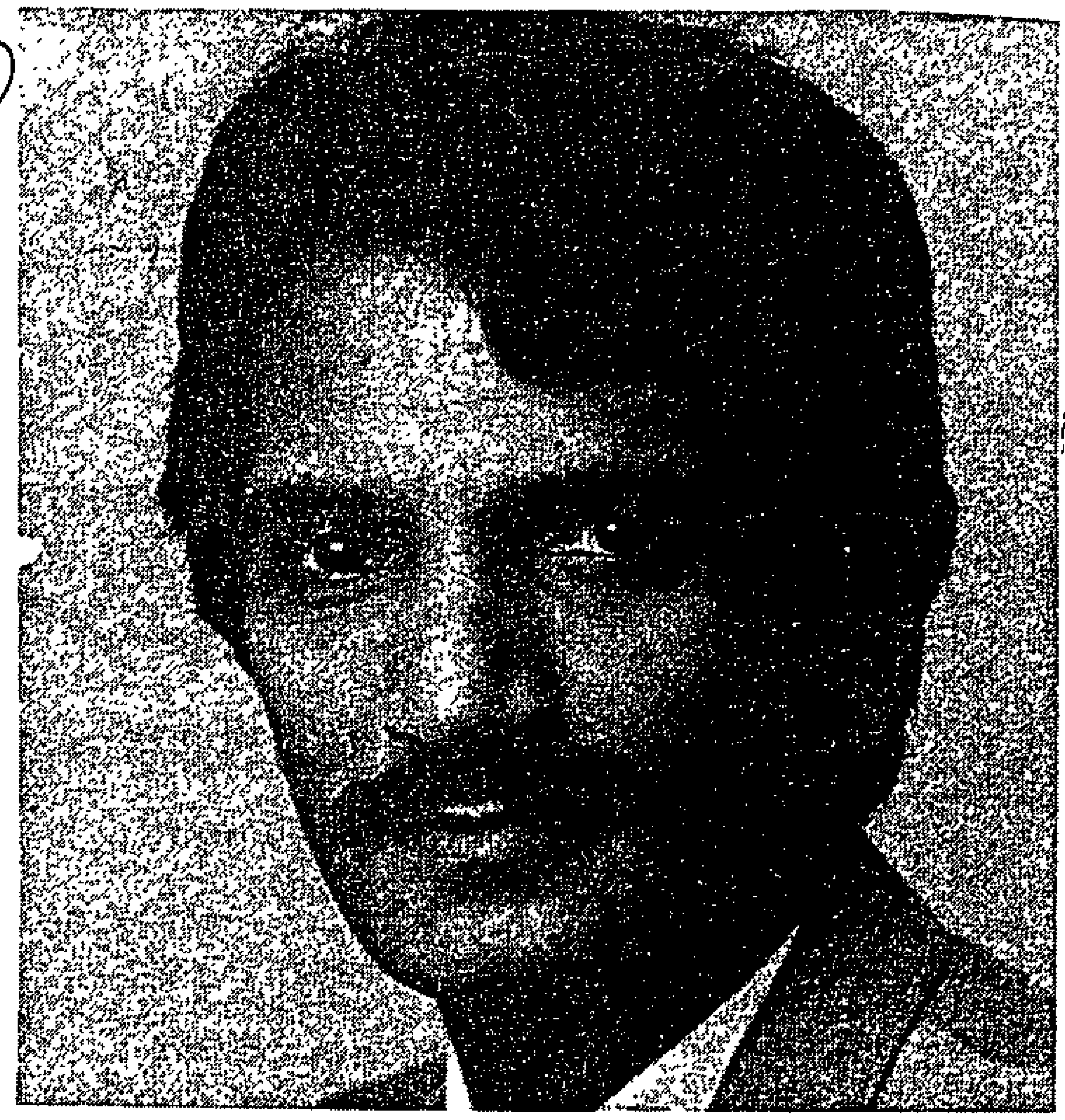
"We would like to make it clear that this is not just a Muslim fund. It is open to all investors whose moral code and ethics prohibit investment in certain industries," Southern's general manager (investments) Mr Shamsodien Pather said.

"The fund will exclude investments in interest-bearing institutions (such as banks), life assurance, liquor, intoxicants, hotels, gambling and commodities harmful to the environment."

The fund will comply with the rules of the Unit Trust Control Act, meaning investments will only be made in companies listed on the Johannesburg Stock Exchange.

Pather acknowledged that "compromises" would have to be made regarding investments as "we are not living in an ideal world — we live in South Africa where it is difficult to find companies that will meet our requirements."

According to Pather, however, fund managers "will try to go a



Shamsodien Pather, General manager, investments — The Southern Life Association

South 4/7-8/7/92

fair way" in ensuring that money is invested in companies which make positive contributions to society.

These would include, for example, "the contribution a company makes to education or housing. The impact their activities have on the environment will also be considered, and environment-conscious groups will be consulted," Pather said.

Pather said although fund managers faced limited choices, which excluded many excellent companies, he was confident the fund would not underperform relative to other funds.

"Already one third of our investment portfolio for the fund points to returns of between 20 and 50 percent. Say, for example, you buy a share for R10 and sell it after 10 years. If it was invested in a company which managed a return of 25 percent annually, you would make a profit of R25 — and that is without re-investing the returns along the way.

"We would like to see the fund achieve a performance similar to that of other funds. Many of the shares to be included in the portfolio are shares in which Southern Unit Trusts already invest," Pather said.

If the success of its two funds is anything to go by, their latest fund promises similar results.

Over the past financial year, the Southern Equity Fund proved itself as one of the country's top funds with a return of 34,38 percent. Assets under management rose from R58 million to R129 million, while the 40 percent increase in the number of clients is indicative of the strong public support.

BUSINESS

EDITED BY FRED ROFFEY

New investment channels consider moral objections

(58)

S Times [Cape metro] 5/7/92

TWO new investment channels initiated by the Muslim community but available to all South Africans were launched in Cape Town this week when top directors of the Albaraka Bank flew in from the Durban headquarters for the opening of the local branch, and Southern Life introduced its Southern Pure Specialist Fund.

Details of the new Southern unit trust fund were given at a media conference where it was explained that the fund was aimed at investors whose moral code and ethical values prohibited investment in certain industries.

"It will exclude investments in interest-bearing instruments, life assurance, intoxicants, tobacco, hotels, pork-related products, gambling and commodities deemed harmful to the environment," said the general manager (investments) of Southern, Shamsodien (Shams) Pather.

He pointed out that the fund would comply with the prescriptions of the Unit Trust Control Act, which stipulated investment in listed securities on the Johannesburg Stock Exchange.

"As a specialist fund, the portfolio will consist of share investments in gold, mining, industrials and property as well as cash.

"Liquid assets will be held with institutions which practise interest-free banking such as the Islamic Bank in Johannesburg and the Albaraka Bank.

"Cash in the fund will be deposited with these interest-free banks although the listed companies in the portfolio utilise the normal banking system.

"Intensive research was undertaken before construction of the portfolio to establish the parameters under which the fund would be managed."

Mr Pather said while the universe of assets from which the fund manager could select was limited and excluded many blue chip stocks, he was confident the Pure Specialist Fund would not underperform relative to the unit trust industry.

"Many of the shares which will be included in the portfolio are shares in which Southern Unit Trusts already invests in its other portfolios.

"Southern Unit Trusts launched its first funds in October 1988 and has become a major player in the market.

"Over the past financial year ended March, the Southern Equity Fund proved itself as one of the country's top funds with a return of 34,48 percent. Assets under management rose sharply from R58-million to R129-million."

5/7/92

The opening of the Cape Town branch of the Albaraka Bank on the corner of Spin and Plein Streets was attended by top executives from the Durban headquarters, including Mr Y M Paruk, first deputy chairman, Adv A B Mohamed, second deputy chairman, Mr E E Vawda, chief executive officer, and one of the auditors, Mr M S Paruk.

In his welcoming address, the bank's religious adviser, Sheikh A B Najaar, said the bank was part of the Albaraka group of companies with 21 banks and financial institutions throughout the world and assets of more than R11-billion.

In an interview, a Cape Town director of the bank, Nazier Osman, who is a prominent businessman and community leader, said the bank would be established on sound economic principles "without having to indulge in interest".

The Durban headquarters had made big strides over the past 18 months and its main activity was finance for trade, housing, motor vehicles and partnerships.

"We intend to spread into other fields as well," said Mr Osman.

"The support we have received in Cape Town has been overwhelming and one of our first account holders was the Muslim Judicial Council."

The bank does not pay interest but declares dividends. It helps large and small entrepreneurs and encourages them to start new ventures.

New estate agents' body plans to fight apartheid wrongs

S/Times [C metro] 5/7/92

(58)

By ROBERT HOUSLEY

A NEW estate agents' organisation plans to give free advice on the intracies of buying and selling property in Cape Town's black communities.

Civic centres are the likely venues of a information service covering such topics as mortgage financing, property management, personal budgeting and even do-it-yourself schemes to improve your property.

The National Property Forum will administer and oversee the service as part of its long-term initiative to socially uplift and educate the African and "coloured" property markets while improving the estate agent-client relationship and securing better support from financial institutions for small estate agencies.

Forum convener Abe Taylor said the information service and the organisation itself have their roots in apartheid.

Laws like the Group Areas Act and the Land Act "immediately created a white and non-white market.

"The white market developed rapidly while the non-white market was hamstrung by forced removals and these laws which restricted property ownership."

What has made life even more problematic for the black agent or small agencies has been the gusto with which financial institutions entered the property market about five years ago to boost their home loan levels.

"They poured millions of rands into the big property companies and encouraged partnerships and mergers between others, thereby creating monopolistic tendencies within the property industry and a fear among the smaller companies, especially the non-white ones," Mr Taylor said.

The threat of a big companies takeover in the black market was a primary incentive for the establishment of the forum.

"We either get together, consolidate and pool our resources or we fall by the wayside and end up working for them," Mr Taylor asserted during a forum meeting at UCT on Tuesday.

Its next meeting is on July 22 at the Robert Leslie Hall, UCT, at 9.30am. For more information contact Beverley on ☎ 7050479/7054579.

Agent upset at this kind of sharing

S/Times [Cape Metro] 5/7/92.

By EVE VOSLOO 58

THE Estate Agents Board is investigating whether companies offering to find people accommodation to share need to be licenced estate agents.

This follows a complaint against a Cape Town company from one of its competitors.

All City Real Estate, a licenced estate agency which also has a service matching people who want to share flats or houses, has filed a complaint with the board against Sharing, a company which is not a licenced estate agency and which concentrates solely on matching people who are looking for or offering accommodation to share.

Mr C M A Ashbol, head of the legal department of the Estate Agents Board, confirmed this week that a complaint had been received.

The basis of the complaint was the Estate Agents Act, and whether some of its provisions applied to this service, he said.

In terms of the Act, "so-called information bureaux which merely undertake to provide details of properties for sale or rent" also fall within its provisions, meaning that to offer this service a company has to be a licenced estate agency.

The Act also says that "not only the person who lets or hires on behalf of any other person or on his instructions, but also one who negotiates in connection therewith, or canvasses (advertises) or undertakes or offers to canvass a lessor or lessee" have to be licenced estate agents.

The owner of All city, Mrs Regine Walker, said she had lodged the complaint because she had waited five months before opening her doors to acquire an estate agent's licence and felt it was unfair that Sharing was operating without one

Mr Steven Nelson, owner of Sharing, said his attorney had filed an answering affidavit to the Estate Agents Board in which he argued that his company was not acting as an estate agency or a letting agency, but one which matched people, much as an employment agency did, and therefore did not need an estate agent's licence.

"If the board rules against us we will get a licence," he said. "But we are confident that this is not the case."

Mrs Walker and her attorneys, on the other hand, are convinced that a licence is required.

Mr Ashbol confirmed that a replying affidavit had been received and said the matter had been referred to a disciplinary committee.

Assurers commit R10bn

(58)
S/Times (Buss)
5/7/92

By TERRY BETTY

LIFE assurers have committed R10-billion to social development projects.

Life Offices Association (LOA) chairman Louis Shill says: "Assurers have been investing in property developments for several years in dormant centres, such as Soweto."

The LOA has formed an investment development unit (IDU) to identify and co-ordinate socio-economic developments.

"The money has never been the problem, there has always been a lack of worthwhile projects."

Mr Shill says this is a response to a changing environment.

"The black market has constituted a large proportion of our new business over the last few years, so it is only fair that we channel some of the funds into the community."

'Profits boost' for Momentum, RMB

Bday 6/7/92

EDWARD WEST (58)

MOMENTUM Life's acquisition of Rand Merchant Bank (RMB) under the ultimate 76,4% control of Rand Merchant Bank Holdings (RMBH) is expected to boost RMB's profit by 20% and Momentum's earnings by 26,5%, the Momentum transmuted listing statement published today forecasts.

The deal, which saw the creation of a diversified R10bn financial services group through the acquistion of 30% and 29% stakes in Momentum from Absa and Rembrandt's Financial Securities Limited, was expected to raise RMB's profits to R36,3m from R30,3m for the year to June 1992, barring unforseen circumstances.

Assuming that Momentum's profits would not be less than last year's and that 60% of earnings were attributable to shareholders — since 60% of the RMB acquisition was financed by the issue of new shares — Momentum's pro-forma earnings to June 1992 were 32,5c a share compared with 25,7c a share last year.

Based on Momentum's dividend cover of 1,7 the pro-forma dividend to June 1992 was 19,1c (15c) a share.

To reflect the new group's business activities and to optimise synergistic benefits, a further restructuring was planned.

However, Momentum, with total assets worth R7,1bn at June 1991 and RMB, with assets worth R2,7bn in 1991, planned to continue their businesses as a life assurer and merchant bank respectively. The RMB acquisition was expected to expand Momentum's capital base by R231,3m to provide capital for future growth.

Saambou expects better year

Bday 6/7/92

LINDA ENSOR

58

CAPE TOWN — A more streamlined Saambou Holdings was expected to generate improved results this year as it reaped the benefits of its restructuring programme, group MD Johan Myburgh said in the annual report for the year to end-March.

He said the benefits would be felt mainly in the second half and would offset the increased pressure on interest margins and the effects of a weakening economy on the group's performance.

Myburgh said a new streamlined structure, involving a new branch network and branch structures, had been formulated in the last few months after research into Saambou's target markets.

"The restructuring will not only help in saving costs but will also contribute materially towards greater efficiency and better quality service to Saambou's clients," Myburgh said.

Corrective measures taken last year and the present streamlining steps had laid a sound foundation for future profitability.

Saambou's net operating income before abnormal items switched from a loss into a profit last year but after normal and abnormal provisions, an after-tax loss of R68,3m (R26,6m) or a loss of 59c (loss of 26,4c) a share was suffered.

Abnormal provisions of R68,8m were made for losses on investment securities and losses resulting from the revaluation of property development advances and inventory to their realisable values.

These provisions meant Saambou was unable to declare a dividend.

"The board is, however, of the opinion that these actions will put the company in a stronger competitive position and that the results for the coming year will reflect this," said chairman Hendrik Sloet.

The group's banking and building society activities were consolidated last year, a new strategic framework with a new structure was established and a new marketing approach was also developed.

Attention was given to the quality of the assets so that a much larger percentage of the assets were in the high yield category. Low yielding assets were sold.

As a result of these steps Saambou's assets increased by only 1,7% to R4,3bn. Advances grew by 16,2% and the ratio of these productive assets to total assets increased to 83,7% from 73,2%.

BoE fund easily beats share index

BDay 6/7/92

LINDA ENSOR

58

CAPE TOWN — Board of Executors Growth Fund achieved a 20,3% return on a repurchase to repurchase basis in the year to end-June compared with an inflation rate of 14,8% and a total return of the All Share Index of 14,1%.

BoE senior GM John Winship said there was a net inflow of R4,2m into the fund in the second quarter which increased the fund's total market value to R68,9m.

Liquidity at end-June was about 20%.

"In the light of the high ratings of the world markets in general and the uncertainty of the local political situation, we considered it prudent to increase the liquidity level," Winship said.

"During the quarter a more defensive strategy was followed and holdings in direct gold shares, De Beers, and Engen were reduced while JCI, Liberty and Impala were bought."

About 52% of the fund was invested in financial and industrial shares and 28% in resource-orientated shares.

The top five holdings in the fund were Richemont, Anglovaal Industries, De Beers, Hudaco and Sappi.

whole page

58

Safegro

Safprop shows 'remarkable' growth in depressed market

SAFEGRO Property Management (Safprop), the property management and development company of the HCI group, has shown remarkable growth in a depressed market over the past two years.

Specialising in all aspects of commercial, industrial and retail property management, the company has made significant progress in acquiring substantial national property management contracts across the business spectrum.

Its current property portfolio is in excess of R300m and it has about 400 leases currently under administration.

The M-Net building in Randburg, PLS House in Parktown and Hosken House in the Johannesburg CBD, are among the prime properties under administration.

Safprop's professional services include property development, sales and acquisitions and portfolio management which encompasses letting, tenant co-ordination, rent collection, cleaning, security and full building maintenance.

While Safprop is dedicated to a programme of continuous growth and increased profitability in all areas of property management, it retains a strong commitment to preserve, where possible, properties of historical significance.

Contribution

In fully restoring several fine old buildings to their original glory, Safprop is proud of its contribution to SA's cultural heritage.

Examples of work carried out were the restoration of the old St Josephs Convent in Mafikeng, two Victorian houses in Florida Road, Durban, and a fine example of Victorian architecture in Loop Street, Maritzburg.

All these properties were fully refurbished to provide first class office accomodation and are now producing acceptable returns on the initial investment.

At the same time, their original atmosphere and historic importance have been maintained.

Operating on a national basis, Safegro is able to provide a complete "turnkey" service in property development and leasing.

From initial research, investigation and feasibility studies, the company's specialised team will prepare a formal detailed investment proposal, encompassing strategy, planning and implementation programmes for commercial, industrial or retail property ventures.

Safprop is involved in the purchase of appropriate undeveloped land for exploitation, demolition and redevelopment of established sites, and the restoration or refurbishment of existing properties.

In all these cases it provides professional, yet cost-effective, solutions to meet the most demanding business property development requirements

Safegro is currently involoved with the development of two office/retail developments.

Efficient

One is on the Victoria Embankment in Durban, the other in the CBD of Windhoek, Namibia. Total cost of these projects is in excess of R30m.

On completion of the development phase, Safegro's leasing experts — using advanced art computer equipment and local area networks — ensure efficient processing of all relevant data for optimum lease fulfilment.

Efficient, professional and cost-effective property management is more vital than ever.

Prospective tenants are becoming far more selective in their choice of premises, and existing tenants more demanding in their service requirements

Coupled with the escalating number of companies experiencing financial difficulties, efficient building maintenance, sound accounting procedures and disciplined administration are absolutely essential.

Safegro's in-house maintenance team is managed and staffed by highly experienced management and artisans, geared for fast reaction to any building maintenance task or emergency.

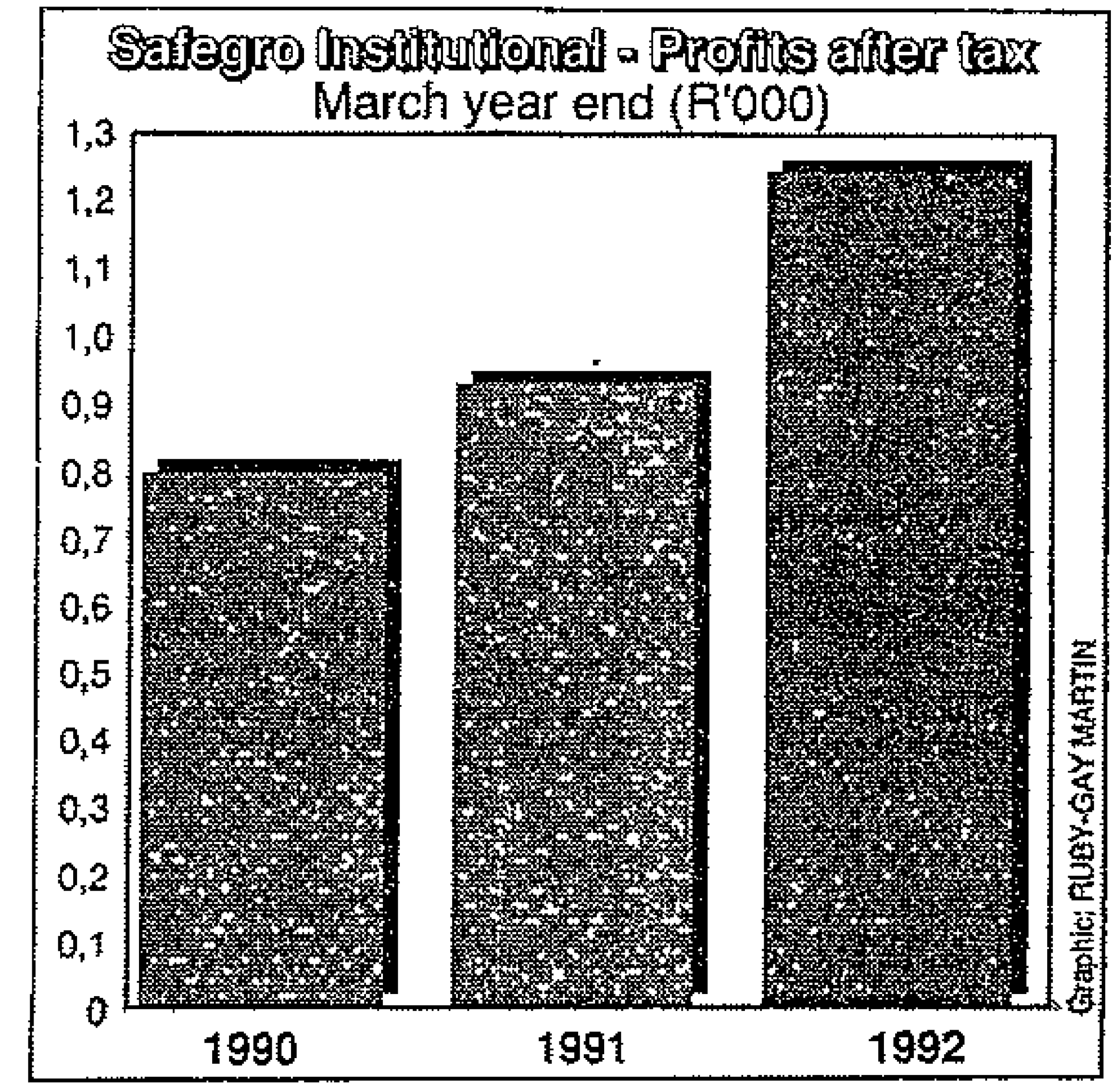
Accounting and administration of all leasing agreements — including preparation and distribution of statements, collections, arrears and legal litigation — is professionally managed by top calibre financial personnel.

Much of Safegro's success in property management is attributed to its directorate's uncompromising insistence on total professionalism by staff — at every level and at all times.

The company's strict adherence to this credo is perhaps most evident in the period prior to a new tenant taking occupation in any Safegro managed property.

This is when its design specialists, in conjunction with the development and maintenance divisions, liaise and prepare drawings to tenant requirements and supervise construction to ensure that, on occupation, both tenant and landlord are in perfect accord.

It is in combining modern, innovative management techniques with tried, tested and trusted business principles that Safegro has achieved such extraordinary results in the market in which it operates.



Takeover was start of many challenges

SAFEGRO Personal Asset Management (Persam) was born from the takeover of a privately owned portfolio management company in 1989. This gave Safegro Holdings an immediate start in private portfolio management.

"It was the start of many challenges," says director Kevin Cockcroft.

The first priority was to change the client profile. Many small portfolios under management were better suited for unit trusts as it was difficult to offer them a spread of blue chip shares for the portfolios to derive the full potential of the stockmarket.

"Although we still have a number of these portfolios, most were switched to the IGI Unit Trust", says Cockcroft.

The second challenge was to identify and recognise changes in the market. Credibility has now become an important aspect in this business and people are no longer prepared to have their portfolios run by almost anybody who professes to be an expert.

This trend is reflected in the growth of private client business of most large institutions and the demise of many small operators. Factors such as track record, expertise and access to capital have become important issues.

"The cornerstone of Safegro Persam's business is built on referrals," Cockcroft says.

The third challenge was to change the portfolio management style. There was a common belief that private client portfolio management employed short term investment strategies and, therefore, catered for the more risk inclined person.

"We believe this to be contrary to what the market requires, and that conservative fund management is more prudent," Cockcroft says.

Finally, Persam benefited from changes made in staff structure. Management was consolidated into Safegro Holdings and the portfolio management and administrative functions were streamlined.

"The transformation was assisted by Safegro's economist and analysts, giving Persam an edge in its communication with the stockmarket.

"Performance is the bottom line, but we have further identified that personal communication is an important factor in keeping your clients happy. We have an open door policy to client communication," Cockcroft says.

Unit trust, insurance policy link-up mooted

LINKING unit trusts with insurance policies is one of the new ways in which IGI Unit Trust is seeking to meet the financial needs of people, says unit trust division director Peter Linnell.

The Complete Saver was launched nine months ago on a trial basis and has since proved popular among investors. It is a product which links the concept of an endowment policy with a unit trust.

"When a person takes out this plan, a monthly instalment is split into two components, the life side and an investment in a unit trust. We are now looking at linking various other products with unit trusts", says Linnell.

One of the products under discussion is to link a short term motor car policy with a unit trust investment. The rationale is for a person to have the funds available in the unit trust to meet the costs of a claim.

If there are no claims, a person would have the funds in a unit trust which could then be used to purchase a new car.

PETER LINNELL

Business Day SURVEY

*Safegro, an investment management company formed just under three years ago to handle the HCI group's funds, has developed into a fully integrated financial services group with assets of R1,2bn under administration. **MERVYN HARRIS** reports on the organisation which has achieved a compound earnings growth of over 30% a year.*

Dynamic team geared for the '90s

SAFEGRO boasts a young and dynamic management team, blended with a dollop of experience and geared for the bracing 1990s.

It is headed by MD Kevin Cockcroft, 34, who has 10 years' service in investment management. Born in Port Elizabeth and educated at Grey High School and Rhodes University where he read for a BA LLB, he was admitted as an advocate to the Pretoria Bar in 1983.

Although he never practised law, the legal background was a sound base from which to launch a career.

This stood him in good stead in his first job as a trust officer looking after the total financial planning for individuals. After three years he left to become a portfolio manager at Metboard in 1986.

At Metboard, he ran the IGI account. The group was so pleased with the way he handled things that he was invited to head the fledgling Safegro group.

Other members of the high powered, five-member management team are senior investment manager Len Olivier, 31, who has nine years' analytical experience, financial director Andy Moorcroft, 31, with experience in accounting, financial and money market management, and Alex Dawson, 36, the administration anchor of Safegro, with institutional experience.

The other member of the team is Peter Linnell, 41. He runs the unit trust and his credentials include having started Guardbank and the Metboard funds.

A central philosophy of the group has been to lean heavily on outside expertise spanning the investment field.

Cockcroft says: "It has become impossible to have an in-house expert team in every field of finance. We therefore make full use of outside sources who specialise in their respective fields, while we concentrate on one-stop fund management."

Growth reflects confidence in IGI Unit Trust

LAUNCHED under the Safegro banner in June 1990 as a general equity fund, IGI Unit Trust has more than doubled its initial portfolio to over R44m.

The growth is a reflection of investor confidence in a proven method of wealth accumulation in an environment where inflation is eroding the real value of personal savings.

There are essentially three types of saving: contractual for retirement, specific for planned expenses, and contingency for unexpected expenses. But it is a sad fact that most people are saving less as the years go by.

Some people are even spending more than they earn each year. Those who have realised the necessity of saving for the future have encountered many unforeseen obstacles.

The first bogey to be encountered is inflation. Its corrosive effect is vividly seen in interest paid on savings being insufficient to keep pace with the cost of living.

Then there is the problem of fiscal drag. This occurs when higher taxes cause a decline in real income although salaries keep pace with inflation.

Combine these factors with the low economic growth experienced in the last decade and it becomes clear that an increasing number of people will begin to live from hand to mouth.

These problems can be overcome through investment in a unit trust which offers the flexibility to save for any type of investment need at a pace to suit the investors' pocket

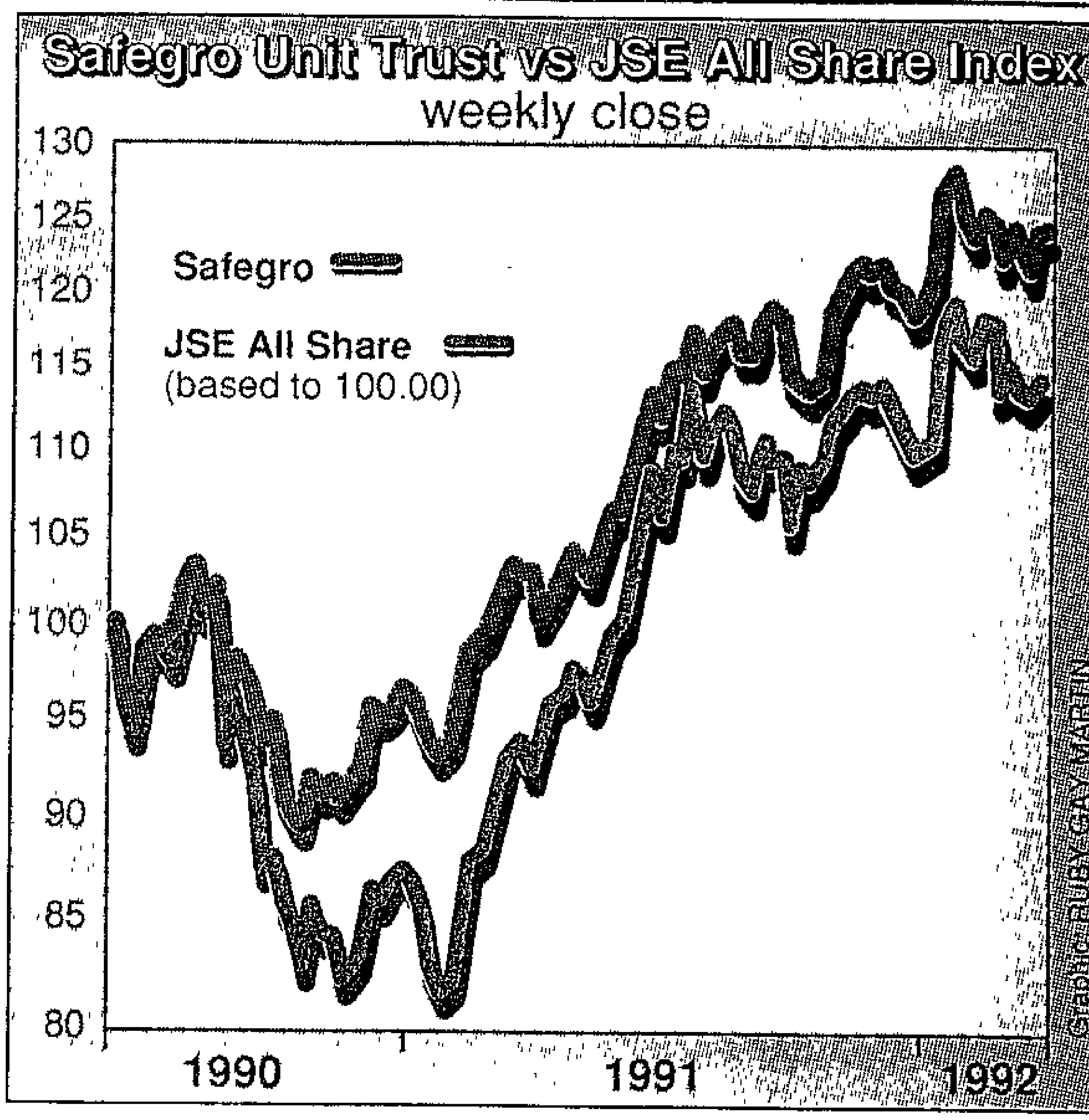
Positive

Returns over the longer term have been in excess of inflation, allowing savings to grow by yielding a positive increase in investment value.

With this in mind, IGI Unit Trust has set its investment minimums as small as possible, with R25 for monthly investors or R100 as a lump sum. Monthly investments may be increased, decreased, suspended or terminated at any time, but it is well to remember that the larger the investment, the sooner the investment objective will be reached

Share prices of companies in the portfolio react to economic cycles and will move up or down, especially in the short term. Historical trends have always been upwards over the longer term so when a falling asset is encountered, this should not be viewed with dismay but rather as a period of opportunity when unit trusts can be accumulated at low prices.

These units are likely to show superior returns when the market resumes its upward trend.



Fund management plays big part in group profits

SAFEGRO Institutional Fund Management is the single biggest contributor to Safegro group profits. The fund reported superb results for the year to March 1991 and posted a 30% increase in the latest results to March 1992.

Safegro Property Management has continued to perform well despite current tough economic conditions, while the performance of Safegro Unit Trust has been outstanding since its listing in June 1990.

With smaller investors remaining wary of investing on the JSE, Safegro Personal Asset Management has made slower progress.

Safegro

58

Divergent client base prompts acquisition

FORMED less than three years ago as an investment management company to handle the HCI group's funds, Safegro has developed into a fully integrated financial services group with assets of R1,2bn under administration.

It has achieved a compound earnings growth of over 30% a year and staff has expanded from four to 40 to handle the wide range of services.

MD Kevin Cockcroft says: "Investment management is a highly focused yet multi-faceted area of activity. We wanted to attract investment from the public in the form of private client share portfolios as well as pension and institutional funds.

Necessary

"The widely divergent profile of clients we planned to serve therefore made it necessary for us to form various operating companies."

These included institutional, pension funds and unit trust investments, property, corporate clients and personal asset management for the public.

KEVIN COCKCROFT

As part of its objective of offering a wide range of diversified products within a professional and focused environment, Safegro acquired a substantial interest in Mercantile Bank in December 1990.

"The acquisition has not only enhanced Safegro's profitability but has added a further dimension to the HCI group's ability to utilise the corporate financial services of Mercantile Bank", says Cockcroft.

Safegro also pursued the objective of investing its cash flow in other areas of a non-core nature.

Cockcroft says "An investment management company always runs the risk of suffering a decline in earnings in the event of a stockmarket undergoing a poor performance

Invested

"To combat this, Safegro has invested its cash flows and human resources in identifying investment opportunities outside the normal course of its business."

A good example of this was the Safegro-led consortium of investors which acquired assets of JSE-listed Spareco when it was placed in liquidation in 1990.

Spurred by a belief in the long term viability of the motor spares industry, assets purchased from Spareco included control of Eddies Stores.

The business of Spareco was revived and is today operating successfully. The long term goal of the consortium is to bring the company back to the market in a sound financial position for the benefit of the public, staff and management.

In 1991 Safegro and a private investment company entered into negotiations with Linde-Germany to operate, under franchise to Germany, the assembly, distribution and maintenance of the Linde lift truck range of products and spares

Negotiations were successful and sales to date indicate a growing demand for the Linde products. The annual market for lift trucks in SA is about R400m, which augurs well for the performance of the SA franchise in the years ahead.

Growing

Cockcroft says: "We plan to continue growing organically but we are also interested in creating added value on the investment we already hold. We also want to establish offices in areas where Mercantile Bank has existing premises.

"Our long term goal is to list Safegro on the JSE," he says.

Hosken gives strong financial backing

SAFEGRO is backed by Hosken Consolidated Investments (HCI), which controls IGI Insurance and Safrican Life Investment Holdings (Saflife).

All three companies are listed on the JSE and Safegro's long-term aim is to go public.

When Safegro Holdings chairman Michael Lewis was appointed as the chairman of the HCI group he was one of the youngest people at the helm of a JSE quoted company.

Under his stewardship, the group has grown into a major financial force. He took the group international last year with the listing of Amity on the Luxembourg Stock Exchange.

HCI has its origins in 1888 when William Hosken, a young, enterprising Cornishman, started trading in Johannesburg through William Hosken & Co.

The company acted as business agents for the sale of mining equipment and other requisites. In 1904, the company entered the insurance field when it was appointed agent for Lloyds of London.

Official

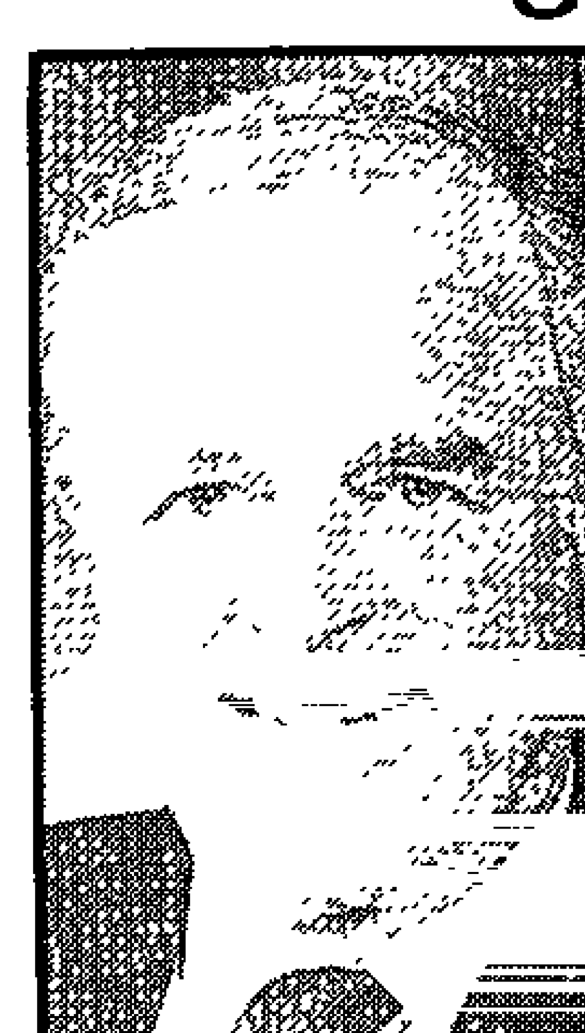
The company's subsequent involvement in insurance included the appointment as managing agent for the National Employers Mutual and as official insurers to the Automobile Association

In 1948, Hubert Hosken & Co was formed to act as insurance brokers and in 1954 IGI Insurance was formed to underwrite consumer credit insurance. The company presently transacts all classes of short-term insurance business, the main area being motor vehicle insurance.

IGI Bophuthatswana is a subsidiary providing for the short-term insurance needs of that country.

Saflife underwrites life and home services assurance and administers pension funds.

The objectives of the group are:



MICHAEL LEWIS

- To manage the growth in gross premium income to ensure that the solvency margin is maintained at a level well above the statutory minimum;
- To underwrite all classes of short-term insurance business profitably to ensure increased shareholders' equity,
- To maintain dividend growth to at least the rate of inflation to ensure increased shareholders' wealth and;
- To offer equal opportunity and reward to all employees based on merit

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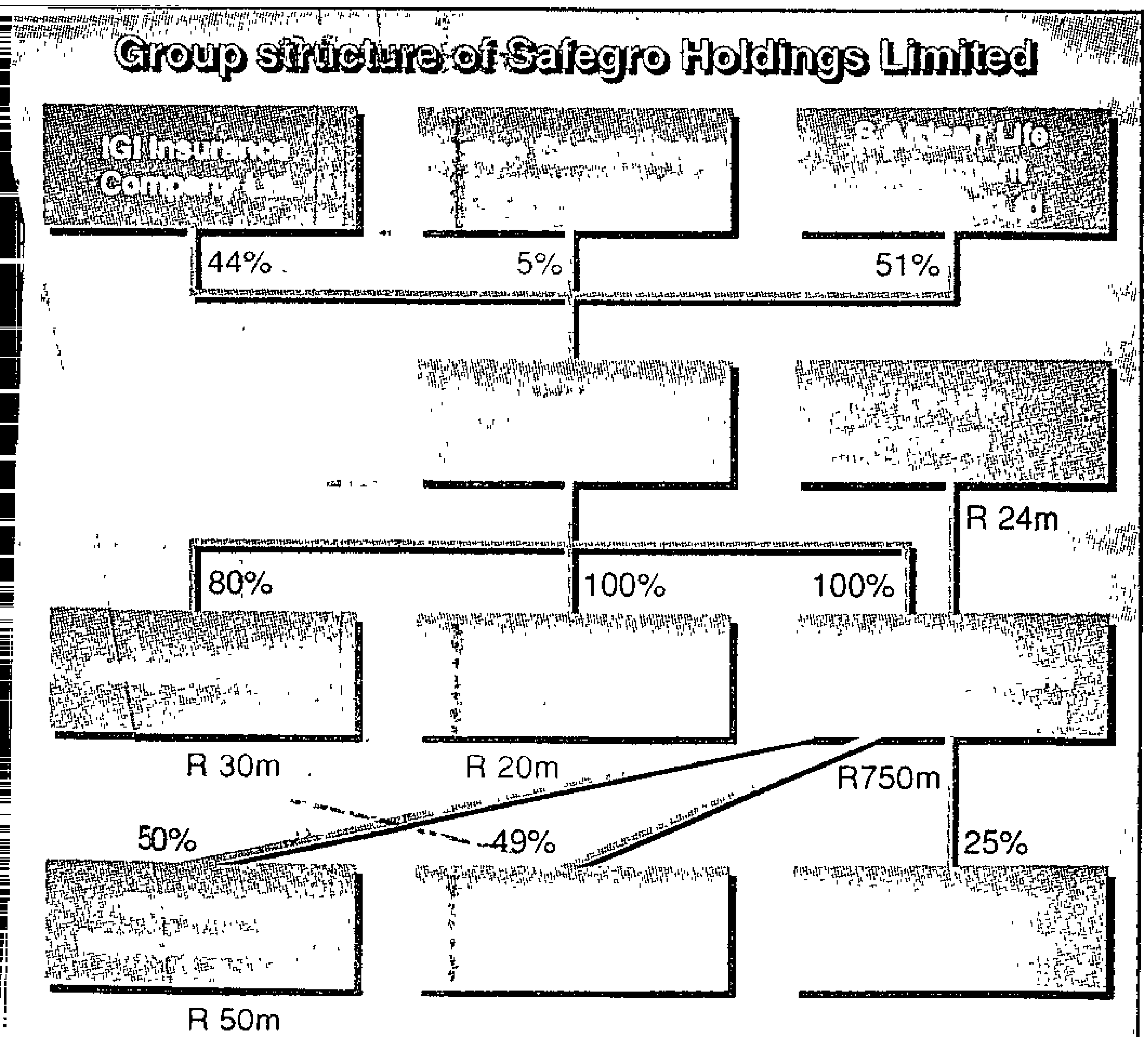

Brighter economic outlook for 1993

WHILE prospects for the economy for the rest of this year remain bleak, the outlook for next year brightens considerably, says Safegro senior investment manager Len Olivier.

He is hopeful that new Finance Minister Derek Keys will promote "correct" economic reform and that lower interest rates coupled with easier hire purchase conditions will boost consumer spending.

"The next upswing will start off a lower inflation base of about 11% and could probably be the first sustainable upswing in two decades as foreign funding becomes accessible and sanctions are finally scrapped.

"The worst should be over for the international economy. This should boost exports, which currently account for a third of GDP, to 50% plus, by the end of the decade.

"Capital outflows — over R30bn has left the country since 1985 — could be reversed into inflows," he says.

The scope for growth is astonishing considering that SA's GDP per capita is a mere $2 500 a year compared with the world average of $14 000.

B investment as a percentage of GDP, now 17%, must be at least 25%, he says.

The outlook for our equity market remains bullish.

"However, if the worldwide depression predicted in Dale-Davidson and Rees Mogg's latest book The Great Reckoning comes to fruition, and the Tokyo Nikkei index goes down to 4 000 as they predict, our market will certainly not be unscathed.

Fundamental

"There are deep rooted fundamental problems in the world economy.

"All we can hope for is a normal US election, a muddling through the recession, and the military peace dividend to be spent wisely."

Olivier says the drought and VAT remain important culprits of SA's high inflation rate.

"Our PPI (producer price index) is already down to 8% and money supply is well under control. The outlook is, therefore, one of optimism and I will not be surprised to see inflation down to 11% early next year.

"This bodes well for the capital markets," he says.

Foreigners have recently become substantial holders of Eskom stock and presently own about 44% of it. The yields available to foreigners through the finrand mechanism remain attractive and currently stand at about 20%.

In nominal terms, this compares very favourably with the yields available in other high yield countries such as Italy (11%), Australia (10%) and Spain (11%). Even under a scenario of a slowly depreciating rand, continued investment in SA bonds can be expected.

(58) B/Day 6/7/92.

Safegro

Price of efficiency has paid off for Mercantile

PEOPLE are prepared to pay higher prices for efficient services. Proof of that is the success of Mercantile Bank, which is rapidly making its mark in the banking industry.

It was formed little more than three years ago in the wake of the rationalisation of the banking industry.

This created opportunities for smaller banks to occupy niche positions in the industry and Mercantile Bank swiftly stepped into the gap. It has managed to prosper in an exceptionally hostile environment for smaller financial institutions.

Net income was boosted by 54% to R1m in 1991 and a maiden dividend was declared. There has also been a major increase in the deposit book from R149m to more than R200m.

Moreover, 65% of Mercantile Bank shares are held by major financial institutions. The HCI group has 49%, Momentum Assurers 14,89%, with management holding the balance.

Link

The link with HCI came about when the group's investment arm, Safegro, effectively bought Unidev's stake in Mercantile in November 1990.

The bank has since shown a high level of growth and has become an important element in the wider HCI group, providing insurance products and merchant banking services and, on the other side, receiving expertise and merchant banking transactions.

The confidence of the major shareholders was shown in May when they all followed their rights to increase the bank's capital to R12,1m.

DEREK COHEN

Mercantile Bank was started by MD Derek Cohen when his fledgling financial services group, specialising in corporate banking, obtained a bank licence in March 1989.

Cohen had the distinction of being one of the youngest general managers of a large bank in SA when he was appointed to that position in Trust Bank at the age of 31.

He says: "For us to be successful as a niche player, it was necessary to concentrate on the three S's — skills, services and systems. The skills base must be of a high standard as customers are prepared to accept a higher cost for efficient services.

"We have managed to attract experienced and well known experts in our fields of endeavour from the large banks. This has reinforced levels of discipline and prudence."

Cohen says motivation increased as staff found it more attractive to work for a smaller, progressive organisation backed by large shareholders.

Efficient systems can give smaller banks a comparative advantage over the larger organisations. Unlike the banking industry in general, Mercantile has adopted a philosophy that it is in the banking business and not in the business of developing a huge infrastructure and departments as a fixed cost overhead.

"We think we can achieve the best returns by outsourcing our systems. For example, personnel and administrative services are all done by outsiders", says Cohen.

The group is run from a small head office in St Davids Place, Parktown. Staff of 17 includes senior management, secreatries and clerical personnel.

The bank's objective is to be a niche player in the four areas of corporate marketing, consumer marketing, instalment financing and the treasury and deposit procurement market. Mercantile is therefore not vulnerable to a single product market but has spread its assets over its niche markets.

The corporate department offers merchant bank and corporate financial services. It has acted on behalf of public companies in major transactions including the recent listing of Venter Leisure and Commercial Trailers, a listing in Luxembourg and the impending listing of a property company in Botswana.

Buttressed by a specialist in mining joining the group from Trust Bank, Mercantile has been involved in the successful financing of a zinc mine in partnership with the IDC and Gencor.

The retail and consumer finance department trades under the name of Bifco, which is well known in the PWV area. A new branch was recently opened in Germiston and other offices are to be opened in Cape Town and Durban.

Concentrates

Instalment finance concentrates on office equipment such as photo copiers and duplicators. A major portion of its books is government, municicpal and corporate business.

The treasury side has shown healthy growth in deposits since the involvement of Safegro and the more recent increase in the bank's share capital.

The performance of Mercantile Registrars bears ample testimony to the growth of the firm and its emphasis on efficient service. Despite an average reduction of 25% in share registration volumes on the JSE in 1991 compared with 1990, there was an increase of 19 in the number of companies to which it provides services.

Derivatives market to be used to control risk

SAFEGRO has cautiously entered the derivatives market with a view to controlling rather than creating risk.

The development of this market is fundamental to professional portfolio management, particularly with the continued shortage of quality scrip on the JSE.

This allows a portfolio manager to go long of the market without necessarily acquiring the underlying physical shares.

Entry of state pension funds investing more freely on the JSE will exacerbate the scrip shortage and should lead to a more active market in futures and options.

The uncertainty surrounding SA's political climate makes it imperative for fund mangers to utilise derivatives.

Negates

This negates possible volatile moves in the market resulting from the political uncertainty.

In other words, fund managers can hedge their portfolios by going short when sentiment is at a low ebb and go long when the mood is positive.

Project part of strategy to broaden client base

SAFEGRO's latest project — a joint venture with auditing firm Fisher Hoffman Stride (FHS), Port Elizabeth — was launched on July 1.

FHS Asset Management offers portfolio management, money and insurance broking, tax planning, gilts, property syndication and unit trust services.

Market research on companies offering financial services in the Port Elizabeth area showed the need for such services. The need for a professional and credible player to establish such a service in the area became more pressing after the collapse of Masterbond, which had a high profile in the Eastern Cape.

Safegro decided to step into the gap in partnership with a Port Elizabeth firm to create an acceptance among the local people who might otherwise have viewed a Johannesburg operation with some suspicion.

The joint venture is part of Safegro's strategy of forming a geographical spread of networks throughout the country.

Head start seen for top SA banks in earnings race

Business Staff (58) ARG 7/7/92

JOHANNESBURG. — The major banks should once again beat their industrial counterparts in the 1992 earnings race, says Alan McConnochie, analyst at Ed Hern, Rudolph in the recently released KPMG Aiken & Peat 1992 banking survey.

Mr McConnochie says even though economic activity and the money supply growth will remain at low levels, the four major banks (ABSA, Stanbic, FNB and Nedcor) are expected to increase their earnings between 15 and 20 percent for the year.

In 1991 the continued high real interest rate policies pursued by the Reserve Bank enabled the banks to register their best operating margins in more than a decade.

In the current year, margins should remain wide and could even improve slightly as rates decline.

The high margins were also helped by the informal co-operation between banks who resisted the temptation to significantly undercut competitors in the battle for market share, he adds.

Bad debts will continue to be a problem in 1992 but should be at manageable levels. In 1991 the banks incurred huge increases in both the income statement expense and the provision for doubtful debts.

A substantial portion of the provision related to the under R200 000 advances category which relates to individuals and the small business.

The banks had targeted the man in the street's business as an area of growth after the 1985 debt standstill saw the decline of growth from the corporate lending market.

Improved market share and profits were achieved in this market but at the expense of the increased provision for bad debts.

Mr McConnochie says the high level of the prime overdraft has resulted in a rising incidence of personal debt.

He points out that in the previous recession the prime rate remained above 19 percent for 22 months but has now been above this level for a record 37 months.

However, most banks had been making provision for bad debt, while the slow decline in the economy gave them adequate warning from overexposing themselves to unsecured loans.

The introduction of the Deposit-Taking Institutions legislation continues to change the face of South African banking. In particular it has led to rationalisation and changes in ownership, innovative solutions to meet the shortfall in the capital requirements and continued inmprovements in risk management and reporting standards.

With the spate of mergers and acquisitions in the past two years, the industry has seen all but the major four banks reduced to minor participants. Mr McConnochie does not see further changes in the "big four" unless market forces alter substantially.

All the banks, with the exception of Saambou, appear to be able to meet the 1995 capital requirements of the DTI.

Banks should maintain earnings level

STAR 7/7/92

By Leigh Hassall (58)

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Anger over estate agents' ads

STAR 7/7/92

By Monica Oosterbroek (58)

Estate agents using the controversial squatter issue to sell houses have infuriated several readers of the Saturday Star's property section.

"Look Ma! No Squatters!" was the message prominently displayed in an advert placed by Denton-Miller Estates.

The advertisement continued to describe the house as being "far from the ... ghettos of the New South Africa".

Another estate agent, Jack Thompson Country Living, was selling "selected properties away from the squatters".

One woman phoned Allen Denton-Miller of Denton Miller Estates and told him he was a "pig" and would "stoop to anything to sell a house".

Defending his advertisement, Mr Denton-Miller said the squatter issue had a dramatic effect on the selling of houses because many people felt the value of their homes would drop if squatters moved to the area.

"In fact, prices will not be affected too badly, but potential home-owners don't want to take that risk and it's an aspect most talked about by buyers at the moment," Mr Denton-Miller said.

"We must tell buyers if there is a squatter problem. So why can't we state if it isn't — especially since it is a wonderful selling point?" he said.

Estate Agents Board chairman Norman Nel said estate agents were obliged to tell potential buyers of any negative aspects which could affect their investment, and this included the possibility of squatters moving into the neighbourhood.

He said there had been several cases this year where house sales had fallen through because agents were not upfront about the presence of squatters.

Although agents knew the dynamics of their areas fairly well, it was difficult for them to assure buyers that a squatter camp would not appear in the area, Mr Nel said.

COI

Time to open in Botswana

(58) B/Day 7/7/92

GAVIN DU VENAGE

TIME Holdings has received a licence to establish a life office in Botswana, adding to its substantial property and project management investments already in place.

Time Botswana chairman Colin Hibbert said at the weekend the firm would be investing nearly R3m initially, and operations should start in September.

There were only two life offices serving the country which had prospered over the past decade with sustained economic growth and political stability.

Hibbert said as people became urbanised, they moved away from traditional forms of investment like cattle and agriculture, opening the market for other investment vehicles.

The company established itself in Botswana eight years ago, and currently has contracts in excess of R100m.

Interest rates knock lease-credit business

BDay 7/7/92 (58)

HILARY GUSH

HIGH interest rates caused contraction of SA banks' instalment credit and leasing business, figures released yesterday by Nedfin Bank showed.

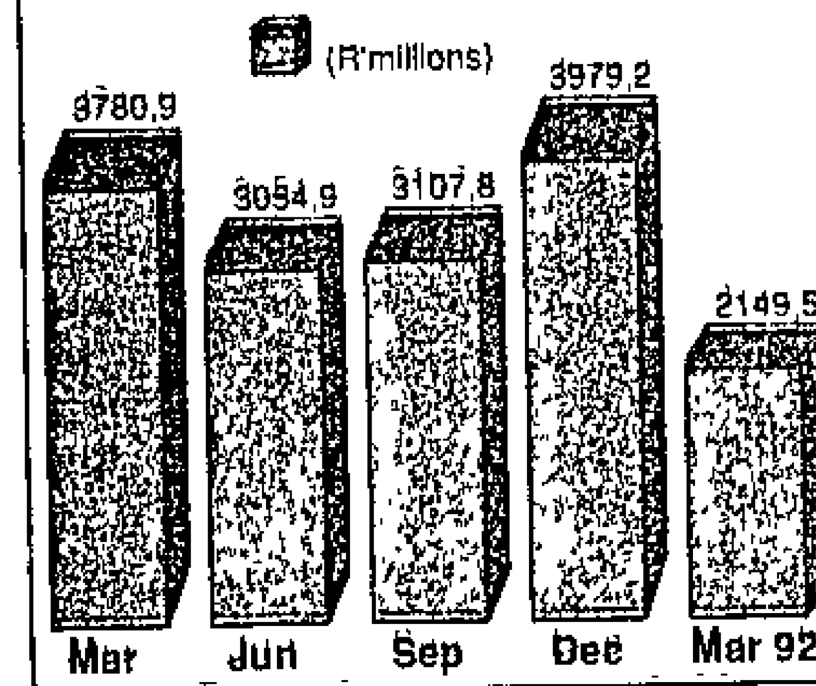
Nedfin's analysis of DI 900 returns — the forms detailing each bank's total assets and liabilities – submitted to the Reserve Bank showed lease-credit business for the March quarter down R600m from the previous quarter to R31bn.

DI 900 returns in the years to March 1990 and March 1991 showed total receivables growth of 26,7% and 15% respectively. In the year to March 1992 growth was 7,4%.

Recent amendments to the Credit Agreements Act eased hire-purchase restrictions by extending maximum repayment periods.

Nedfin Bank CE Christopher Beatty said yesterday the slight relaxation signalled by these changes would not influence the figures until next quarter. Even then he did not expect any major effect on the credit and leasing business. The sectors most affected by high interest rates were agriculture, mining, the motor industry, housing and construction.

Annual growth in total lease and HP receivables



Graphic RUBY GAY MARTIN Source NEDFIN BANK

Bid to relieve money market shortage

HILARY GUSH

THE Reserve Bank yesterday announced a special repurchase deal to banks to relieve the money market of the shortage which reached a 28-month peak of R5,1bn on Saturday. The shortage last passed the R5bn mark in February 1990.

The Bank's Corporation for Public Deposits offered to buy back gilts, semi-gilts and public sector bills to a maximum value of R500m for a three-day period in an effort "to supply the market with a little cash", a Bank spokesman said.

The Bank planned to repurchase the bills at around 90% of their nominal value.

Offers totalling R1,545bn were received, with R500m of these being accepted at an average rate of 13,9%.

An Absa spokesman said the big shortage was probably the result of lower government spending at the beginning of the month and an outflow of about R1bn in company taxes processed by the Receiver of Revenue at the end of last week.

Reserve Bank GM André Kock said the shortage was higher than expected and was due to a "mismatch of flows". He predicted a lower shortage by week's end.

Dealers, however, expected the shortage to increase before it fell. Some believed that at worst the shortage could persist until mid-month when large tranches of government stock matured.

Business Day 2/7/92

Civics threaten to boycott bonds

B Day 7/7/92

ADRIAN HADLAND

A BOYCOTT of bond repayments, directed at lending institutions throughout the country, would begin in August, SA National Civic Organisation (Sanco) president Moses Mayekiso said yesterday.

In order for the boycott to be averted, certain demands would have to be met, he said. These demands included the disbanding of both white and black local authorities, the cessation of local government negotiations, a moratorium on large Telkom bills, an end to the strike at the SABC and the deployment of an international peacekeeping force, a Sanco statement said.

The bond boycott resolution was reached in Bloemfontein over the weekend at Sanco's first general council meeting since its inception earlier this year.

Mayekiso said big business, especially private lending institutions, had an obligation to put pressure on the state for the attainment of majority rule and the establishment of an interim government.

He said lending institutions had collaborated with black local authorities in order to secure land and were very selective in the granting of bonds. "We understand they are in the business of profit-making but this should not happen at the expense of the people."

He also suggested development agencies, including the IDT, should be restructured. This should be done before the IMF or the World Bank involved themselves in the country.

COMPANIES

TV ads reach for rural areas

MARCIA KLEIN

SA's first national rural television service, aimed at advertising to more than 15-million consumers at rural trading stores, has been launched by Complete Holdings.

The company launched Africa TV to market fast-moving consumer goods to the rural areas. It will start on January 1.

Complete MD Paul Bateman said the rural market comprised about 15,4-million consumers who spent R4,5bn in 1991 on fast- BDay 7/7/92 moving consumer goods. This was a sector which had been "frustratingly difficult to reach with advertising".

Research had shown there was a market for a cost effective, audiovisual advertising medium directed at rural black consumers in their own languages.

About 1 000 television monitors and VCRs would be installed at rural retail stores. Africa TV would include sport, drama, music and entertainment with advertising, which would run together with special point of sale promotions.

Bateman said the launch had seen a promotional idea turn into a full blown media product. The TV sets would be installed in areas which could not receive normal transmissions. Taped programmes were the only available television and Africa TV was buying programmes from major television stations. Bateman said a pilot study had shown up to a 60% positive effect on store turnover.

Investors pump R20m into international fund

BDay 7/7/92

58

GAVIN DU VENAGE

STANDARD Bank's International Fund had attracted R20m from about 2 800 new investors since its launch in May, the bank's fund managers said in their quarterly report released yesterday.

The fund invests specifically in blue chip companies with a large part of their business interests outside SA, or which have a major portion of their earnings sourced abroad.

MD Derick Finlayson said in the report on the five funds in the bank's stable that although the fund was only 75% invested at the quarter end, the intention was to increase exposure to international counters.

He said the fund was established to enable investors to divert their asset base beyond SA without becoming entangled in foreign exchange control laws.

The bank's other new addition, the Industrial Fund, drew in R5m from 1 000 new clients.

This fund's holding of 40% equity reflected the view that industrial shares were currently "expensive territory".

The Mutual Fund outpaced inflation and the JSE All Share Index, with one- and five-year returns of 20% and 18% respectively. Asset levels are R596m — up from the March quarter end of R552m — and liquidity levels were kept at 40%.

The Gold Fund recorded losses of 13% and 5% for the past one- and five-year periods respectively. The Extra Income Fund gave real return rates of 17% for the one- and five-year periods.

Meanwhile, unit trust investment advisers Consolidated Fund Managers warned yesterday that equity markets were drastically overvalued and may be heading for a major correction.

MD Clive Fox said while he would normally argue for long-term retention of investment in equity unit trusts, valuations were so out of line with economic reality, that unit trust investors should urgently examine various options available to them.

Latest ratings also ignored political uncertainty, and if the mood failed to improve, markets should correct downwards.

Textile tycoon buys Minelli

LINDA ENSOR

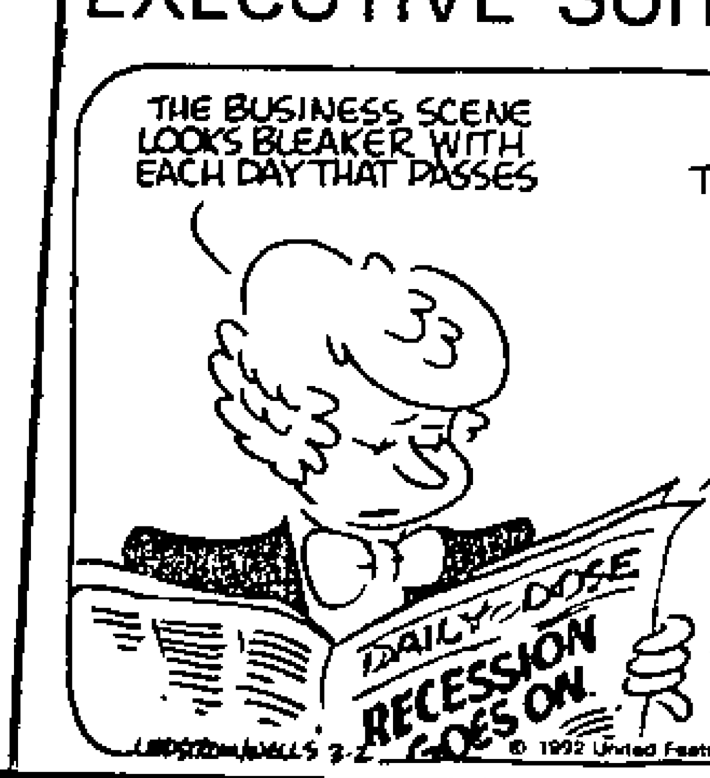
CAPE TOWN — Textile entrepreneur John Claasen has bought Minelli Handbags from property-owning brothers David, Irving and Jeffrey Solomon. BDay 7/7/92

The business produces 2 000 handbags a day and is said to be one of the biggest manufacturers of its kind in the country. Claasen has acquired the business plus the Minelli and Cameo trade names.

The deal was negotiated by broker Seeff-MAG's Justic Letschert, who said the talks were protracted.

Claasen, who co-owns the 15-store fabric supply chain Starlite Textile with partner Peter Zulch, said he intended entrenching the Minelli and Cameo handbag ranges as market leaders supplying major chains.

EXECUTIVE SUITE



UAL trusts 'outstanding'

Finance Staff STAR 8/7/92. (58)

UAL Unit Trust recorded outstanding returns for the first half of 1992, thanks mainly to investments in Rusplat, JCI, FNB, Liberty, Richemont and Premier.

The performance accounts for a return of 20,21 percent for the 12 months to June.

A distribution of 27,41c per unit was declared for the second quarter of 1992.

The Mining and Resources Unit Trust outperformed the Mining Producers Index, while declaring a distribution of 3,91c per unit for the quarter under review.

The Selected Opportunities Trust, a specialist fund, achieved a return of 16,11 percent over the last 12 months.

The Gilt Unit Trust witnessed a continued decline in interest rates across the yield spectrum.

Cash balances were reduced as returns offered by money market assets were deemed by the fund manager to be unattractive, especially when measured against the forecast returns from bonds.

The fund achieved an excellent return over the past 12 months of 21,4 percent.

Higher liquidity in Sanlam trusts

By Magnus Heystek STAR 8/7/92 (58)

The increasing apprehension with which unit trust fund managers are viewing the Johannesburg Stock Exchange is clearly reflected in the substantially higher liquidity levels of the funds managed by Sanlam.

During the past quarter cash levels were raised in all five of Sanlam's unit trusts.

However, an analysis of the individual funds reveals that very little selling has been taking place. It has rather been a case of investible funds being held back until a later stage.

The liquidity levels of the funds at the end of June were as follows (with figures for the first quarter in brackets).

- Sanlam Index Trust 11,7 percent (8,6).
- Sanlam Trust 12,4 percent (7,8).
- Sanlam Dividend Trust 21,2 percent (12,4).
- Sanlam Industrial Trust 13,7 percent (10,9).
- Sanlam Mining 9,3 percent (8,3).

Stafford Thomas, senior portfolio manager at Sanlam, says the increased liquidity levels puts the funds in a "favourable position to benefit from buying opportunities".

This reflects a thinking that the market correction has some way to go.

Three of the funds yesterday declared their income distributions.

The Industrial Trust will pay 13,6c per unit, the Index Trust 21,2c and the Mining Trust 5,9c.

Mr Thomas warns that industrial shares are relatively expensive and that no further significant growth can be expected until dividends and earnings start growing in real terms.

However, shares in commodities have benefited from the emerging upturn in many countries.

"Not only will this have a positive effect on South Africa's commodities, but could it also influence precious metals like gold and platinum," he says.

Norwich trust "held back"

By Stephen Cranston STAR 8/7/92 (58)

The Norwich Unit Trust achieved a return of 8,4 percent in the June quarter, compared with a 1,4 percent return on the Industrial index and 3,8 percent on the All Share index.

Management company MD John Bowman said that performance in previous quarters was held back as Norwich invested primarily in mining shares during the past 12 months.

Returns for the 12 months to June were a modest 14,5 percent.

Mr Bowman added that the impact of the changing domestic environment, poor economy and fluctuating world markets had led to an exceptionally volatile and disparate performance from most JSE sectors. "The market is looking steamy at the moment," he said, "but we are not expecting a major crack".

Mr Bowman said that the fund remains bearish on gold shares.

Liquidity increased from 8,6 percent to 17,2 percent during the quarter.

Squeaky-clean investments

Sowetan 8/7/92

■ **Do you ever doubt the ethics of the investment you have made? Well a newly set up fund might be the answer for you and your money**

A new fund aimed at investors who do not want to invest in companies whose products are morally and ethically unacceptable to certain investors has been launched by Southern Unit Trusts.

Investment manager Mr Shamsodien Pather said: "As a specialist fund the portofolio will consist of share investments in gold, mining, industrials, property and cash. Liquid assets will be held in the instutions which practice interest-free banking.

Exclude investments

"It will exclude investments in interest-bearing instruments, life assurance, intoxicants, hotels, gambling and commodities deemed harmful to the environment".

Mr Pather said serious misconceptions had been created in some Press reports which gave the impression that the fund was a Muslim or an Islamic fund investing in Halaal companies. "In the South African environment it is virtually impossible to design a fund which will satisfy its prerequisites absolutely," he said.

Small investor

Unit trusts enable the man in the street to invest in companies listed in the Johannesburg through the purchase of units of shares.

He purchases these units via a fund managed by, in this case, Southern Life. Other financial institutions and life assurance companies also have these funds.

The advantage is that the small investor can invest in major companies from R50 a month.

Diplomatic house-hunters would rather rent than buy

B/Day 8/7/92 (58)

ANDREW KRUMM

ESTATE agents are divided on whether political uncertainty is dissuading newly arrived or prospective foreign diplomats and their staff from buying residential properties.

Aida chairman Aida Geffen said diplomats were not showing great interest in buying. This was partly because of uncertainty about where a new government might establish its administration.

Seeff properties Pretoria manager Duncan Gray supported this view. "Although there is rising interest in residential property, foreign buyers are holding back a little while longer, looking at renting and not buying," he said.

However, Pam Golding Properties chairman Pam Golding disagreed. "We are negotiating with at least one big foreign embassy for residential sites in Cape Town, and are exceptionally busy in Pretoria."

She would not give details, saying only that there was more interest from Africa than Europe.

Gray said the number of African diplomats interested in residential properties in Pretoria was rising. Diplomatic staff favoured sectional titles property for security reasons.

Areas like Pretoria's "old East" had come under scrutiny, but most interest was in centrally situated Hatfield, Brooklyn and the exclusive Waterkloof.

"Diplomatic buyers in Pretoria are looking at the full spread of house prices, from R170 000 to R1m," said Gray. "Some have no price limits at all."

Golding said Cape Town suburbs like Bishopscourt, Constantia and Higgovale were favoured by diplomats. She said these were top properties in the R1m to R5m range.

en to a hospital where she later died.
The charred bodies of Mamotsane 12 IFP supporters had been killed in Thokoza last Friday.

UK detective ends probe of SAP

BDay 8/7/92

TIM COHEN

PRETORIA — Scotland Yard's Det-Supt David Don left SA yesterday after completing an investigation into the SAP's handling of the Boipatong massacre.

In an interview, Don declined to reveal the findings of his investigation, which will be submitted to the Goldstone commission in a report.

The commission appointed Don and another senior British detective, Cdr Tom Laidlaw, to assist in the drawing up of a report assessing the adequacy and effectiveness of SAP investigations into events at Boipatong.

Don said his function was not to take part in the investigation of the massacre itself; only to assess the SAP's role.

Don was seconded to the investigation by Dr P Waddington, who will draw up the final report.

Waddington is one of the overseas academics who will be on a panel which is to draw up guidelines on mass action.

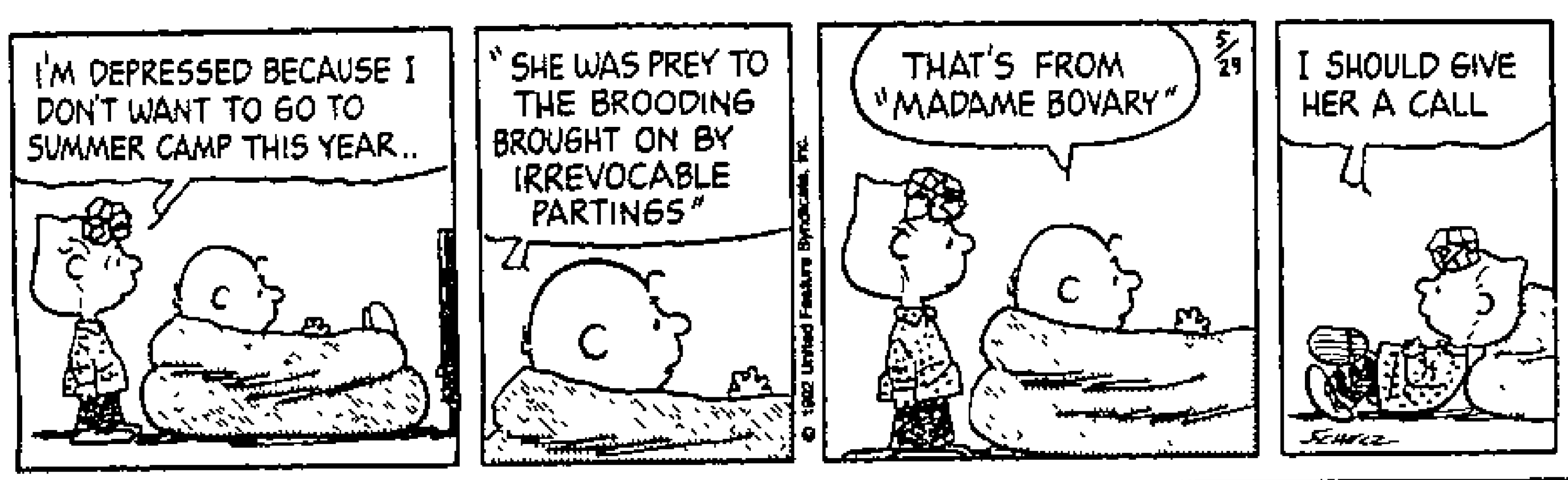
Don said he hoped to bring an objective view to how an investigation should be handled. He hoped his lack of knowledge of the political situation in SA might be a strength, rather than a weakness, in performing this function.

As a general rule, a largescale investigation required good organisation to prevent details being lost in the welter of information.

Good co-operation from the public was essential and it was important to build mutual respect between the police and public, he said.

PEANUTS

By Charles Schulz



Quick march for thousands

BDay 8/7/92

STEPHANE BOTHMA

THOUSANDS of white men had been ordered to report this week for a year of military service, despite legal opinion that the conscription system was invalid, the End Conscription Campaign (ECC) said yesterday.

The ECC held that the national service system was falling apart, and said only between 30% and 40% of those called up in January had reported.

Many conscripts did not report because of confusion over the legality of call-ups and the perception that the system was "discriminatory and unnecessary".

The ECC said so far none who did not report in January had been charged.

An SADF spokesman said yesterday it was impossible to speculate on how many would report.

He said such figures could be misleading. Many had valid and lawful reasons for not reporting.

'A bond boycott will halt housing schemes'

BDay 8/7/92.

THEO RAWANA and ADRIAN HADLAND

THE financing and provision of low-income housing in SA would virtually cease if a national bond boycott took place, SA Housing Trust corporate marketing chief Mike Fowlds said yesterday.

Fowlds was responding to SA National Civic Organisation president Moses Mayekiso's announcement earlier this week that a bond and rent boycott would be instituted in August.

Fowlds said the trust's financial arm, Khayalethu Home Loans, would be particularly hard hit as it operated only in the low-income housing market. He said if the boycott threat was real, the financing and provision of much needed housing largely would come to a halt.

"The country will slip even further into a financial void with existing bondholders, in particular, possibly losing all they have worked hard to secure — a home," he said.

Concern over the boycott was also expressed by representatives of a number of housing development institutions, including Gill Strelitz of the Urban Foundation.

Strelitz said the potential crisis called for a committed effort on the part of community leaders and financial institutions to meet and find a way through the situation.

"While there might be some short-term gains for current homeowners in not making their monthly repayments, in the medium and long term no winners emerge through such boycott action," she said

New Housing Company CEO Rod MacGillivray said the "ill-advised" boycott, if successful, would have major repercussions throughout the housing industry. "I doubt it would result in financial institutions putting pressure on government, but more likely they would just stop lending," he said.

MacGillivray indicated that while bond repayments may be stopped, "there is no moratorium on interest charges. All that would happen is the amount of the bond would increase".

Association of Mortgage Lenders director Martin Milburn-Pyle referred to association president and FNB senior GM Norman Axten's statement earlier this week in which he said threats of boycotts and political strife in the townships had made investors and construction companies reluctant to become heavily involved in low-income housing development.

ANC spokesman Sakkie Macozona said the organisation would not endorse or oppose the bond boycott until the matter went before its campaigns committee.

● Comment: Page 6

UAL files solid return

BDay 8/7/92

Business Day Reporter

UAL Unit Trust recorded excellent results for the first half of 1992, due mainly to substantial investments in Rustenburg Platinum, JCI, First National Bank, Liberty, Richemont and the Premier Group

A return of 20,21% for the 12 months to 30 June 1992 was achieved.

A distribution of 27,41c a unit was declared for the second quarter of 1992.

In the past 12 months, the UAL Mining and Resources Unit Trust has outperformed the Mining Producers Index. A distribution of 3,91c a unit was declared.

The UAL Selected Opportunities Trust, a specialist fund, achieved a return of 16,11% for the past 12 months.

The UAL Gilt Unit Trust experienced a decline of interest rates during the second quarter of 1992.

The fund achieved a return of 21,4% over the past 12 months.

Sanlam's five trusts raise liquidity levels

BDay 8/7/92

LINDA ENSOR

CAPE TOWN — Sanlam's five unit trusts all raised liquidity levels significantly during the quarter to end-June to take advantage of buying opportunities expected to emerge in the stock market.

The level of cash in the Sanlam Index Trust increased to 11,7% (8,6%), Sanlam Trust to 12,4% (7,8%), Sanlam Dividend Trust to 21,2% (12,4%), Sanlam Industrial Trust to 13,7% (10,9%) and the Sanlam Mining Trust to 9,3% (8,6%).

The Industrial Trust has declared a distribution of 13,6c per unit, the Index Trust 21,2c and the Mining Trust 5,9c.

Senior portfolio manager Stafford Thomas said the market had been unstable in the last quarter, largely due to adjustments on most foreign markets and the uncertain local political situation.

In the short term, the local market would benefit from the underpinning of the US stock market by the presidential election campaign, which had decreased US interest rates. But industrial shares in SA were relatively expensive and significant growth could not be expected.

Thomas said higher growth in dividends and earnings was necessary before industrial shares could be expected to advance.

Commodity shares were the top performers in the last quarter They benefited from the upturn in some world economies. Production shortages of some commodities were possible, which could positively influence SA's commodities and precious metals, Thomas said.

The biggest purchase by the Sanlam Trust over the quarter was the acquisition of 800 000 Midwits shares, and Tempora, Anglovaal Industries and Sappi shares.

The Dividend Trust bought Midwits (200 000), Datakor (471 600), AVI and Richemont and sold Q Data (538 200), Santam (242 700) and Carlcor. The Industrial Trust bought Tempora, AVI, Pepkor, Richemont and SA Breweries and sold Carlcor, Placor and Tiger Oats (322 500).

The Index Trust bought Absa shares (548 700), Palamin, Johnnies, CG Smith, Remgro, Richemont and Sappi and sold Libvest (200 000) and Tiger Oats (640 377).

Total returns over the last three years were — Industrial Trust 27,4%, Sanlam Trust 22,3%, Dividend Trust 20,5%, and the Index Trust 19,6%.

Sappi counting on overseas activities to reverse decline

BDay 8/7/92

MARCIA KLEIN

PULP and paper giant Sappi's aggressive foray into international markets could be the catalyst for reversing its declining profits trend of the past two years.

At end-February, the group's turnover had increased to R2,84bn from R2,67bn, but net income had dropped to R312,8m from R374,7m in the previous year and from R605m in financial 1990. Operating income and earnings a share had shown a similar decline, but international activities could change this trend.

Sappi supplies about 50% of SA's total paper requirements, and exports almost half of its production worldwide. About 50% of the income from its SA operations comes from international sales.

International links include Sappi Europe, which owns five fine paper mills in the UK, Sappi Trading, which markets the group's products internationally from SA, Zurich, the US and Hong Kong and the Usutu Pulp Company in Swaziland. In a massive overseas drive, Sappi recently announced the R825m acquisition of 90% of Germany's largest coated paper producer Hannover Papier.

The turnover of Sappi's non-SA operations increased by 7% to R1,8bn to end-February, and improved profitability is expected in the coming year.

Chairman Eugene Van As said in the annual report that exports to Europe, the US and the Far East were expected to improve "by well over the 10%" recorded last year.

At the group's AGM earlier this week, Van As said Sappi was trading better than a year ago and expected to show positive earnings growth in the current financial year.

Trading conditions had remained difficult in the first four months since the year-end, but there were "encouraging signs of further price increases in both the pulp and kraft liner board markets offshore".

The local market remained in a low growth phase with no signs of improvement on the levels obtained in the last trading period.

Despite significant improvements in productivity of its mills in Europe, trading conditions remained difficult. Van As said Sappi was well placed for a better economy in the UK.

The acquisition of Hannover Papier, and the international vendor placing of 19-million Sappi shares at R44 a share, had put the group in a stronger position.

Presmed shares to be increased

BDay 8/7/92

Business Day Reporter

PRESIDENT Medical Investments (Presmed) would increase its number of ordinary shares from 11,5-million at 25c each to 18,4-million shares at 15,6c to improve tradeability and introduce a share option scheme, it said today.

The existing 11,5-million issued ordinary shares would be consolidated on a 1-for-5 basis.

The consolidated shares will then be subdivided to create an issued share capital of 18,4-million ordinary shares at 16,625c.

Authorised share capital would also be consolidated and subdivided on a similar basis, and increased to ensure that Presmed would have sufficient authorised but unissued shares in reserve.

Each shareholder's 100 shares would increase to 160. The effect of the proposal would reduce earnings a share from 30,9c to 19,3c, while dividends would move down from 6,7c to 4,2c. Net asset value a share would amount to 60,4c from 96,7c before the proposal. Although the earnings would be diluted by 37,5%, shareholders' earnings and net asset value would remain unaffected.

Return on pension fund investments seems set to dip

LINDA ENSOR

CAPE TOWN — Pension fund investment returns averaged 28,2% in 1991, but there was little possibility of such a level being reached this year, Carsons Investment Consulting actuary Howard Rodd said yesterday. B| Day

The moving average for the quarter to end-March was 24%. With the equity market taking a knock during the past week, returns were likely to decline. 9/7/92.

Protea Assurance outstripped the average for the 169 pension funds surveyed last year with a return of 42,5%, beating a 40,3% return achieved by an in-house portfolio manager.

Rodd said Protea had performed consistently well since 1989, when it first took part in the survey.

Protea investment manager Duncan Carmichael said the average return since 1989 was 30%, placing the Protea fund second out of the 130 funds measured during the period.

"Many of the predictions on which we have based our research have proved accurate and we are reaping the rewards. For example, the fund has held Trencor over many years but this excellent company has only recently been noticed by the larger players." Its rerating had contributed to the fund's performance. "A timely investment in M-Net in 1991 also gave a major boost to growth." Carmichael said the fund invested in property only through property trusts.

Scepticism over bond boycott

B Day 9/7/92 (58)

ADRIAN HADLAND

THE call for a bond repayment boycott has gained little immediate support from political and community organisations.

Considerable scepticism existed over the SA National Civic Organisation's (Sanco's) stance among potential allies, sources said yesterday. Many felt such a move would be inappropriate.

Civic Associations of Johannesburg general secretary Cas Coovadia said the call for a bond boycott would create confusion and have "negative spinoffs".

"It is a very serious call to make and needs an in-depth look at in current conditions," he said.

Coovadia suggested there had been insufficient consultation with organisations over the boycott.

He would continue to pay his bond until the position had been clarified.

Sanco general secretary Dan Fandi said the implementation of the boycott would only begin once consensus had been reached with potential allies. These included the regional structures of Sanco, the labour movement, the ANC, Azapo and other political and community organisations.

Fandi put down a deposit on a house in Grahamstown in 1989 but has not paid any bond instalments since.

Azapo publicity secretary Strini Moodley, who does not have a bond, said the question of bond boycotts needed to be considered carefully before Azapo's support could be given. Moodley said Azapo had not been approached by Sanco.

Cosatu campaigns organiser Lisa Seftel said Cosatu was planning to meet Sanco to discuss the boycott issue.

ANC spokesman Saki Macozoma indicated boycott action would have to be passed by its campaigns committee before it could be adopted by the ANC. The committee was due to meet this week and would consider the bond question.

Charging tickets has extra benefits

(58) BIDAY 9/7/92

CHARGE cards specialise in offering clients extra benefits when airline tickets are purchased using the cards.

Diners Club holders and their families get free travel insurance when they charge a ticket to their cards.

Diners Club MD Hugh Peatling says: "Our members who use any public conveyance, and charge it to Diners Club, automatically receive free travel insurance — up to R50 000 for domestic travel and up to R750 000 for international travel."

Card holders are also covered for medical expenses, up to R700 000 locally and R1m internationally. Free travel assistance is provided by Europe Assistance, covering such things as medical assistance, repatriation, legal assistance, emergency travel and accommodation.

Option

Peatling explains Diners Club also offers executives another option at R60 per travel ticket charged to Diners Club. Here an additional R720 000 in-flight cover for accidental death and permanent disability is provided.

This scheme also covers flight cancellations due to death or illness, lost or stolen baggage, and flight and baggage delays. It provides personal liability cover of R1,2m for domestic travel and R2,4m internationally.

"The major advantages of Diners Club are there are no pre-set spending limits and it is accepted worldwide," says Peatling.

In addition, it provides usage-linked accident cover, so that for every R1 charged, members receive R2 insurance cover up to R100 000.

Top property sales volumes crumble

BDay 9/7/92

58

PETER GALLI

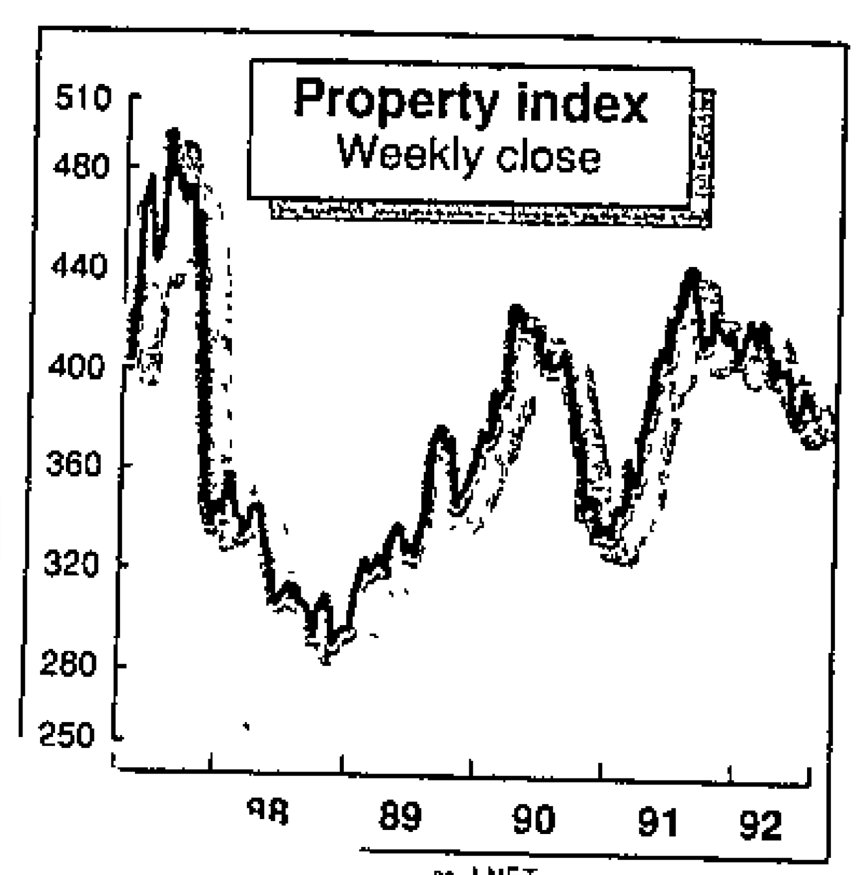
PROPERTY developers in the middle to upper market range are biting the bullet as sales volumes have plummeted by as much as 50% over the past few months, developers said yesterday.

Disa Development chairman Theo Stergianos said the market was extremely tight and sales volumes were being severely affected.

"While we hold land in a number of areas, we are not undertaking any speculative developments and all projects are tenant driven. The market is very quiet and activity is at least 50% down on a year ago."

Rabie Investment Holdings MD Leon Cohen agreed, saying political uncertainty and the economic recession had resulted in sales volumes dropping steadily over the past few months, and were now about 50% lower than six months ago.

"The property development industry is in a difficult position due to the capital expense it has to outlay for every project. It also has to look six months to two years ahead and plan accordingly," he said.



Rabie was undertaking no speculative developments. Construction was not started until at least 70% of a project had been pre-sold, Cohen said. Disa was selling only off-plan.

"Disa has diversified and now not only builds homes but conducts estate agency work in the Western Cape. We concentrate around the R120 000 price range, but people are worried about job security and are not keen to commit to bond responsibilities."

The company looked at the market from the Western Cape to East London and Port Elizabeth.

Rabie's main business thrust was the Western Cape market in the R100 000 to R2m range, but it had a Johannesburg office that concentrated on sectional title development.

While Rabie had reported a loss last year, this had been reversed and a small profit had been made in the financial year to end-June. It hoped to improve this next year.

Stergianos was less optimistic, saying Disa's return to profitability was dependent on political and economic developments. Disa reported a R1,99m loss in the six months to end-February.

The property index was unchanged yesterday at 381,4 points, midway between its August 7 1991 high of 441,25 points and November 11 1990 low of 327,46 points.

Syfrets fund nets No 1 spot

BDay 9/7/92 (58)

LINDA ENSOR

CAPE TOWN — Syfrets Growth Fund out-performed SA's other general funds over a five-year investment term, Unit Trusts Association figures for the quarter ending June show.

Full results are due for release tomorrow.

The fund's repurchase-to-repurchase return for the past five years was 21,7%, two percentage points ahead of the next best performer.

"The five-year return is regarded as one of the most important benchmarks, because it illustrates a unit trust's ability to sustain income and capital growth over a meaningful investment period," Syfrets marketing manager Kevin Hinton said.

COMPANIES

Saambou changes its tactics

MICK ELLINGHAM

SAAMBOU Bank has changed its marketing focus to concentrate on meeting the financial needs of individuals, specifically salary earners and pensioners. (58)

Saambou group MD Johan Myburgh said in the group's 1992 annual review that to this end, two savings products — Profit Grow and Dinkum Save — had been launched during the year.

The group's net operating income for year ended March 1992 was R9,1m before abnormal items, after the previous year's R24,5m loss. However, abnormal items accounted for a net deficit after tax of R69m.

Additional capital of R55m was gained through the conversion of the convertible debentures issued to Fedlife for the group's acquisition of Planet Finance. The funds of the insurance companies in the group were strengthened by R12,3m to R26,1m.

Saambou Insurance Brokers was established during the year to supply an assurance brokerage service to Saambou clients exclusively. BDay 9/7/92

The development and operation of the group's computer systems was recently contracted out to SPL.

"This move constitutes an important contribution towards the group's stated goal of being a low-cost supplier of financial services," said Myburgh.

Despite increasing pressure on interest margins and expected further weakening of economic factors, Myburgh expected Saambou to show improved results in the new financial year.

Consolidation ahead for equities, Guardbank

B/Day 9/7/92

MICK ELLINGHAM

A PERIOD of consolidation lies ahead for the equity market, says the Guardbank market report for the quarter ended June.

"Nevertheless, the high level of liquidity in the system, the anticipated continuation of the softening in short-term interest rates and the longer-term positive outlook for the SA equity markets should provide some measure of support from current levels," fund managers said.

Guardbank Growth Fund units increased in price by 17% (including capital appreciation) over the year.

"During the quarter, selected topping off of various counters was effected across the portfolio.

"The larger of these included the disposal of 118 000 Anamint shares and 105 000 SA Breweries shares," the fund managers said.

In order to rationalise the fund's computer stocks, the holding of 3,1-million Persetech shares was disposed of, while the existing ISG holding was increased by 2,9-million to aggregate 6-million at the end of the quarter, they said.

Guardbank Industrial Fund units increased in price by 5,35% over the three months from inception to the end of the quarter. The fund, with a current market value of almost R6m, specialises in financial and industrial shares.

Guardbank Resources Fund units increased in price by 5,30% over the year ended June 1992.

Fund managers said equity content was reduced during the quarter to 70% from 79%. "Selling activity was directed towards reducing the fund's exposure to the coal, diamonds and gold sectors."

Return

The only addition to the equity portfolio was the acquisition of a further 10 000 Rusplats shares.

Guardbank Income Fund had a return of 21,66% for the year ended June 1992.

"In anticipation of the falling interest rate pattern, the fund increased its capital market holdings with the acquisition of R2m Eskom 1994 and R5m JHB 1995 stocks," fund managers said.

The best performing sector of the yield curve was the three- to seven-year area in which the Income Fund had 50% of its investmentment porfolio, they said.

Southern secures stake in Medicor

BDay 9/7/92 (S8)

MARCIA KLEIN

SOUTHERN Life has acquired a 50% strategic stake in Unidev associate Medicor, which operates 10 MediCity hospitals in SA and Namibia, Unidev announced yesterday.

The deal follows an agreement between Southern Life, its health care subsidiary Affiliated Medical Administrators (AMA), Unidev and Medicor joint controlling shareholder David Horwitz.

It will involve financing of more than R100m for restructuring debt and funding properties, AMA said yesterday.

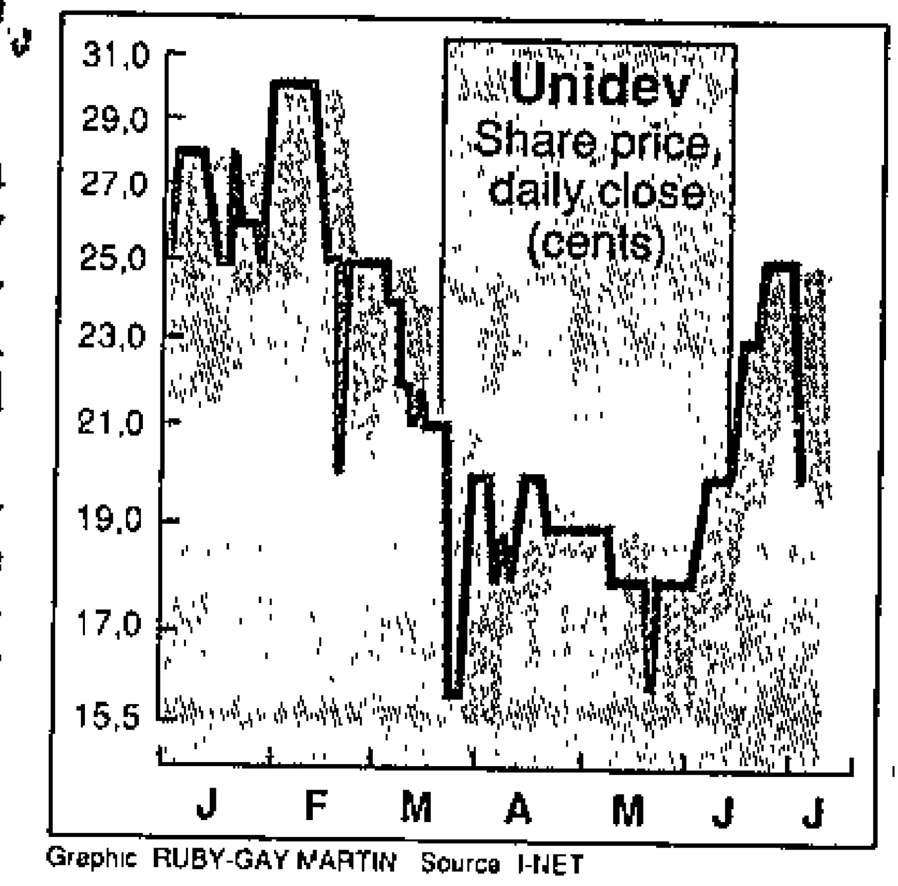
Unidev also has interests in durables producer Prestige.

AMA is a major health care assurer, with nearly 1-million principal members and dependants.

In terms of the deal, the interests of Medicor shareholders would be restructured. The ordinary shares in Medicor which were owned by Unidev have been exchanged for convertible debentures in Medicor of equal value.

Unidev's earnings a share or net asset value would not be affected. However, Unidev said the deal "provided Medicor with the ability to achieve its full potential", and enabled Unidev to participate in exciting developments in managed health care in SA.

In the past, all Medicor cash flow



Graphic RUBY-GAY MARTIN Source I-NET

was used to expand the business, with little being left over for shareholders. Now all of Unidev's attributable earnings from Medicor will be in the form of cash.

AMA CE Timothy Gelman said the acquisition would provide AMA with "all the combined strategic skills necessary to implement a cost-effective form of managed health care", which was a viable solution to SA's health care crisis.

Unidev said if Southern Life was to merge its health care interests into one entity, a portion of the debentures could be exchanged for shares in that entity, and any balance would be exchanged for Southern Life shares on January 1 1997.

The value of the shares in Southern Life or its health care entity would be based on 1,1-million Southern Life shares and their market price.

KENNISGEWING 607 VAN 1992

SUID-AFRIKAANSE RESERWEBANK

ARTIKEL 30 VAN DIE WET OP DEPOSITO-NEMENDE INSTELLINGS, 1990

FINALE REGISTRASIE: ISLAMITIESE BANK BEPERK

Hierby word vir algemene inligting bekend gemaak dat **Islamitiese Bank Beperk** op 30 Junie 1992, finaal geregistreer is as 'n depositonemende instelling.

(10 Julie 1992)

NOTICE 607 OF 1992

SOUTH AFRICAN RESERVE BANK

58

SECTION 30 OF THE DEPOSIT-TAKING INSTITUTIONS ACT, 1990

FINAL REGISTRATION: ISLAMIC BANK LIMITED

It is hereby notified for general information that **Islamic Bank Limited** was finally registered as a deposit-taking institution on 30 June 1992.

(10 July 1992)

KENNISGEWING 610 VAN 1992 • NOTICE 610 OF 1992

VOORLOPIGE OPGAWE VAN HANDELSTATISTIEK VAN DIE REPUBLIEK VAN SUID-AFRIKA VRYGESTEL DEUR DIE KOMMISSARIS VAN DOEANE EN AKSYNS

PRELIMINARY STATEMENT OF TRADE STATISTICS OF THE REPUBLIC OF SOUTH AFRICA RELEASED BY THE COMMISSIONER FOR CUSTOMS AND EXCISE

Opmerking: Die in- en uitvoersyfers wat in hierdie opgawe verskyn is grootliks aangepas om dit in ooreenstemming te bring met die vereistes wat gestel word vir die opstel van die betalingsbalans.

L.W.: Die oorskakeling na die Geharmonieerde Tariefstelsel met ingang van 1 Januarie 1988 het die indeling van sekere kommoditeite verander. Wanneer die afdelingstotale vir 1988 en later jare dus met dié van vorige jare vergelyk word, moet die moontlike verskille as gevolg van die oorskakeling nie uit die oog verloor word nie.

Remark: The import and export figures reflected in this statement have been adjusted largely to bring them into line with the requirements for the compilation of the balance of payments.

N.B.: The change-over to the Harmonized Tariff System with effect from 1 January 1988, altered the classification of certain commodities. When comparing the section totals for 1988 and later years with those of previous years the possible differences due to the change-over should therefore be taken into consideration.

58

TYDPERK: JANUARIE TOT MEI 1992 • PERIOD: JANUARY TO MAY 1992

	Invoere—Imports		Uitvoere—Exports	
	1992	1991	1992	1991
Totaal in miljoene Rand—Total in millions of Rand	20 142,1	19 538,0	27 260,2	27 990,3

TABEL B: TOTALE IN MILJOEN RAND VOLGENS AFDELINGS VAN DIE GEHARMONIEËRDE STELSEL
TABLE B: TOTALS IN MILLION RAND ACCORDING TO SECTIONS OF THE HARMONIZED SYSTEM

Afdelings—Sections	Invoere—Imports		Uitvoere—Exports	
	1992	1991	1992	1991
I. Lewende diere; dierlike produkte Live animals; animal products	131,0	81,5	292,4	240,8
II. Plantaardige produkte Vegetable products	586,7	487,3	1 051,1	835,4
III. Dierlike of plantaardige vette en olies en splitsprodukte; voorbereide spysvette; dierlike en plantaardige wasse Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes	163,7	103,9	58,3	42,0
IV. Voorbereide voedsel; dranke, spiritus en asyn; tabak en vervaardigde tabaksurrogate Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	487,0	415,4	795,9	661,6
V. Mineraalprodukte Mineral products	214,1	216,5	3 280,1	2 734,4
VI. Produkte van die chemiese of verwante nywerhede Products of the chemical or allied industries	2 260,2	2 203,9	1 370,4	926,1
VII. Plastieke en artikels daarvan; rubber en artikels daarvan Plastics and articles thereof; rubber and articles thereof	914,8	901,7	280,9	189,6

Afdelings—Sections	Invoere—Imports		Uitvoere—Exports	
	1992	1991	1992	1991
VIII. Ongelooide huide en velle, leer, pelsvelle en artikels daarvan; saal- en tuiemakersware; reisartikels, handsakke en dergelike houers; artikels van diederm (uitgesonderd sywurmsnaar) Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods handbags and similar containers; articles of animal gut (other than silk-worm gut)	86,1	93,8	165,2	141,2
IX. Hout en artikels van hout; houtskool; kurk en artikels van kurk; fabrikate van strooi, van esparto of van ander vlegwerkstowwe; mandjiewerk en vlegwerk Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw; of esparto or of other plaiting materials; basketware and wickerwork	167,4	154,9	155,7	145,8
X. Pulp van hout of van ander veselagtige sellulosiese stof; afval en oorskiet van papier of papierbord; papier en papierbord en artikels daarvan Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard; paper and paperboard of paper or paperboard; paper and paperboard and articles thereof	562,6	552,8	630,9	641,0
XI. Tekstiele en tekstielartikels Textiles and textile articles	1 039,0	965,7	731,1	768,5
XII. Skoeisel, hoofdeksels, sambrele, sonsambrele, wandelstokke, sitstokke, swepe, karwatse en onderdele daarvan; bereide vere en artikels daarvan gemaak; kunsblomme; artikels van mensehaar Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	114,6	103,1	18,8	10,8
XIII. Artikels van klip, gips, sement, asbes, mika of dergelike stowwe; keramiese produkte; glas en glasware Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	271,9	247,0	133,0	110,6
XIV. Natuurlike of gekweekte pêrels, edel- of halfedelstene, edelmetale, metale met edelmetale bedek, en artikels daarvan; nagemaakte juweliersware; muntstukke Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin	150,7	144,1	3 117,6	2 725,6
XV. Onedelmetale en artikels van onedelmetaal Base metals and articles of base metal	963,7	919,4	3 839,8	3 813,1
XVI. Masjinerie en meganiese toestelle; elektriese toerusting; onderdele daarvan; klankopnemers en -weergewers; televisie- beeld- en klankopnemers en -weergewers, en onderdele en bybehoorsels van sodanige artikels Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	6 100,2	5 636,7	727,2	578,2
XVII Voertuie, lugvaartuie, vaartuie en verwante vervoertoerusting Vehicles, aircraft, vessels and associated transport equipment	2 443,9	2 451,8	747,5	487,3
XVIII. Optiese, fotografiese, kinematografiese, meet-, kontroleer-, presisie-, mediese of chirurgiese instrumente en apparate, uurwerke en horlosies; musiekinstrumente; onderdele en bybehoorsels daarvan Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments, parts and accessories thereof	882,8	797,0	65,6	53,4
XX. Diverse vervaardigde artikels Miscellaneous manufactured articles	214,7	196,2	110,3	91,5
XXI Kunswerke, versamelaarsstukke, en antieke Works of art, collectors' pieces and antiques	10,5	8,4	6,3	6,3
Ander ongeklassifiseerde goedere en betalingsbalansaansuiwerings Other unclassified goods and balance of payments adjustments	2 376,5	2 856,9	9 682,1	12 787,1
Groottotaal—Grand total	20 142,1	19 538,0	27 260,2	27 990,3

(10 Julie 1992)/(10 July 1992)

CIB

Secrecy over claims

Highly confidential documents were sent to the Justice Department last year to explain why a R25m claim by the Reserve Bank against the liquidated Cape Investment Bank (CIB) had twice been denied by the Master of the Cape Supreme Court. The documents were for the attention of Justice Department Director-General Jasper Noeth after he had intervened in the matter.

At the same time a R10,2m claim by the Bank, arising from a personal undertaking by Registrar of Deposit-Taking Institutions Hennie van Greuning to Bankorp for repayment, was contested by an attorney acting for the State-funded Rail Commuter Corp.

The Bank claimed, during two creditors' meetings in June last year, that Prima Bank, which in December 1990 took over CIB, had ceded a R25m claim against the liquidated bank to the Reserve Bank. The Commuter Corp, which contested the Bank's claim against CIB, was the main creditor after it had deposited R249m with CIB.

Rollover

The Commuter Corp lost its investments after it had been persuaded by Bank officials, on March 28 last year, to roll over a maturing R103m deposit at CIB.

This was two days before the Bank had withdrawn its own R300m deposit. During a secret arbitration that followed, former Chief Justice Pierre Rabie denied the Commuter Corp its claim against the Bank. (*Current Affairs* July 3).

Attorney Alec Brooks, of Hofmeyr Van der Merwe, for the Commuter Corp, in June last year questioned the validity of the claim by the Reserve Bank, which Brooks said had not been ceded to it by Prima.

He told liquidator Tjaart du Plessis he had "documents which clearly show the Bank had been trying to substantiate a claim, for amounts for which there were no *causa* (basis)."

Brooks said Deputy Registrar of Deposit-Taking Institutions Christo Wiese said some CIB depositors had been repaid by Prima Bank on April 10 1991 and that Prima's claims for these repayments had been ceded to the Bank. Brooks contested this.

According to CIB cheques and bank statements, CIB — not Prima Bank — made the repayments on April 10, the day before CIB's liquidation, said Brooks. Among the deposits that had been repaid by CIB was the R10,2m to Bankorp. This payment had been authorised by Governor Chris Stals after certain undertakings Van Greuning had earlier given to Bankorp. Later, the Bank however ruled that only deposits of R5m and less would be paid by the Bank.

Information about the payback to Bankorp had been withheld until the *FM* reported it two weeks ago (*Economy* June 26). Liquidator Tjaart du Plessis was told at the time that no detail as to the nature of Van Greuning's undertaking to Bankorp could be divulged to him.

Du Plessis was also instructed by the Bank that the transfer of the balances of certain depositors with CIB, to Prima Bank, took place after consultation with depositors who had expressed the wish to re-invest the amounts with Prima.

However, last week, the *FM* reported that the Bank had stopped Prima Bank MD, the late Johan Bellingan, from accepting R200m in short-term bills which the Commuter Corp was prepared to switch from CIB to Prima Bank. Had the switch taken place, the corporation would not have lost its deposit (*Economy* July 3).

Brooks further indicated that CIB cheques show that, between April 4-10 (before liquidation), the ailing bank had paid an amount totalling R97m to Prima Bank The cheques indicated that on April 11, the day of its liquidation, CIB had owed no money to Prima Bank. Instead Prima Bank was indebted to CIB, said Brooks. He argued that Prima Bank had no claims against CIB which it could have ceded to the Bank.

Brooks' statement that R97m had been paid from CIB to Prima Bank between April 4 and the day of CIB's liquidation coincides with a sworn statement which former CIB CEO Andy Swartz had made on June 24 last year. Swartz described a meeting which the new CIB directors had on March 18.

Present were: Bellingan; newly appointed CIB MD Allan Greyling; Prima's Clive Ferreira (now acting MD); representatives of joint auditors Coopers Theron du Toit and Deloitte Pim Goldby; attorneys Hilton Gischen and Gerald Mallinick (of Mallinick, Ress, Richtman); and the Bank's Karel Oosthuizen and Herman Krull. The minutes say Bellingan reported that "the current estimation is that the net asset value would be in the region of a negative R110m ... "

"All those present ... were aware that CIB was trading in insolvent circumstances and was unable to pay its debts," attested Swartz. He also referred to a letter the joint auditors had written to Van Greuning the following day, which formally informed him (Van Greuning) that CIB was trading under insolvent circumstances.

Swartz said that he had also learnt that the Bank had written to former CIB chairman Jan Pickard jr in December 1990 giving its undertaking "that depositors would not suffer any loss in the event of CIB's liabilities exceeding its assets." He also referred to the Bank's R300m withdrawal on March 30, while at the same time the Bank's Oosthuizen admitted that he had persuaded the Commuter Corp to roll over its R103m.

In his affidavit Swartz said the actions of the Bank and the then CIB management "in this regard are to be construed as collusive dealings before the liquidation of CIB."

On April 3 1991, a day before the six-day period during which Brooks claimed R97m had been paid by CIB to Prima Bank, the auditors also wrote to CIB's Greyling saying: "We have reason to believe that your company's liabilities currently exceed the value of its assets."

Wrote the auditors: "We have reason to believe a material irregularity contemplated in section 26 (3) of Public Accounts & Auditors Act (51 of 1951) has taken or is taking place " A copy of the letter was sent to Van Greuning. The auditors had no response from Van Greuning to their March 19 or April 3 letters.

In his affidavit dated April 9 1991 — before liquidation — the Bank's Oosthuizen stated that, on instructions from Van Greuning, he personally investigated the balance sheets of CIB towards the end of March 1991. Oosthuizen said he discussed the matter with auditors Philip Wessels and Horton Griffiths of the joint auditors. The situation at CIB and the proposed application for liquidation were also discussed with the directors of CIB.

Thereafter, according to Brooks, R97m was paid out by CIB to Prima. *Eddie Botha*

☐ Johan Bellingan was killed at the weekend while hunting.

whole page

The power behind the new property concept

STAR 10/7/92. (58)

Comprehensive Property Services (CPS) has in its short life already a huge impact on the real estate industry.

The man behind the creation and success for the new property service is managing director and property consultant Stefan Swanepoel.

He is a slim man who brims over with energy. Speech seems too slow for this man and words flow from him in a constant high speed stream.

Though young, he has already carved a successful niche in the South African property industry and is often invited as a guest speaker at overseas property industry conventions.

"If something needs to be done, then do it," is a concise summary of Mr Swanepoel's philosophy.

His just under 10 years of involvement in the property industry are unique as he has been involved in virtually the entire spectrum of the market, from mortgage lending to the estate agents themselves.

He has been involved in most of the important strategic changes and transactions in the estate agency industry over the past several years.

In 1986, at the age of 28, Mr Swanepoel was appointed executive director of the Institute of Estate Agents of South Africa (IEASA). During his two years of involvement, he produced the Real Estate Handbook — a 400-page publication which is updated annually — and created Real Estate Forum, the only property magazine in the country at the time.

After being published for five years, this magazine, together with the Institute's various small regional newsletters, has now been discontinued to make space for a major national monthly property magazine The Property Professional, which Mr Swanepoel also created.

After his time with IEASA Mr Swanepoel joined The United Building Society as assistant general manager: marketing and strategic planning to head up the United's entry into the estate agency industry. Later he was seconded as acting managing director of Multiple Listing Services before he decided to leave to found him own strategic and management consultancy company in Pretoria.

Highlights during the past two years included the creation of South Africa's National Property Academy. The academy annually trains about 6 000 estate agents — approximately 60 percent of all estate agents who enter the industry annually in South Africa.

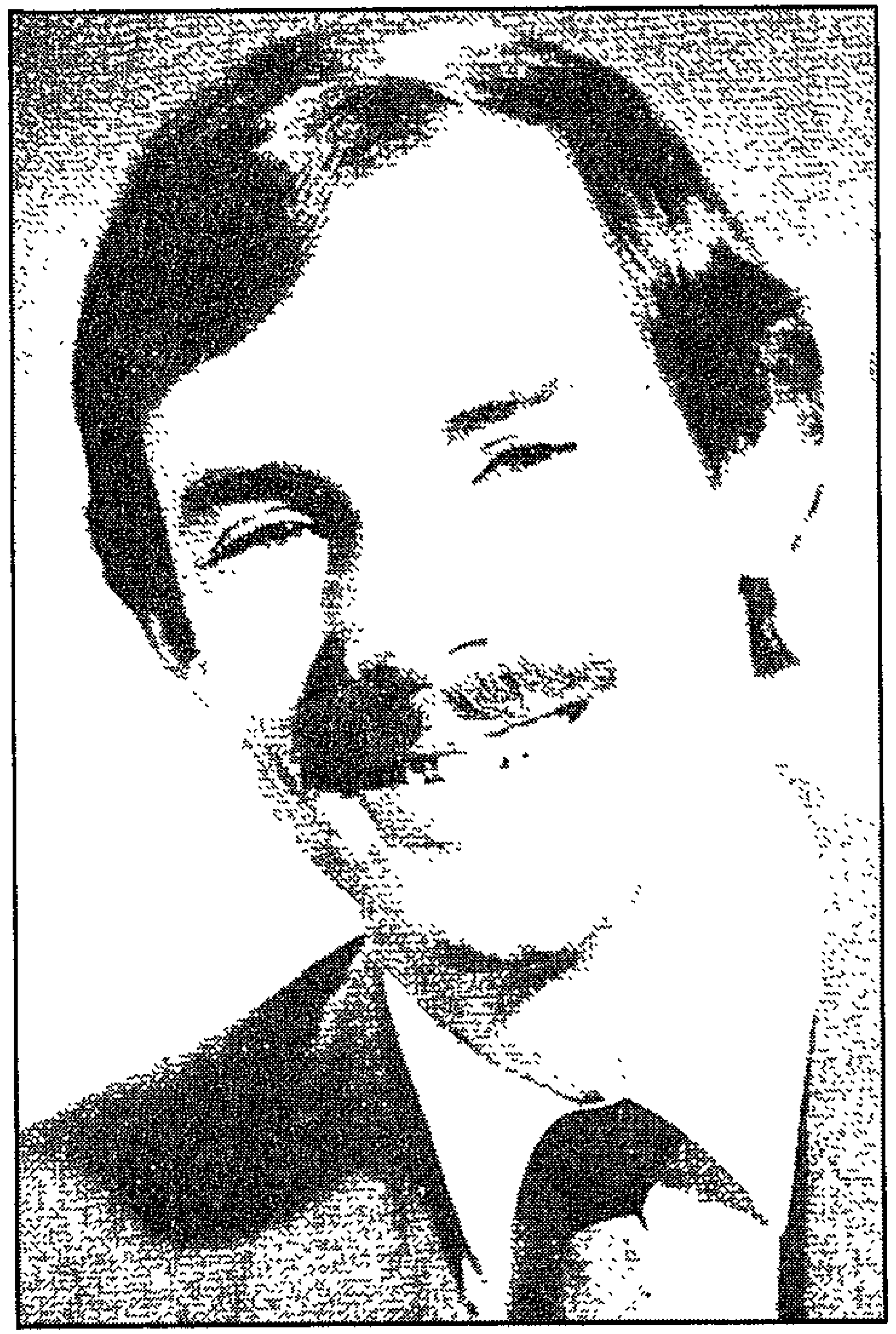
Another property highlight was the creation of Realty-1 out of five existing estate agencies. Today Realty-1, with its approximately 1 200 agents and 110 offices around the country has an annual turnover of R1,4 billion, and is the largest estate agency group in South Africa.

A third major venture was the creation of CPS.

Says Mr Swanepoel: "CPS is the vision for which everyone in the industry has been waiting. It is a system that allows all participants in the property industry access to one national computerised network permitting property transactions to be completed faster and more professionally to the benefit of the public."

CPS's roots can probably be traced to Mr Swanepoel's Masters degree studies of the real estate industry in the USA and the subsequent best-selling book "A New Era in Real Estate", which was published in 1990. The book deals with the American and South African property industries and gives particular attention to aspects such as computerisation and property listing systems.

Mr Swanepoel's approach to life and business has been recognised by the AHI, ABI, IEASA, and again recently when the property editors of most of the leading newspapers, in a national survey, recently rated the creation of CPS as the most newsworthy event in the property industry for 1991.



Stefan Swanepoel . . . MD Comprehensive Property Services.

Comprehensive Property Services

A Star, Cape Argus, Daily News corporate survey

Written and compiled by Andrew Gillingham

Finding the right staff posed very few problems

Finding staff to man a complex service oriented company is usually difficult.

However, Comprehensive Property Services (CPS) had the advantage of several large financial institutions as shareholders.

"We told them the kind of skills which were required and they supplied us. This was particularly important on the computer side.

"When they were working for us, we had the opportunity to evaluate their suitability and if we wanted to retain their services, we took them over.

"We actually found good people very quickly," says CPS managing director Stefan Swanepoel.

About 10 percent to 15 percent of the CPS personnel are people from the property industry with whom Mr Swanepoel had worked in the past.

Mr Swanepoel himself retains his consultancy and has agreed to remain managing director while the company is getting on its feet.

No barriers or restrictions to membership

STAR 10|7|92

(58)

There are no restrictions as to who may become members of the Comprehensive Property Services (CPS) system.

The company wishes to make its membership and usage as wide as possible.

"I believe this is the only way to ensure the service functions correctly. If we put any unrealistic or unfair barriers in the market, the service will become dominated by one group or another and I think that is wrong.

"An estate agent would still be able to subscribe if he did not want to use the multilisting module. There will be 17 or 18 modules functioning on the estate agent's section of the system. The estate agent may use whatever he wishes," says CPS general manager marketing Avon Reyneke.

Each subscription costs R300 a month. There are no joining, cancellation or per transaction fees charged to members.

A single subscription entitles the subscriber to one access code and only one user may access the system, by using that particular code, at any one time.

"You can access CPS from anywhere in the world by using that code. The usual trend at the moment is for one code for each office. This prevents log jams caused by too many people trying to access the system by using the same code.

"Agents don't have the time to queue up to gain access to the system.

"For example, one large estate agency has subscribed to more than 100 access codes for use in the offices around the country.

"I compare it to watching M-Net. If you sitting watching television with your immediate family, that is fine, but if all the people in the street come to watch, it is going to get very crowded.

Avon Reyneke . . . CPS general manager, marketing.

"If users want the flexibility of being able to access the system at anytime, they will need their own codes," says Mr Reyneke.

Members may access the system with a variety of different machines such as minitels, IBM or compatible personal computers. Computers should be MsDos based. The chip size is not important and the system may be operated as part of a local area network.

In addition, users may access the system through a variety of different means including direct dialing, X25 (Easy Access) and Beltel.

"Users can operate through X25 and save money if they are operating away from the Johannesburg area, calls are charged on a local rate," says Mr Reyneke.

The company is currently investigating other networks as a means of its members accessing the system.

If companies are planning considerable use of the system it may be worth considering a dedicated line.

CPS does not state from which companies members should buy their equipment. However, the company has negotiated with a number of computer firms which now offer CPS members special rates, based on the fact the financial institutions, who are the shareholders, buy their equipment from these companies.

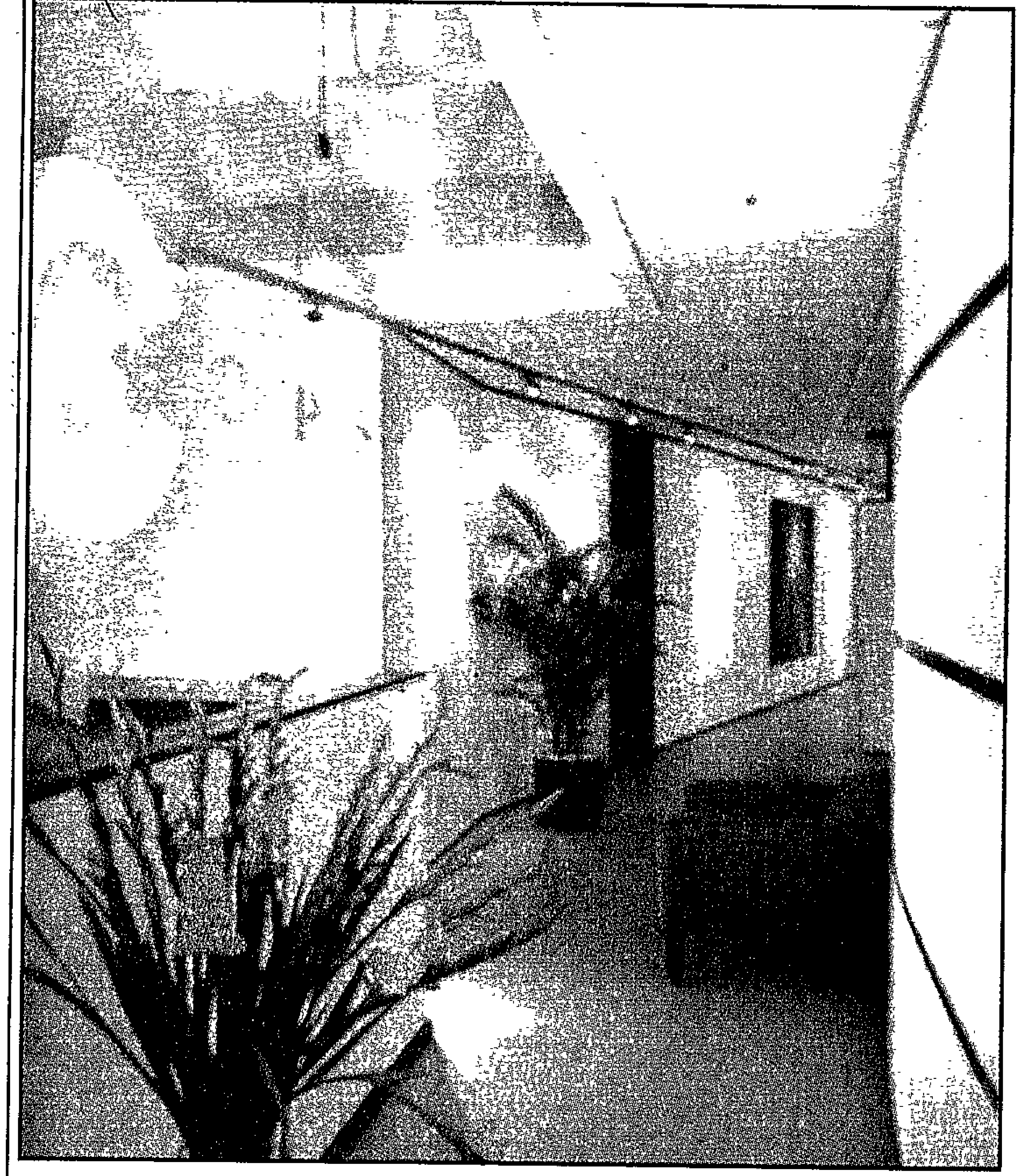
When users switch on their computers they are offered a range of services such as estate agents functions, attorney services, banking systems, statistical information and office automated facilities.

Subscribers are also offered the opportunity to access other services such as Beltel or to the hard disk.

If the user selects one of the services it will, unless the mode is pre-programmed, ask for the means to be used. It the system is set up to have the lowest cost route, the system might try Beltel. If the computer gets through it will automatically access the CPS system through a gateway.

If the line is engaged the computer will ask if it should try another method.

whole page. (S8)



Working base . . . The Comprehensive Property Services headquarters is in Sandton.

Service aims to address all needs

The start of the long process which was to result in the creation of Comprehensive Property Services (CPS) began in June 1990.

Property consultant Stefan Swanepoel was approached by former Permanent Building Society managing director Bob Tucker to create a number of platforms in the property industry.

The meeting resulted in the formation of estate agents Realty 1 and estate agent training facility the National Property Academy.

Also discussed at the meeting was the impact being made by property listing services in South Africa.

The Perm wanted to start a similar network.

Mr Swanepoel suggested forming a partnership with the existing listing company but negotiations were unsuccessful.

Perm still wanted its listing network but realised that there was not room for a whole series of such networks and agreed that the attempt should be made to involve the other financial institutions in an independent listing service to be owned jointly by all the banks and building societies.

Mr Swanepoel approached First National Bank and Standard Bank and soon had their agreement to support the venture.

The agreement was no secret in the industry and NBS was the next to add its weight to the new project.

Says Mr Swanepoel: "We went out and investigated all the multi-listing packages in South Africa and the 10 best packages in the United States and Canada.

"It soon became apparent that the local packages were years behind.

"The United States had packages on mainframe computers which had been developing for nearly 20 years.

"They were more comprehensive, slick and customer support oriented. It would have been stupid to develop our own package when the system we wanted was already in existence."

CPS was formed in June 1991 and the company moved into its Sandton offices in August 1991 and the first staff was appointed.

"I was formulating the mission at this time. It was apparent that the service needed to address all the needs of the property industry and be the start of totally computerising the industry.

"We decided to look at all the needs of estate agents such as a referral system and a series of multi-listing services. The listing should be available for access to a particular agent or the office or all the offices in a particular company or available to the whole industry. The estate agents should be able to select exactly how the property should be listed.

"We looked at the needs of all the banks including bond applications, electronic banking and trust accounts. Then we decided to tackle the needs of the attorneys such as conveyancing.

"The idea was to see how each of the parties involved in a transaction could assist one another to speed up the whole property purchase process," says Mr Swanepoel.

CPS is structured to be as neutral as possible and control is shared between the banks and the various professional bodies governing the professions involved.

"We decided never to have an individual or an outside party as a shareholder. The shareholding is split between the most neutral people of the country, the various financial institutions and will involve every single, professional body or consumer body which wishes to become involved," says Mr Swanepoel.

In addition to the three founding institutions, Bankorp (Trust Bank), Eastern Province Building Society and Boland Bank have also become shareholders in CPS.

The Institute of Estate Agents, after certain pre-conditions had been met, has decided to back CPS and participate in determining its future direction.

Comprehensive Property Services

A Star, Cape Argus, Daily News corporate survey

Many benefits from a listing with CPS

Computer listing is nothing new in South Africa and the concept has been in operation for several years.

However, Comprehensive Property Services (CPS) believes its system is superior to all the current operations.

The idea of listing a home on a computer service is that the property is then available to a large number of other estate agents, people who would not usually have access to the listing agent's properties. Each agent has a pool of potential buyers and by making the property available to a larger number of agents means finding a buyer quicker.

The agent who lists the property and the selling agent share in the commission obtained from the sale.

CPS is making a point of being purely a facilitator and will not be dictating the terms of such agreements.

"The market will decide on the appropriate rate," says CPS managing director Stefan Swanepoel.

He says there are five ways in which a property can be listed and CPS caters to all of these.

"An agent can list a property for himself, that means that he keeps the data for himself and works as an individual to sell the property. He may not work in an office environment and, thus, has no colleagues and he may not wish to make the property available to other estate agents.

"Then there is the office environment where several agents share information with each other.

"Some companies have more than one office and properties available for sale are shared among all the firm's branches or franchises.

"Then there is sharing on a geographic basis where agents working for different firms, but operating in the same area, share information.

"The fifth, and I believe ideal system, is to offer all of the systems so the agents may choose the one which best suits them and the property in question.

"We conducted a survey amongst estate agents and they were divided equally as to the listing method which they preferred, so the CPS system offers them all the options. And if another technique is developed, we will add it to the system," says Mr Swanepoel.

The system is already live and will be available on a national basis during August this year.

He says the CPS service will appeal to all estate agents because it does not dictate to them how they should operate

The 9-to-9 helpline a boon to clients

Property industry service company Comprehensive Property Services (CPS) has introduced another new service, this time aimed at assisting its clients with making the best use of the technology.

CPS has initiated a 9-to-9 helpline at its head office in Sandton to assist subscribers to the network at any time between 9 am and 9 pm, seven days per week with any questions and queries about accessing CPS

When users contact the 9-to-9 helpline, they will be given step-by-step assistance if they have problems getting into the CPS system via their terminal or personal computer. They will be able to discuss any computer-related issues with expert CPS personnel.

The CPS mainframe computer can, however, be currently accessed 22 hours out of 24, even when there is no person on duty. When the installation of a new computer is complete, access will be 24 hours a day. This means that users can plan their working time with greater flexibility. CPS's computer network is therefore just as available as electronic banking, even if it is needed at the crack of dawn.

Agents' viewing another service offered

Determining the correct price to offer a property to the market is a critical part of the estate agent's function. If the property is priced too low the seller is losing money, if too high the property may take a considerable time to sell.

Comprehensive Property Services (CPS) is adding agents' viewing to the list of services

The agent who lists the property on CPS simply places a notice on the CPS computer.

The agents then view the house and record their opinions of the property with the help of a standard form, regarding price and prospects for selling.

In this way the listing agent can determine if the seller's asking price is realistic, as he can compare it with many objective opinions

The seller is assisted to determine whether or not he should adjust his asking price to a more realistic, market-related level. If he decides to lower his price, he may well obtain a faster sale. Agents who work together via the CPS system can therefore give sellers and buyers, a more professional service.

Aim is to fully computerise the SA property industry

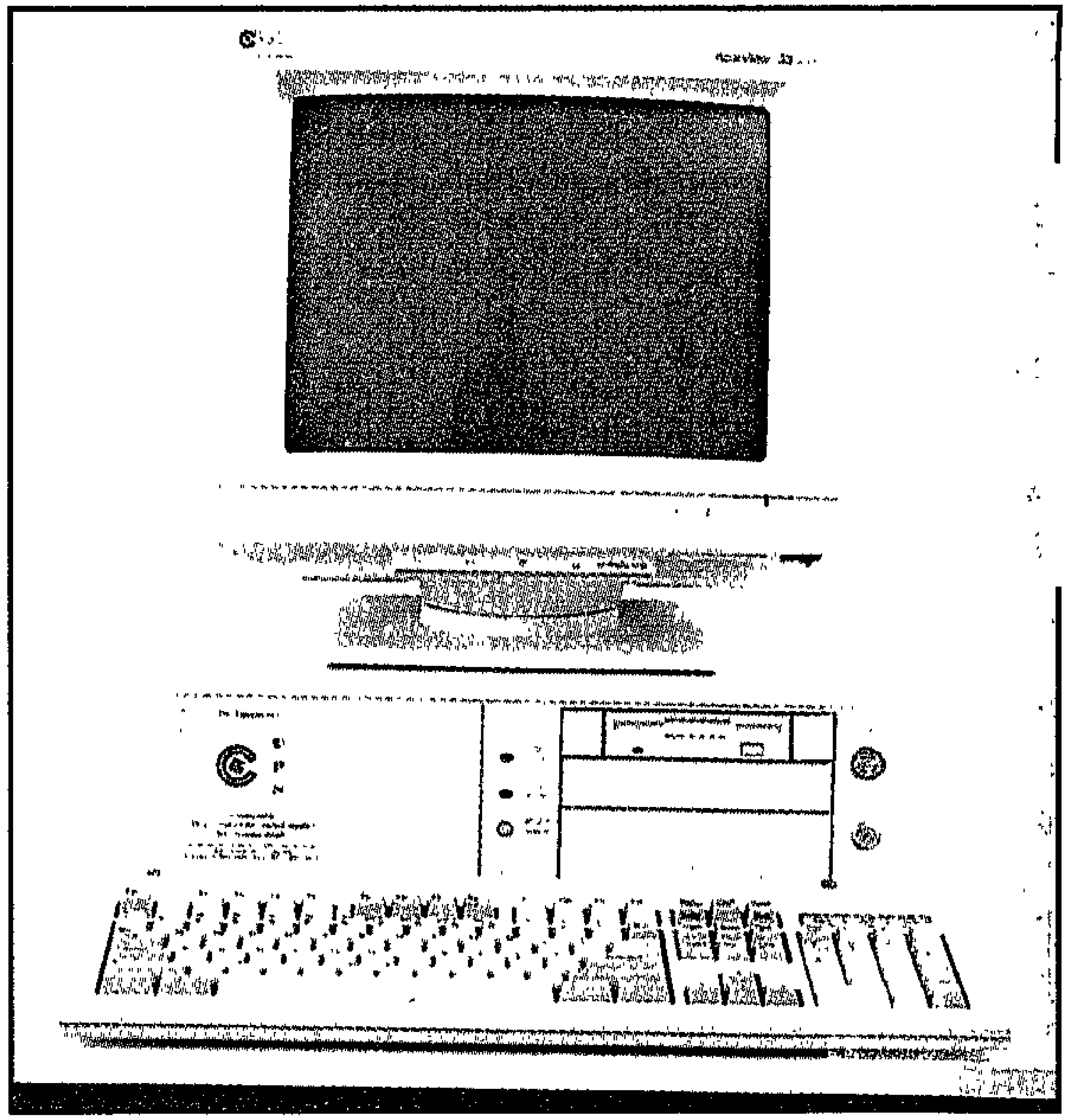
Comprehensive Property Services (CPS) has set itself the task of computerising the property industry.

The computerisation will be carried out in stages. The first phase is to computerise the estate agents.

The core of the estate agents' service is an online computer listing system.

CPS managing director Stefan Swanepoel says another important ingredient is the referral system which will allow estate agents to refer clients to estate agents in other areas.

This service would be used when a client is moving or is looking for an additional home in another part of the country.



Vital technology . . . the core of the estate agents' service is an on-line computer listing system.

Messages

Says Mr Swanepoel: "There is also an industry bulletin board, which will allow the Institute of Estate Agents to send out messages such as changes in commission structures or VAT.

"The banks should be able to tell agents that the bond rate is going down. It will be a full bulletin board.

"There will also be an electronic mail system which will allow estate agents to communicate with each other.

"A database will also form part of the system so subscribers are able to pull out statistics such as house price information drawn from around the country."

He says CPS has identified 10 different functions which will benefit the estate agent, only a couple of these are available on other systems.

CPS has plans to act as a facilitator between the estate agents and any company which has services which it can offer via computer.

"We would expect services such as the credit bureaux to link into the system and then members will be able to access their services via the CPS system.

"The user would still pay the service provider. "CPS should be the focal point, the neutral facilitator. If anybody has a property related service which could be of benefit to the industry could be channeled through CPS. It will be the Saswitch of the property industry," says Mr Swanepoel.

The estate agents will not link directly to the various bank computers. Instead they send their messages to the CPS computer and it is relayed through it the bank concerned.

CPS has agreed a set format for the message traffic whether to another estate agent or to the bank. In this way the information will be received in a predetermined sequence and can be received and understood by a variety of different machines.

The intention is to set rules, standards and levels of practice.

"We started out with a much slower approach. The idea was to set up the estate agent modules first, move on to the banking systems in 1993 and work on the conveyancing programs in 1994. However, the message from the industry was clear. It could not wait that long.

"We've had to actually pull things in a bit faster than we had originally anticipated.

"Users can patch through to the credit bureaux through Beltel. It is more efficient to have a master menu which allows the user to select the service required. When the selection is made the user is automatically moved through the sequence needed to gain access. Even the passwords can be preprogrammed.

"This makes the system very user friendly," says Mr Swanepoel.

whole page

Big savings can be made with listings

The banks have enormous sums of money which are committed to bonds which they have granted but the property sales have yet to go through.

CPS managing director Stefan Swanepoel says some of the big financial institutions in South Africa such as Standard Bank, First National Bank and the Permanent Building Society lend between R250 million and R350 million a month on home loans.

"We know that the average transfer process takes anything up from six to 20 weeks. That money is granted but it only earns interest up to four months down the track. This means the that the average mortgage lending institution is holding about R750 million on call. This is costing the lender a lot in lost interest," says Mr Swanepoel.

The deposit paid by the buyer sits in a trust account and if the buyer moves into the house prior to transfer, he is paying occupational rent. In addition, the buyer would be unwise to make what might be urgent repairs or improvements to the property before transfer is completed. Even the most certain sale can fall through at the last minute.

"If we speed up the process of transfer the bank will earn interest on its money sooner, the buyer will pay less occupational rent and money will not be sitting in trust accounts where the purchaser is not receiving the interest.

"The buyer will be able to move into his house faster and the attorney will get his appointment faster.

"The buyer will not have to wait because the attorney says he hasn't got the papers from the bank yet. The information on the listing form is, in essence, the same data which is on the bond form and is much the same as that which will be passing from one stage of the transfer process to the other.

"Having the information being passed from one party to another via an electronic network saves weeks and each week saved will save millions of rand.

"If we can cut the average waiting time from 19 weeks to 16 weeks or even 10 weeks, it will more than justify the system's creation," says Mr Swanepoel.

Comprehensive Property Services

A Star, Cape Argus, Daily News corporate survey

Computer technology the key

Computer technology forms the cornerstone of the Comprehensive Property Services (CPS) business.

Originally CPS intended to use IBM machines but found on further investigation that there might be machines better suited to its needs.

"We looked at the 10 largest property listing services in the world. One was running on IBM, another on Hewlett Packard and the other eight were using VAX computers which are manufactured by Digital Electronic Corporation. The company is the second largest computer hardware company in the world, after IBM.

"IBM is more into mainframes, personal computers and data storage, whereas VAX is used for communications. For example, Telkom uses VAX," says CPS general manager Christo Wiid.

CPS opted for the VAX machines and bought a mini-mainframe. The hardware is designed to be modular and other machines may be added as the demand for processing power increases.

CPS has recently purchased its second such machine and it has been linked to the first.

CPS on-line users increasing

More than 750 companies estate agents so far have opted to go on to the Comprehensive Property Services system and it has only been in operation for three months.

Of this membership, 190 firms are using the system in an on-line mode.

Says MD Stefan Swanepoel: "We have more on-line users than any other property listing system currently operating in South Africa, even though the others have been in operation considerably longer."

However, he is far from complacent and fully aware of the challenge which faces CPS.

It takes between three and four months from the date of application to get users on-line.

Says Mr Swanepoel: "A recent industry survey indicates that most estate agents are computer illiterate. Only about 8 percent have any form of computer knowledge. Most firms are not operating with modems though many have personal computers in their offices."

This means that while many estate agents have computers, they lack the necessary training to use them fully.

When an application is received CPS must introduce the agents in that firm to the CPS system, explain networking, train staff to operate computers, fill in the necessary documentation and provide the relevant access codes.

"It is a slow upward curve after introducing him to the computer. There is a time lag before the agent actually begins to use the system because it is something new.

"America started computerising its property industry in 1978 and it has taken nearly 12 years to have computers in operation across the board

"We have estimated South Africa will take about half this time," says Mr Swanepoel.

He bases his shorter estimate on the fact the US industry grew organically whereas South African firms are being pushed and the financial institutions are assisting the process.

During the late '70s, when the US property firms began to computerise, computer technology was expensive.

"Since that time computer technology has become considerably cheaper. Everyday prices are coming down and buyers are getting more processing power for their money," says Mr Swanepoel.

Another advantage which the South African market enjoys is the fact that the US led the way and the system in this country does not have to make the same mistakes.

"We are also in the position of having the software already developed for us and we don't have to create the hardware for it to run on.

"Systems such as ours are in operation, in one form or another, in many places in the world

"There is a perception that South Africa should lead, not follow. This is true in some industries, but in the property industry we have always followed the US, rather than Europe," says Mr Swanepoel.

He points to concepts such as franchising, referral groups, electronic bond approval, sole mandates, show houses, multi-listing, property conventions and the Institute of Estate Agents. These are all these ideas have been adopted from the Americans.

"Our trade publications even have the same names. Some of the legal points are different in this country but the format is very similar. Therefore, there is no reason why we should not follow with regard to applying technology in the industry. After all technology is far more universal than concepts such as sole mandates," says Mr Swanepoel.

The CPS board . . . seated from left: Trevor Olivier (NBS), Pat Lamont (FNB), Stefan Swanepoel (MD CPS), Eric Tomlinson (STD). Standing: John Fordham (FNB), Gian Sdoya (Perm), Fanie Jordaan (Std), Cliff Hall (EP).

Comprehensive training of agents seen as one of the cornerstones of CPS

There is no point in introducing a service if the people who should be using it do not know how it works.

For this reason Comprehensive Property Services (CPS) regards training as one of the cornerstones of its service and people who subscribe to CPS are trained in using the various modules.

Training has already started with the estate agency functions, as estate agents are the first link in the property chain.

CPS's first course is a theory course which provides an overview on the background of CPS, the procedures, standard forms, an introduction to the services being offered, as well as an introduction to computers.

In the next training module estate agents are given practical on-line training on linking up with CPS and working in the system. The course concentrates on listings, searches, and statistics.

Various other courses are planned for 1992/93 to give subscribers further training such as an advanced course which will include financial aspects as well as conveyancing.

In all the largest centres of South Africa including Johannesburg, Durban, Cape Town, Port Elizabeth, East London, and Bloemfontein, training courses are offered almost every week, while efforts are also made to provide training in the smaller cities such as Welkom, Nelspruit and George when required.

The National Property Academy (NPA), South Africa's largest trainer of estate agents, is a joint undertaking between the Institute of Estate Agents of South Africa and the Perm and it was recently appointed to act as official trainers for the theory course.

A number of well-known computer firms, such as Compustat have already been appointed or are presently being evaluated, after which they will become the training agents for the practical course.

CPS general manager operations Wayne Partington says: "Although CPS will not act formally as a training organisation, it has a training department which at present is assisting in training the large number of subscribers who wish to use CPS services."

Agents' convention aiming for success

"The Road to Success" is the theme for the Institute of Estate Agents of South Africa convention for 1992 which will take place at Sun City from 25 to 28 August 1992.

It is also an accurate description of the partnership which has been sealed between Comprehensive Property Services (CPS) and the institute.

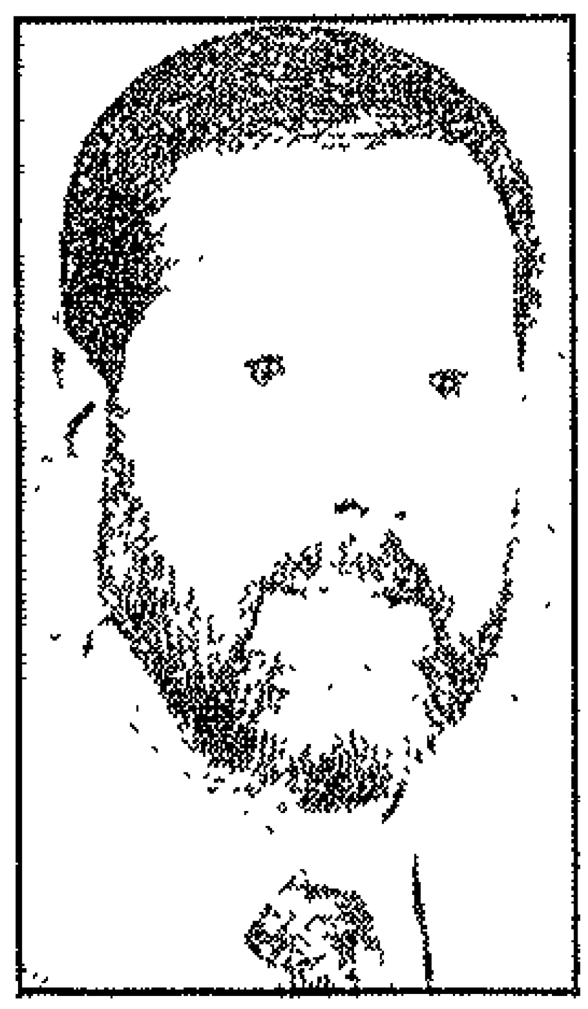
In September 1991 the institute and CPS came to an agreement which includes an endorsement of CPS by the institute. The institute is a professional body which promotes the estate agency profession on behalf of its, approximately 7 000 members.

The institute's decision was made at its convention last year. It believes the new service is in line with the institute's drive towards enhanced professionalism in the estate agency industry in South Africa. As a result the institute realises the CPS vision by assisting in the direction and details of what is required by the industry.

According to Trevor Downing, current president of the IEASA, computerisation will bring tremendous benefits to all estate agents. The software being used by CPS has already been proved internationally and has been successfully utilised under similar circumstances over the last 20 years in the USA. CPS in conjunction with the institute took seven months to adapt and modify the program for South African conditions.

Says Mr Downing: "It can only be to the benefit of the property industry that financial institutions work together and closely bring about, for example, standardisation of the bond applicastion form."

This is possible as CPS



Trevor Downing . . . IEASA president.

is supported by some of the country's largest financial institutions and estate agents as well as their clients have the widest selection of institutions to which bond applications can be routed

The fact that members of the IEASA can utilise the services of CPS at a lower rate than non-members is, according to Mr Downing, the greatest benefit which membership now offers. Other major benefits include the high-quality training being offered by the National Property Academy, the training arm of the institute, and the newly created national property magazine, The Property Professional.

One of the main tasks of the institute is to keep and eye on the professional standards and the behaviour of its members by way of a code of conduct and ethical obligations. As a result, members are generally regarded as more professional than other estate agents, says Mr Downing.

"For 50 years the institute has been the only voice of the estate agency industry. As the estate agency business becomes more complex, so more and more estate agents will become members", Mr Downing says.

The institute's national convention, which is expected to attract 600 delegates from around South Africa and neighbouring states, is the opportunity for estate agents to find out about the latest trends in the industry and also to achieve inter-firm liaison at a national level.

This convention has now become a joint venture between the institute and CPS, after CPS decided to extend its full support to the institute's convention and not to arrange its own. The official sponsor of the convention is Standard Bank, one of the shareholders of CPS and also one of the leading financial institutions in the bond market in South Africa.

The three-day convention will this year feature many renowned speakers, not least of them being Dave Beson, who is regarded as one of the top three speakers on real estate in the USA today. He will speak on "101 Ways to Double Your Production".

CPS managing director Stefan Swanepoel, will also deliver a paper during the convention on computerisation of the real estate industry

Other speakers include Norman Nel, the chairman of the Estate Agents Board, the statutory body, Mike Vosloo and Nico Czypionka of Standard Bank, Trevor Downing, Michael James and Colin Sidelsky on auctioning property, Mike Hindle on brokerage, Mattie Reed on self-development, Ian Thomas on adaptation to change: Justus Tshungu on the road ahead, and Alan Hood, the President of the International Real Estate Federation, which welcomed South Africa back to the international property scene after its World Congress in May.

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Bond approvals can be speedily obtained

Part of the success of the Comprehensive Property Services's (CPS) system is the fact that it has many of the major financial institutions as its shareholders.

As a result it has been able to obtain special agreements which will speed up the bond approval process.

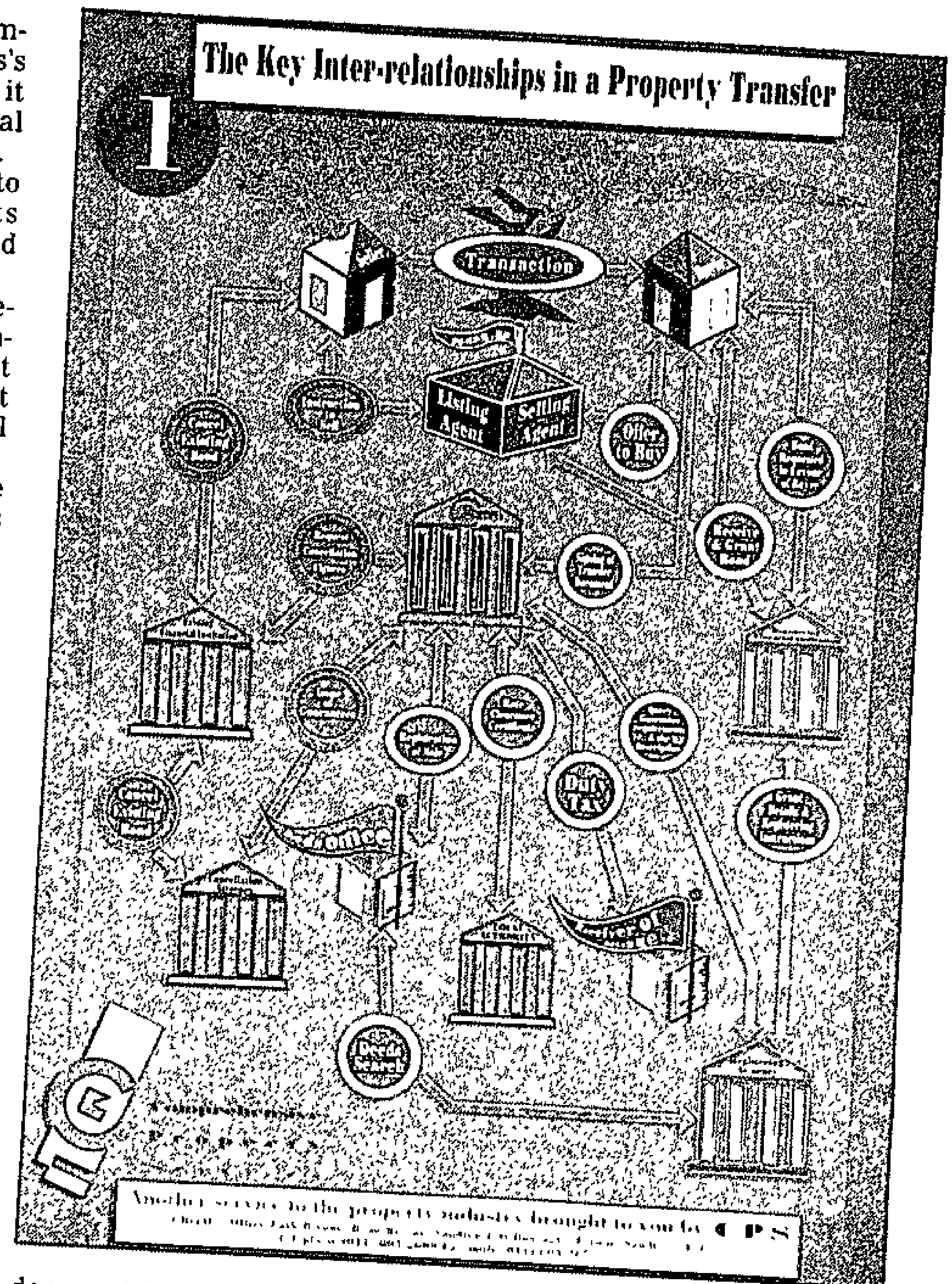
CPS managing director Stefan Swanepoel says the financial institutions have agreed, at this stage, that they will grant approval in principle on all bonds within 24 hours.

"It is already working. The first four bonds applications came through last week. One bank processed the application in 15 minutes — before the estate agent had even completed his own paperwork. The others took 4 hours 20 minutes, 23 hours and just less than 24 hours respectively," says Mr Swanepoel.

The approvals are granted on the basis that all the information provided is accurate

The bank would still have to verify that the borrower's income is as stated The buyer's marital status would have to be proved, as this has a direct bearing on the loan and registration, namely whether all the proper parties signed the documents.

The final factor is the value of the property. In some cases the institution will already have the valuation of the property and all its details on its files. This would negate the necessity of sending out an assessor.



However, the bond will still be considered on the basis of the estate agent's valuation, subject to confirmation.

"The whole process is speeded up. If the lending institution refuses the bond the buyer knows within a short space of time and can then apply to another mortgage lender. The refusal may be based on factors other than the buyer's ability to pay and track record.

"The institution might have reached its exposure level in a particular area or, perhaps, it does not lend money for the purchase of houses with flat roofs," says Mr Swanepoel.

The buyer would not send applications to six different institutions. One application would be sent and if it was refused the application would be cancelled and another sent to a different institution.

Security of information is a major concern with all parties. The banks do not want the estate agents or attorneys dialing directly into their computers and the agents do not want the institutions to have access to their confidential files.

The existence of CPS solves this problem as none of the parties have access to each other's computers. The link is always through the CPS system.

"The agent dials into the system, gives the password and is then able to access his stock of houses or any of the other estate agent functions. We never dial into the estate agent's machine so never have access to information such as the financial statements.

"The agent is only able to access the estate agent modules such as computer listings and bond applications. If he should try to, for example, complete a bond approval, the system would refer him to bond applications," says Mr Swanepoel.

CPS plans legal arm to its service

In six months to a year Comprehensive Property Services (CPS) will be adding attorneys to its property services network.

Says CPS managing director Stefan Swanepoel: "We are not ready yet. Until we have the legal packages up and running on the system there is no point in generating any excitement from the market.

"However, on an informal basis there is a lot of interest in the system from the legal profession. I have travelled around South Africa over the past few months, giving 149 talks to groups of people involved in the property industry.

"Many of the people who have attended have been attorneys. They have no difficulty in seeing the sense and advantages offered by the system."

He says that the company could have the necessary programs operating within about 60 days but he believes the system's growth should be carefully managed.

"I think you have to take one step at a time. I would rather have lots of agents trained and using the system effectively, than one agent, one bank, one attorney and one transaction being computerised.

"Even if we train 50 estate agent companies a month, it's still going to take us six years to have the entire industry on the system.

"It is a very gradual process. I think we should spend at least a year, perhaps even two years, consolidating and ensuring that at least a sizable chunk of the estate agents is fully conversant with the technology and actually using the system," says Mr Swanepoel.

He sayssome agents are happy using the system in the training situation but they take time to gain the confidence necessary to use it for everyday business.

Mr Swanepoel says that CPS has spoken to about 300 legal firms to date and the response has been "100 percent positive."

The integration of the legal profession will require negotiation as standards and uniform methods of information presentation will have to be agreed.

This process has already started with many of the computer software houses supplying programs to the legal profession.

"They have all indicated that the required modifications will not cause any problems. The changes are purely cosmetic and functionality remains the same," says Mr Swanepoel.

CPS on-line users increasing

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However, he is far from complacent and fully aware of the challenge which faces CPS.

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He bases his shorter estimate on the fact the US industry grew organically whereas South African firms are being pushed and the financial institutions are assisting the process.

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Standard Bank there at start

Comprehensive Property Services is owned by the major financial institutions in South Africa.

One of the founding shareholders is Standard Bank.

Says general divisional manager home loan division Duncan Reekie: "As a committed player in the home loans market, Standard Bank is aware of the benefits associated with involvement in a highly professional organisation such as Comprehensive Property Services.

"Our decision to become a shareholder in CPS was one of the best strategic decisions which a bank can take. We as one of the founding members of CPS realise that one national computerised property databank can produce enormous positive results."

He says Standard Bank's ties with CPS paved the way for a faster, more efficient services for the processing of bond applications. This service will be greatly enhanced now that computerised, electronic loan applications are available.

Simplified

The entire property transaction process is expected to be considerably simplified and that greater use of the technology by estate agents will contribute.

CPS will act as catalyst to ensure that the transition proceeds professionally and that the interests of estate agents, financial institutions, attorneys buyers and sellers are protected.

58

"Standard Bank's involvement in CPS is a further indication of the bank's strong association with the property market in general and estate agents in particular", says Mr Reekie.

Since Standard Bank's entry into the home loan market five years ago, Standard Bank has grown to be one of the leaders in the home loan market.

"Standard Bank's innovative new products and personal service have resulted in the bank's market share of 1,2 percent in 1986 growing dramatically to the current 13,3 percent. The bank's home loan book now stands at R8,6 billion, with a further R1 billion in the pipeline," says Mr Reekie.

DIVARIS REAL ESTATE FM 10|7|92

What's in a name? (58)

Reluctant to lose control of their name, the Divaris cousins Michael and Gerald, resident in the US since 1982, have reached agreement over the future of Cape Town-based Divaris Real Estate (DRE), with fellow shareholder, the Fairhead Group (FG).

FG, which has a 50% share of DRE, has agreed to close DRE's brokerage division and buy DRE's management portfolio. The agreement suits FG as it did not want to continue doing business with minority shareholders. The effect of the move is that the Divaris name will disappear from Cape Town while FG will continue its property operations without a dedicated brokerage.

DRE MD Tyrell Fairhead says he understands the cousins aim to return to Cape Town and reopen the brokerage once foreign investment funds start flowing into SA. ■

SAAMBOU FM 10/7/92

Selling the property

58

Saambou's disposal of about half of 86%-held subsidiary Saampro's property portfolio has made the repayment of debentures compulsory. The selloff is aimed at delisting Saampro and getting the parent out of low-yielding property so that it can concentrate on banking.

Saambou has made an irrevocable cash offer of 465c a share to minority debenture holders and 100c a share to ordinary minority shareholders.

Both offers are at the issue prices when Saampro was listed in January 1991 and a premium of 55% and 67% respectively over prices at the time of the offer on June 9.

The offer seems reasonable, considering the present economic climate and poor performance of Saampro shares. Minorities get no gain on share price but have received a small dividend of 8,25c.

But it is costing Saambou money. With the small profit of R812 000 realised on the sale of about half of the property portfolio with a book value of R35m, the group wants to get out of property as quickly as is conveniently possible. Saambou estimates the effect of the disposals and repayment of debentures, had they been effective for the year to March, would have been to reduce Saampro's NAV from 107,7c to 101,7c and EPS from 14,9c to a negative 42,7c. *Shaun Harris*

SEBO'S SHARE

FM 10/7/92 (58)

Sebo — the Sefalana Employee Benefits Organisation, which last financial year invested about R250m in property — says it will consolidate its position in 1992-1993 by limiting expansion. Property services division GM Arnold Prosch says the plan is to:

- ☐ Increase exposure to industrial (now 2% of portfolio) and SA property (10%);
- ☐ Attempt to sell a few properties that no longer satisfy portfolio criteria; and
- ☐ Reduce Sebo's relatively high exposure to Sun International.

About 22% of the R630m portfolio is invested in SI-managed properties. This will be reduced as the overall portfolio grows, Prosch adds.

Investment in SI largely comprises ownership of staff accommodation attached to (and sometimes including) SI-run hotels in Bophuthatswana. Staff quarters are on 20-year leases with market-related escalations and are mostly at Sun City, the Carousel and Mmabatho Sun hotels.

SI MD Ken Rosevear says he respects Sebo's position and doesn't "see the limitation on investment as a problem in the future as we have alternate financiers."

Prosch also plans to sell two small shopping centres in Bophuthatswana, which, he says, are in fairly isolated positions. The first is in Pampierstad (near Taung) and at Phokeng (near Rustenberg) on the main road to Sun City. He may also sell one of two A-grade office buildings next to the Central City shopping centre in Mabopane. This is being extended by 7 000 m² to 35 000 m².

FM 10|7|92 (58)

SURETYSHIPS FM 10|7|92

An overreaching creditor

A judgment by Mr Justice Henry Preiss in the Transvaal Provincial Division of the Supreme Court is a strong warning to overzealous lawyers who disregard public policy considerations in drafting contracts such as suretyships. (58)

He held a suretyship invalid because it contained numerous onerous provisions not normally encountered in commercial agreements of this sort.

Fluxman Rabinowitz Raphaely Weiner partner Ronnie Rappoport says the judge relied on the leading (1989) Appellate Division case of Sasfin vs Beukes. It dealt with a cession rather than a suretyship — in which the court held that agreements that are "clearly inimical to the interests of the community" will not be enforced. No court, said that judgment, should shrink from the duty of declaring a contract contrary to public policy when necessary.

However, the judge held that the power to nullify contracts should be exercised sparingly and only in the clearest of cases — otherwise the courts would create uncertainty about the validity of contracts. He added that a court should not declare a contract contrary to public policy merely because its terms offend the judge's individual sense of fairness.

Judge Preiss held that many provisions in the suretyship matter he heard were contrary to public policy, including requirements that:

- Money paid by a surety could be held interest-free by the creditor and applied at its absolute discretion until all obligations were fully satisfied;
- The suretyship should remain in force notwithstanding any settlement of account and the subsequent incurring of new obligations by the debtor;
- All admissions of indebtedness by the principal debtor to the creditor (not necessarily limited to the principal debt) were binding on the sureties;
- The sureties could be released from their obligations only by written notice by the creditor, notwithstanding that lawful grounds existed for termination of the suretyship;
- If the suretyship were terminated, the sureties would be liable for all the liabilities of the principal debtor at that time;
- If a surety's estate were sequestrated, or in the event of his death, the remaining sureties undertook not to prove a claim until the principal debtor's claim had been paid in full; and
- The sureties were required to cede to the creditor all their claims — present or future — whether due by the debtor or any other party.

Particularly unacceptable were:

- The powers given to the creditor to assume virtual control over the sureties' affairs;
- That conclusive proof of the debt could be achieved by a certificate; and,
- The extension of liability to areas not directly related to the agreement in question.

Though the offending suretyship contained a provision for severability of its clauses, if any one of them was found invalid by a court, the judge held that this would not help the creditor. So much of the contract was bad that it would be futile to attempt to sever the good from the bad.

The judge added that the presence of the severability clause tended to strengthen the conclusion that the contract should be struck down as a whole.

The judgment, says Rappoport, will have far-reaching implications because many of these clauses are contained in standard forms of suretyship documents used by almost all financial institutions. The plaintiff intends applying for leave to appeal. ■

ABSA FM 10/7/92

Assault on costs (58)

The creation in March last year of what CE Piet Badenhorst describes as Absa 1 set the enlarged group firmly on the way to becoming a financial services body handling large volumes and — assuming the rationalisation goes as planned — attaining low unit costs.

The shaping of Absa along these lines was well on the way when Absa 2 emerged earlier this year with the takeover of Bankorp. With total assets rising above R80bn and total advances climbing by 53% to more than R64bn, it is hoped that the deal will take the group even further towards becoming a low unit cost operation.

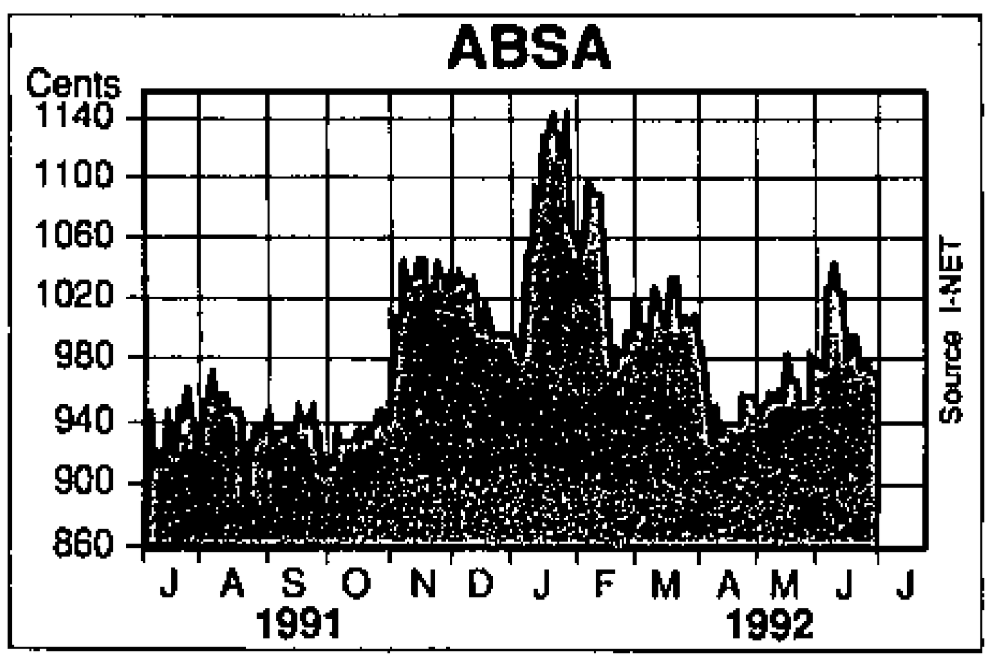
But there were other important effects. Absa rapidly diversified and quickly gained market share in the traditional banking mar-

Cont →

Activities: *Wide range of financial services, particularly in banking and insurance.*
Control: *After Bankorp merger, Universa (Pty) 24,5% and Sanlam about 22,7%*
Chairman: *H V Hefer, CE: P J Badenhorst.*
Capital structure: *456,7m ords. Market capitalisation: R4,43bn.*
Share market: *Price: 970c. Yields: 4,1% on dividend; 11,1% on earnings; p:e ratio, 9,0; cover, 2,7. 12-month high, 1 160c; low, 875c. Trading volume last quarter, 17,8m shares*

Year to March 31	'90	'91	'92
Total assets (Rbn)*	15,84	51,83	56,22
Total advances	12,07	38,17	42,17
Attributable income (Rm)	198	321	491
Return on assets (%)*	1,36	1,01	0,95
Return on equity (%)	14,3	15,40	16,34
Earnings (c)	82,1	93,4	107,6
Dividends (c)	32,0	36,0	39,5
Net worth (c)	578	622	695

* Excluding acceptances.



kets (see table). Absa 1 was still predominantly in the home loans market, which accounted for 60% of total advances in the 1992 financial year.

By merging with Bankorp, the *pro forma* breakdown shows, the group gains a sharp increase in its share of the instalment finance market, for example, which would have accounted for 14% instead of 8,9% of advances.

Mortgage loans remain by far the largest element of the group's advances, which is perhaps not surprising as Absa is easily the market leader in this sector with a book of more than R28bn. But home loans' share of total advances have dropped to 44%, with corporate and other consumer banking activities constituting a much larger share of the business mix.

Of 1992's attributable income of R491,4m (1991: R321,3m), nearly 64% (65,3%) was derived from banking (including mortgages), 26,3% (28,8%) was from insurance and 9,8% (5,9%) was from other activities.

1992's financial results are of only limited value in evaluating profitability. Returns on shareholders' funds continued to improve, while the return on assets fell, but this was achieved on a balance sheet and operating base undergoing considerable change. Total assets grew during the year by 8,5% and NAV by 11,7%.

Profitability ratios will have to be seen in a similar context over the next year while Bankorp is digested. It's possible that write-offs and bad debt provisions will continue to rise fairly sharply.

The 1992 income statement (before Bankorp) shows bad and doubtful advances more than doubling from R175,4m to R450,6m. Amounts written off during the year jumped from R163,8m to R293,9m. And the increase in the total provision came primarily in specific provisions, rising from R176,3m to R331m.

Chairman Herc Hefer notes that total assets of deposit-taking institutions (DTIs) grew in 1991 by only about 8,5%, a decline of nearly 6% in real terms. Of total credit extended by DTIs to the private sector, only leasing finance and mortgage advances showed significant real increases, while hire purchase credit and personal loans/advances fell by 7,5% and 2,4% respectively.

Against that background, Absa vigorously pursued extensive rationalisation (see *Top Companies* survey). The major bank and building society activities of Allied, United, Volkskas and Absa Motorbank were put in divisions in a single DTI — Absa Bank Ltd — into which all the support services have been integrated.

Secondly, the insurance interests, as well as certain interests acquired from Sage Financial Services, were reorganised and consolidated under Absa Financial Services — though the 30% stake in Momentum Life was sold to Rand Merchant Bank with effect from July 1. And, thirdly, support and technical services of the individual groups were integrated.

Hefer says that net savings of R98m were realised — well above the R85m forecast at the merger — primarily owing to the rationalisation of support services. The assault on costs, particularly the non-interest component, will continue. Badenhorst notes that the combined staff of Absa and Bankorp is 43 714 and a "meaningful reduction" is anticipated. Last year's operating expenditure, as a percentage of operating income before bad and doubtful advances, was 66,3%, down from 1991's 68,6%. Any further improvement will obviously help the bottom line considerably.

But volumes and unit costs are only one side of the profit equation. The interest margin and the level of provisions over time will also have to play an important role in convincing investors that Absa can realise its ambitions to be the banking leader in terms

Absa's Hefer ... *big savings realised*

of profitability as well as size.

At 970c, the share is down from its high of 1 160c and the 4,1% dividend yield is well above those of other banking majors SBIC (2,3%), FNB (2,8%) and Nedcor (3,4%). The market is reserving judgment on the counter, at least until more is known about the effects of the Bankorp deal. *Andrew McNulty*

SHIFT TOWARDS BANKING

Advances breakdown

	1991 Rm	%	1992 Rm	%	pro forma 1992 including Bankorp Rm	%
Overdrafts and credit card accounts	7 479,4	19,6	7 888,3	18,7	13 016	20
Foreign currency advances	1 695,7	4,4	1 963,2	4,7	n/d	
Instalment finance	3 872,7	10,2	3 751,1	8,9	8 774	14
Mortgages	22 665,8	59,4	25 404,5	60,2	28 392	44
Other	2 453,7	6,4	3 163,1	7,5	14 529	22
Total	38 167,3	100	42 170,2	100	64 711	100

Railway land offers great potential

(58)

By Meg Wilson STAR 10/7/92

In the current market, an income growth forecast of 37 percent a year from any property portfolio may seem somewhat ambitious.

However, the property management team at the South African Rail Commuter Corporation (SARCC), is confident that this is achievable — for the next five years.

The portfolio, inherited from the old SA Railways and Harbours in 1987, is estimated to be worth R1,5 billion to R1,7 billion, although haphazard record-keeping during a long history still makes it almost impossible to assess its exact worth or income potential.

Dirk Ackermann, SARCC senior general manager in charge of the property management division, says however, that his team has now managed to accurately document some 60 percent of the holdings and to identify what it believes to be 30 percent of the development potential over the next five years.

He told delegates to a Property Owners' Association meeting yesterday that the division, formed in February 1991, had also raised income from some 4 000 leased properties to R28 million in its first year of operation, from around R12 million the previous year.

Compared with the R1 billion-plus spent on subsidiation of commuter rail services, the amount is, though, hardly significant — and that, says Mr Ackermann, increases the motivation to maximise the potential of the portfolio.

However, he says, the methods for doing so are likely to be different from those of other large property owners.

"The major reason is that the corporation's holdings are in many cases 'strategic', in the sense that they are in critical urban positions. This makes it a custodian of 'people's land', which should not necessarily be developed solely for (its own) gain."

The division aims to balance development imperatives with the principle of economic empowerment — "spreading a little sunshine throughout the property sector" by maximising co-operation with the private sector, through franchising and networking with other business practices.

It has in its favour expropriation rights, possible tax exemptions and "influence with local authorities", but there are, of course, obstacles.

One is the need for the SARCC to maintain its "right of way" over much of its land, which makes development planning extremely complicated.

Another, and perhaps more serious, one is that many of the holdings are complex precincts, due to the way SARH properties were divided upon privatisation.

Simply, those holdings where there is more commuter traffic than goods usage belong to the SARCC, and those where goods traffic is predominant fall under the control of Propnet, the property manangement arm of Transnet.

This may yet be too much for all but the most sophisticated of private sector developers interested in doing a deal on "railway" land.

Syfrets fund focuses on mining shares

BDay 10/7/92 (58)

LINDA ENSOR

CAPE TOWN — Syfrets Growth Fund focused its buying activity on mining shares in the last quarter and generally adopted a cautious approach to the equity market, fund manager Tony Gibson said yesterday on release of Syfrets' quarterly unit trust results.

He said a too heavy weighting in equities was risky in the present local and international climate. While growth of the world's major economies would see commodity prices and hence mining shares rise, this would not be sufficient to offset the impact of an international correction in share prices.

However, Gibson advised worried investors against knee-jerk reactions which might result in them selling out of unit trusts at this stage because of short-term economic and political considerations. The stock market had needed a correction and investment strategies had been revised.

The downside was limited because of large institutional cash flows.

In the last quarter exposure to mining shares increased to 29,2% from 25,8% but, apart from buying in the potentially high value counters, liquidity was allowed to build up. The focus was on consolidation and there was little significant selling.

Cash, short-term deposits and gilts accounted for 15,8% of the portfolio, the market value of which was R627m. Holdings in De Beers, Rusplats, Anglo American, Gencor, Absa, Richemont and Rembrandt were strengthened and new holdings acquired in Malbak and Lefic.

Syfrets Growth Fund's income distribution for the quarter was 2,66c per unit and the purchase-to-repurchase return over the past 12 months was 23,57%. The fund is the top performer of all general equity unit trusts over five years with an annual return of 21,7%.

The R362m Syfrets Trustee Fund concentrated buying on De Beers, Gencor, Malbak and Sasol with the proportion of industrials little changed at 56,8% (58,5% the previous quarter). Cash constituted only 2,3% of the portfolio, with the balance of the non-equity holding invested in shorter dated negotiable certificates of deposit and gilts.

The Trustee Fund distributed 1c per unit in the last quarter.

The Syfrets Income Fund, which switched to longer-term instruments and high yielding bonds over the quarter to enhance capital performance and improve yields, distributed 3,94c per unit bringing the total for the year to 16,22c.

The recently launched Syfrets Gilt Fund declared an income distribution of 32,67c per unit.

Absa, Senbank in joint venture

BIDAY 16/7/92 MICK ELLINGHAM (58)

ABSA Unit Trust and Senbank General Unit Trust are to be amalgamated on August 1 this year under Absa's name, and on July 13 Senbank's Industrial Unit Trust will be renamed Absa Industrial Unit Trust.

Absa Unit Trust MD Ben Solomon said the amalgamation would not adversely affect unitholders.

Senbank Industrial Unit Trust earned a 25% return for the quarter ended June 1992; Absa Unit Trust earned 20,76% for the period.

Total assets of the enlarged Absa Unit Trust will amount to R50m and the number of unit holders to more than 15 000.

Estate agents forced to cut commissions

B/Day 10/7/92

PETER GALLI (58)

CUTTHROAT market conditions were forcing estate agents to cut commissions from the recommended 7% to remain competitive, said several agents interviewed yesterday.

"Agent's commissions are becoming a more contentious issue and competition for declining business will become even more fierce," Alternative Agency director Barry Cribb said.

The agency, which accepted a commission of 3,5% but for a reduced service, said many agents were battling to make ends meet and were cutting commissions.

The situation was exacerbated by many sellers overpricing their homes, with prospective buyers unprepared to pay those prices, Cribb said.

Lew Geffen of Lew Geffen Estates said the 7% rate was a free-floating rate recommended by the Institute of Estate Agents and was not enforceable.

"My commissions are averaging 5,5%, which is just allowing us to break even — a situation that cannot continue for much longer," he said.

Seeff Residential Properties Transvaal MD Bernard O'Riain said the company was negotiating commissions with some sellers, but believed that if the agent offered the best service, the seller would not begrudge the commission.

Martin Charney of Charney Estates agreed, saying agents were regarded as professionals. All deals were looked at on merit. Commission was sometimes cut.

Pam Golding Properties director Ronald Ennik said the company resisted cutting commissions due to overheads, but just under 6% was as low as it would go.

More than R130m floods Old Mutual unit trusts

SS

LINDA ENSOR

CAPE TOWN — More than R130m flowed into Old Mutual unit trusts in the three months to end-June — about R2m each working day — even though disposable income has come under strain due to the severe recession gripping the economy.

Total liquidity of all funds stood at over R300m, placing them in a good position to capitalise on any new market opportunities, an Old Mutual statement said. Selective investments were made during the quarter in all the funds.

BDAY 10/7/92.

The Old Mutual Investor's Fund bought about R40m in Sappi shares based on the potential of its growing offshore business. Other purchases included additions to the holdings of Anglo American (50 000 shares), De Beers (150 000), First International Trust (248 300), Vaal Reefs (10 000), Samancor (2 000), Safren (18 814) and Persetech (4,5-million).

The Top Companies Fund which concentrates on blue chip and near-blue chip shares also invested in Sappi, buying a R3,5m stake.

Other new investments were Natsel, Shield, Tongaat and Waltons, with additions to existing holdings including Lenco (400 000), Santam (100 000), Mid Wits (149 000), Yabeng (87 400), Dimension Data (80 400) and De Beers (75 100).

The Old Mutual Gold Fund bought Western Deep (6 900 shares), Vaal Reefs (4 300), South Vaal (12 000), New Wits (37 400), Kloof (2 500), Harties (20 200), Driefontein (13 000) and Amgold (1 600). Holdings which were lightened included ET Cons, Ofsil, Randfontein, Welkom and Weswits.

Old Mutual Income Fund invested R7m in the 14% SA Housing Trust 1994, R5m in the 12,5% RSA 1995 and R2m in the 12% Landbank 1994.

Pillars of recovery toppled

58

ST Times (BUSS)

12/7/92

Business Times Reporter

MANDATORY capital ratios interfere with the traditional operation of monetary policy by making new reserves sterile without new capital.

If banks wish to use excess reserves in the form of loans they must be backed with fresh capital for which the banks must compete in the market.

To date this is not a problem domestically, says AFC Investments market strategist Cathy Pott. But it is a serious obstacle to credit creation in Japan and elsewhere.

Mrs Pott says the main concern about the world economic outlook remains the extreme weakness in money-supply growth. The excesses of the 1980s — high and bad debts — are generally blamed. But she says the problem lies in the heart of the banking system.

Mrs Pott says in AFC's July economic review that optimists base their expectations for recovery on the assumption that the future will be like the past — ie reflation will work.

"Central banks have always been able to combat recessions by expanding the reserve base of their domestic banking systems. Banks then see to it that the newly created excess reserves are distributed via the credit mechanism into the market place.

Flaws

"The magic of the credit multiplier goes to work, money supply expands and rising nominal gross national product results.

"This time, however, the formula is not working."

Two reasons lie behind the fact that nothing is being done to alleviate the problem.

The first is a general lack of understanding of the effects the capital adequacy requirements are having.

Second, there is a lack of political will to undo what it took 12 central banks years to put in place.

"Until the flaws in bank capital requirements are addressed it is AFC's view that money-supply growth cannot resume and therefore what is already the longest post-war recession will continue."

Reserve Bank Governor Chris Stals rules out monetary stimulus, which Mrs Pott says would probably not work anyway because of the bank capital story.

Store

Foreign capital continues to give SA and its political troubles a wide berth. Because world growth remains in the doldrums and is likely to decline further, an export boom cannot be expected this year.

"Thus all three of the pillars which could support recovery are missing and it really does seem that a further acceleration of the downturn lies in store."

Mrs Pott prepared the article two weeks ago, well ahead of this week's JSE tumble. She predicted further downside and advised against the commitment of new funds to the market other than for short-term speculation in golds.

Insurance tips

(58)

STANGEN has developed an insurance policy, the Alma Mater, for Model C schools, of which governing bodies become responsible from next month.

The bodies will be made up mainly of parents with little experience of insurance and risk management. Stangen has set up a risk management advisory service to help them.

The insurance company has produced an ABC of school risk management. It highlights what the State covers and will continue to cover, and what the governing bodies' liabilities might be. SI Times (Buss) 12/7/92

Risks to assets and liabilities for claims of negligence, personal injury, pupil safety and political vulnerability are explained. Special governing bodies' legal liability cover is also offered.

Trusts top R12bn

S/Times (BUSS) 12/7/92

(58)

By JULIE WALKER and TERRY BETTY

MORE than a million South Africans invest in unit trusts, 280 000 having opened accounts in the past year.

At the end of June the market value of the 46 unit trust funds topped R12,8-billion, a rise of 6% on the March quarter.

Association of Unit Trusts chairman Clive Turner reports a net inflow of nearly R600-million.

Gross sales were R1,1-billion and repurchases R534-million. These figures include an estimated 10% of switching by investors from one class of trust to another.

About two-thirds of gross sales goes to general equity trusts.

Mr Turner says that with the share market looking uncertain, there has been a swing to high-income trusts.

Swing

The returns from income funds have tended to be stable, but equity trusts swing from gain to decline, depending on the JSE.

About a third of gross sales comes from monthly savings and from income reinvested.

"This has made our industry far less volatile than it used to be," says Mr Turner.

The average return on unit trusts in the past 12 months was 18,4%. Top of the general equity pile was Southern Life with 23,8%. Momentum's was worst at 12,6%.

Among specialist equity funds, UAL Mining doubled growth in the mining financial index, with an all-in return of 11,3%. Both Old Mutual and Standard's gold funds were down on the year. But Old Mutual's industrial fund was the top of that class with a return of 22,8%.

Guardbank's income fund returned 21,5%, six points ahead of the inflation rate, and UAL's gilt fund returned 21,4%, slightly below the rise in the all-bond index.

All figures are based on one-year repurchase-to-repurchase prices sourced from the University of Pretoria's June quarterly unit trust survey.

Mr Turner appeals for calm among unit-trust investors in the political turmoil that lies ahead.

TRADE union-backed Community Growth Fund (CGF) raised half of its R100-million target for the year in the first month of operations.

The Syfrets-managed unit trust attracted most money from pension and provident funds, says Syfrets senior manager Ian Hamilton.

An NUM source says its provident funds have committed 10% to 25% of monthly subscriptions to CGF.

Individuals have committed R1-million to the fund.

CGF, the first venture between financial houses and unions, is accessible to low-income earners because it requires a minimum lump-sum payment of R500 or R30 a month, as opposed to the R1 000 or R50 other funds insist on.

Mr Hamilton says shares have not been bought because the market is overvalued.

"Political pressures have softened share prices and we expect to start making acquisitions in the next few weeks."

Fifteen shares have been selected. CGF is looking to increase the portfolio to at least 30 shares.

Mr Hamilton says the CGF board, half union representatives and half Syfrets, chooses the investments.

"Syfrets takes three months to analyse companies and choose a list of shares that satisfy financial criteria, such as healthy returns."

The unions sift through the list to see whether companies satisfy social criteria, such as job creation, black advancement and equal opportunities for blacks and women.

Servgro tries to ditch the lingering Fedvolks legacy

S/Times (BUSS) 12/7/92. (58)

THE first question at Servgro's prelisting presentation to the investment community came from the investment head of a merchant bank: "Who is going to have the final say on strategic decisions at Servgro?"

The presentation was made at Toron television studios — owned by Interleisure, in which Servgro has a stake — to underline the entertainment aspect.

Servgro invited newsreader Marietta Kruger to be mistress of ceremonies.

Peet van der Walt, Servgro's executive chairman, listened to UAL's Alister Colquhoun's sketch of the control structure. At the top is Sanlam, below which is Sankorp, which owns Fedservices, which will hold 75% of Servgro after the listing.

Servgro has either sole or joint control of six operations, each with its own board.

Mr Van der Walt said strategic decisions would be taken at Servgro board level.

I heard Fedservices chairman Marinus Daling reassuring the banker afterwards that this would be the case.

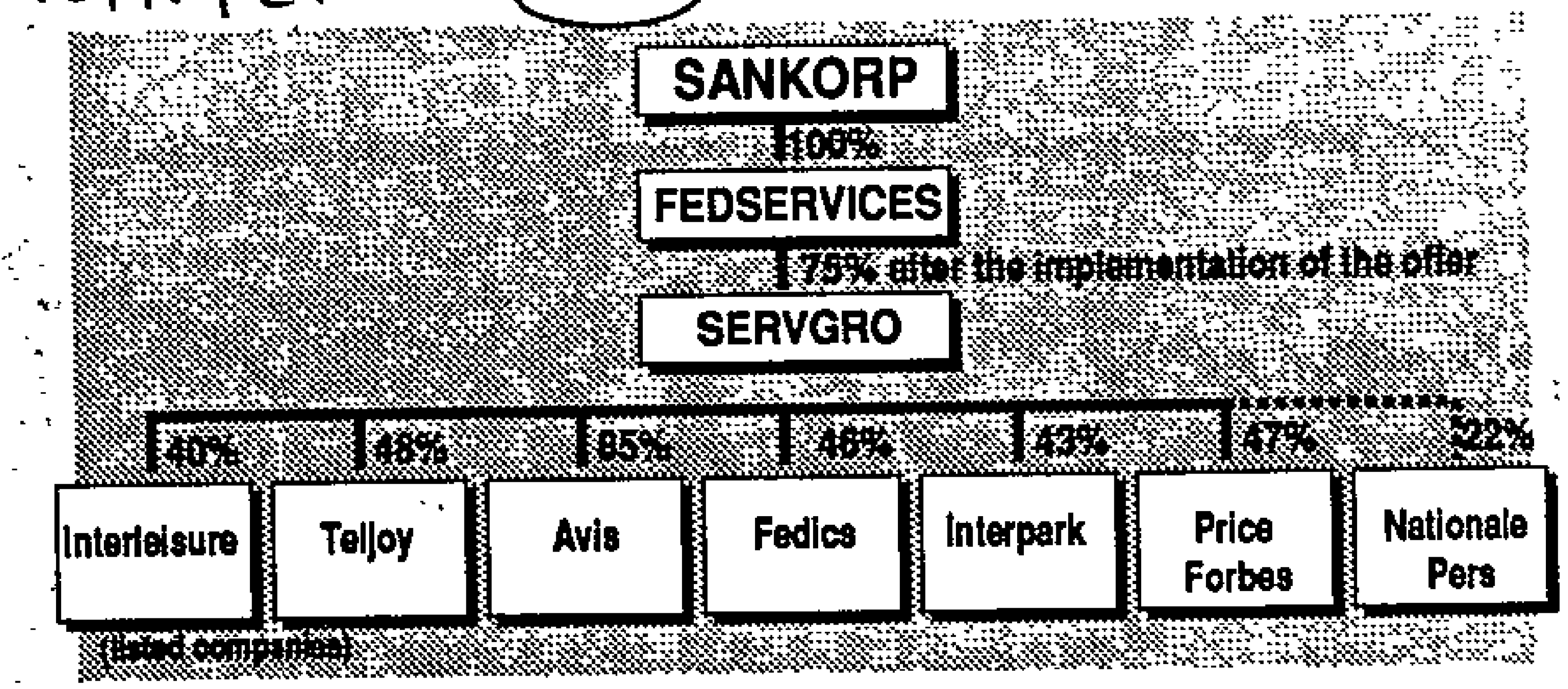
That Servgro will be subject to such scrutiny from investors — and defensive reassurance from its managers — is a legacy from predecessor Fedvolks.

PEET VAN DER WALT: Portfolio reshaped

No matter how much Fedvolks might be history, the stigma of that hotch-potch of high-potential yet poorly performing companies lingers.

The Servgro portfolio has been reshaped. As a courtesy, former Fedvolks shareholders have been made a preferential offer of 2-million shares in the private placement of 28-million.

Another fund manager was told there would be no disclosure of what Servgro regarded as sensitive information about the unlisted interests.



"I know you will regard that as a negative," said Mr Van der Walt, who promised that those companies would do well.

"Trust me, I'm a doctor," said Miss Kruger.

Servgro will be listed on August 7 after the placement of shares at 500c each. Its market capitalisation will be about R700-million.

A summary of the group, including valuations of the unlisted interests made by the sponsoring merchant bank RMB, places an attributable value of R683-million on Servgro.

The holding in Interleisure comprises R304-million and unlisted Price Forbes a surprisingly high R140-million. The investment in Teljoy is R79-million, in Fedics R43-million and in Avis R40-million. The 43% of Interpark is valued at R5-million.

Unlisted Nasionale Pers (Naspers) is valued at R72-million, using R30 a share. The latest price is believed to be R34. Since the membership of the publishing group is by invitation only, Servgro with 22% is the only vehicle though which most people can invest in a company rich in M-Net and publishing.

Naspers covers the dividend 14 times, investment accounted by Servgro. If Naspers were equity accounted, the pitch price of 500c for Servgro shares would be nine times historic earnings. But since only the dividend is accounted, Servgro is pitched on a 12 times price-earnings ratio.

Mr Van der Walt says investors will be getting in on the ground floor. Servgro's focus on leisure is opportune in a world of greater free time.

He believes tourism has high potential — Australia attracts 5-million a year, 10 times the number SA receives. Tourists eat, hire cars and stay in hotels — all of which helps Servgro.

Two-thirds of the attributable profit for the year to March 1992 came from the leisure trade, enough to earn Servgro a listing in the JSE's hotel, beverage and leisure sector.

Mr Van der Walt expects earnings a share to grow by 10,4% in the current year to 45,6c. Attributable profit should reach R49-million on turnover of R903-million.

Sponsoring broker Martin & Co expects Servgro to settle at 600c and Senekal Mouton & Kitshoff endorses buying up to 650c.

The private placement to financial institutions has been subscribed sevenfold.

Who am I to argue with these big names — particularly since the senior partner of one chastised me for being cautious about Servgro in an article I wrote in May.

Since I have no vested interest I remain that way.

A Business Times Feature

Lively band of bankers spurs trade

S Times 12/7/92

THE arrival of two French banks in SA in the last 18 months, Parisbas and Societe Generale, signifies a growing trade interest among French corporations in the region.

Several other French banks have long been in SA. Credit Commercial de France has been here SA since the 1960s, French Bank since 1949, Credit Lyonnais since 1972, and Banque Francaise du Commerce Exterieur (BFCE) since 1970.

Two of the largest foreign-owned banks in SA are Societe Generale and French Bank of Southern Africa, with combined assets of more than R2-billion.

Parisbas is the largest privately owned banking group in France.

Gradually

Societe Generale acquired 100% of International Bank of Johannesburg in 1991. The bank has two branches — in Cape Town and Johannesburg — and assets of about R700-million.

Managing director Peter Gray says the bank plans to "grow gradually" without concentrating on asset growth.

The bank is represented in 64 countries.

"The corporate bank will take advantage of its group strength, capitalising on French-SA trade," says Mr Gray.

"We will continue to develop business with the corporate sector in SA, particularly in international markets and foreign trade.

"We also have considerable expertise in treasury department activities."

Societe Generale group chairman Marc Vienot visited SA in February, calling on government officials and businessmen to strenghten ties in SA.

The bank has representations in 11 African countries. It is well positioned to challenge other SA banks in developing business contacts with the rest of the continent, says Mr Gray.

French Bank is a subsidiary of Banque Indosuez, part of the Compagnie de Suez group, one of the largest investment holding companies in France.

The bank's SA shareholders include NBS (39%) and Barlow Rand (10%). It is the largest foreign-owned bank in SA, counting among its clients some of the largest corporations.

"Trade will grow between SA and the rest of the world and French Bank will take part in financing that growth," says managing director Francis Klein.

"As foreign investment increases and SA investment grows abroad we are well placed thanks to our FBSA project finance subsidiary."

Credit Commercial de France maintains a representative office in SA. It does not carry out any banking transactions in SA.

Advice

"Our activities consist of arranging, through the Paris head office, short- and medium-term offshore loans in various currencies."

Societe Generale was chosen by Havas and Compagnie Generale de Electricite to advise on the privatisation of these two companies in France.

It is the fourth-largest banking group in France with more than 300 000 corporate clients, including most of the blue chips, in which it also has sizeable shareholdings.

They include Accor, CGE, Canal Plus, Generale des Eaux, Havas, Perrier, Peugeot, Printemps and Rhone Poulenc.

Liberty grows in Europe

SOUTH African life assurer Liberty Life is expanding its presence in Europe.

In September last year it teamed up with Union des Assurances des Paris (UAP) to take joint control of UK-based Sun Life after almost 10 years in the trying. UAP is 65% owned by the French Government and is the second-largest life assurer in Europe.

But its relationship with Liberty has not always been cordial. In 1988 UAP tried a merger with Sun Life in which Liberty's UK subsidiary, TransAtlantic, had a stake of 29,8%. The merger was blocked by TransAtlantic.

Foothold

Had it failed to block the merger, the result would have been to eliminate Trans Atlantic's influence in Sun Life. Once the merger had been blocked, TransAtlantic won two seats on the board of Sun Life, held by Michael Rapp (formerly of Rapp & Maister, the Liberty subsidiary) and the Marquess of Duoro. S Times (Buss)

The relationship between TransAtlantic and UAP improved thereafter and agreements were entered into whereby both sides equalised their holdings in Sun Life and decided to take joint control of it. 12/7/92

UAP acquired 16,8% of TransAtlantic and Liberty's stake dropped to 59%.

UAP, Liberty and TransAtlantic plan to develop their interests in the UK and elsewhere in the English-speaking world through Sun Life. UAP's strong foothold in Europe presents Liberty with its best opportunity yet to penetrate the Continental market.

Sun Life was delisted after the takeover to pave the way for TransAtlantic's listing on the London Stock Exchange.

MONEY MARKETS by Simon Willson

Buying rush pushes rates down

BIDAY 13/7/92 (58)

A BIG punter — some say the Public Investment Commissioner, others one of the Far East's central banks — turned capital market sentiment right around at the end of last week. The big buyer's aggressive bargain-hunting at the long end of the market on Friday triggered a rush of buying which pushed rates down to 15-month lows.

From a Thursday close at 15,56%, the yield on the benchmark Eskom 168 semi-gilt was hauled down to an intraday trough of 15,32% by the sudden buying interest, before ending the session off the bottom at 15,36%. Similarly, the RSA 150 gilt yield dived to an intraday 15,43% on Friday from its Thursday close at 15,79%, before settling at a final 15,68%. It was an abrupt reversal of the substantial foreign selling of gilts that characterised the early part of the week.

Parts of the market are concerned that the big punter and his local acolytes, having moved the market, may be tempted to take profit quickly early this week.

But another view is that investors have little confidence in property, short-term paper or equities in the current socio-political climate, and are left with long-dated instruments by a process of elimination.

Meanwhile, in the money market, the Reserve Bank's mid-week measures to alleviate the first R5bn shortage in more than two years had only temporary effect. Following the Bank's offer to buy back R500m in gilts, semi-gilts and public sector bills, the shortage dipped briefly below R4bn on Wednesday, when it stood at R3,68bn.

Even though the Bank rolled the facility, extending it to seven days from an initial three, the shortage jacked up again to R4,58bn on Thursday — probably on a new issue of government stock.

The Bank's rolled gilts buy-back matures today but the feeling in the market is that it will be rolled again until mid-week, when the shortage should ease substantially. On Wednesday R1,8bn in maturing RSA stock and the normal mid-month government spending flows are due to hit the market almost simultaneously, which should see an appreciable dip in the shortage.

Aida sees light on property market horizon

58 PETER GALLI

PENT-up local demand for residential property, coupled with overseas participation, could see a marked increase in prices within two to three years, Aida Holdings chairman Aida Geffen said in the latest annual report. BD47 13/7/92

The group was more positive about the future of the real estate industry than it had been for several years.

The sectional title and cluster developments sector had held up but there was resistance to prices above R350 000.

Higher operating costs offset an increase in turnover.

A dividend 33,3% lower at 1c a share was declared for the year to end-February on the back of substantially improved earnings of 4,1c a share (0,7c previously).

Lenders seek talks on bond boycott

58

ADRIAN HADLAND

THE Association of Mortgage Lenders has asked for an urgent meeting this week with civic leaders to discuss the implications of a bond and rent repayment boycott threatened by the SA National Civic Organisation (Sanco) for next month.

Major lenders to the low-income market, including FNB, Standard and the Perm, have called on Sanco to reconsider its plans. BIDay 13/7/92.

All three financial institutions say lending is continuing uninterrupted, although some sources suggest few new low-income sector bonds are being approved.

The association sent a letter to Sanco last week, Civics Association of the Southern Transvaal (Cast) general secretary Dan Mofokeng said. He said Cast's regional executive would meet today to arrange a time and venue for the discussions.

Critical to the success of a bond boycott would be support from the ANC and other community, labour and political organisations. None of these offered instant support or rejection of the boycott call.

Sanco met the ANC last Thursday to seek the incorporation of the bond boycott into the ANC's programme of mass action. However, an ANC spokesman said the organisation would not decide if it would support the boycott until the meeting between Sanco and the mortgage lenders.

It is believed some opposition to the boycott has been raised even within civic association circles.

☐ To Page 2

Boycott

BIDay 13/7/92

(58)

☐ From Page 1

The ANC spokesman indicated the bond boycott could be abandoned if financial institutions agreed to pressure government into accepting constituent assembly elections along with assurances to restructure lending criteria.

Standard appealed to Sanco last week to reconsider the boycott, saying there was no logic in a situation whereby those institutions that had the confidence to enter tue low-cost housing arena were now faced with a bond payment boycott.

A Standard statement said Sanco's demands, including the formation of an interim government, an end to the SABC strike and a moratorium on large Telkom bills, were totally outside the financial institutions' sphere of influence or control.

"We acknowledge the seriousness of the issues raised by Sanco but we appeal to them to reconsider their call for a boycott," the statement said.

FNB's chief manager of home loans Andre Latré said talk of a bond boycott undermined business confidence and would adversely affect home owners.

The bond boycott could also jeopardise talks between the Standard, FNB and the Perm to rationalise resources in the black lending market.

After consultation with civic organisations last year, the three institutions agreed to investigate the setting up of joint home loan centres in black areas in a bid to rationalise resources and share risk.

Latré said the institutions intended continuing with the scheme, but required clarification on the bond boycott to restore confidence.

Community Growth Fund wins R50m commitments

BDAY 13/7/92 (58)

ANDREW KRUMM

THE Community Growth Fund — a socially responsible unit trust launched by seven trade unions in May — has already received firm commitments totalling R50m for the next 12 months, says Syfrets senior manager Ian Hamilton.

"This means the fund is halfway towards its goal of raising R100m within the first year of operation," he said at the weekend. Another R14m in contributions was in the pipeline.

"We encourage monthly contributions and not lump sums, in order to maintain an ongoing flow of money into the fund. It is remarkable that not one investor approached has refused to contribute. And I will continue to make about three presentations to potential investors every week until the end of the year."

He refused to give details of investors, saying only that mainly provident funds — including two in the mining sector — had contributed so far, while Times Media had contributed R1m from its pension fund.

Notwithstanding the inflow of money, funds would not be invested in the JSE just yet, he said.

While Syfrets was technically ready to place the first rand into socially responsible stocks, market conditions were not right.

"Given the uncertainty in the political and economic arenas, we are likely to continue with the prudent wait-and-see approach," he said.

Fund money would be invested in JSE-listed companies which adhered to 12 union-defined criteria such as union recognition, acceptable employment practices and black advancement.

"The Syfrets board determines the financial eligibility of companies, while the Labour Research Service — a non-profit economic advisory body to trade unions — tries to match these to socially responsible investment criteria."

The unions, however, had the final say and made recommendations accordingly. At present there were between 30 and 40 companies under investigation for the final selection list.

Hamilton would not disclose which companies had been chosen. "But, management attitude to unions is emerging as a key selection factor."

Performance statistics on socially responsible funds in the UK, the US and Canada showed that they outperformed other units trusts over a number of years, he said.

National Union of Food, Wine, Spirits and Allied Workers spokesman William Makhunga said the fund had been introduced to most retirement funds associated with his union and the response had been positive.

... Report — Page 23

... Week at Loftus Versveld in Pretoria yesterday. West-
Picture: Stephen Davimes

Meeting in offing over bond boycott threat

STAR 14/7/92

58

An urgent meeting is likely between leading mortgage lenders and civic organisations following the threat by the SA National Civic Organisation (Sanco) to introduce a national bond and rent repayment boycott.

Sanco indicated last week that it was considering reintroducing a boycott in August to support the ANC's mass action campaign.

Sources in financial circles have speculated that if such a boycott were to be introduced it would undermine banker confidence.

A spokesman for the Association of Mortgage Lenders, Martin Milburn-Pyle, confirmed the possibility of lending cuts for certain income groups and in certain areas in the event of a boycott.

He said the association was studying the issue and would compile a comprehensive and reasoned response.

Civic Association of Southern Transvaal general-secretary Dan Mofokeng said CAST's regional executive was due to meet to assess support for such a boycott and to discuss an invitation from certain mortgage lenders to hold talks. — Sapa.

STAR 14/7/92

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Economy puts damper on Boland's prospects

B/DAY 14/7/92

(58)

SHARON WOOD

UNFAVOURABLE economic prospects will act as a damper on Boland Bank's short-term profit prospects, says chairman Pieter Hugo in the bank's 1992 report.

He said the forthcoming financial year should be regarded as one of consolidation and credit risk management, and the strengthening of the bank's capital base would receive top priority.

The bank would seek approval at the annual meeting for the creation of preference shares, Hugo said.

"If approved, the issue of such shares will take place at intervals, as determined by the capital needs of the bank," he said.

Boland Bank lifted net income by 11,8% to R19m during 1992. "The results of the bank should be assessed within the context of the extremely challenging economic environment of the last year."

The continued decline in production levels, growing unemployment, critical drought conditions and socio-political uncertainties had a direct impact on the bank's performance, he added.

"On the one hand, it represented a curtailment of financing opportunities at acceptable risks and, on the other hand, it led to a sharp increase in bad debts."

Hugo said the rise in bad debts greatly neutralised the benefit of improved interest margins arising during the year from relaxed money market conditions.

"The fact that the bank group showed sustained profit growth in the face of this unsympathetic operating environment, is partly attributable to substantial increases in the group's commercial banking, commission services and treasury incomes."

Hugo said the short-term economic growth prospects for SA remained relatively unfavourable. Tight labour conditions, an increasing tax burden on individuals and continued high inflation would bring pressure to bear on the public's available income in the months ahead. This rendered any substantial positive real growth in private consumption spending for the coming year unlikely, he said.

Boycott call a threat to social upliftment — Shill

B DAY 14/7/92

GAVIN DU VENAGE

THE call for rent and bond boycotts as part of mass action would severely restrict activities of the newly established Investment Development Unit (IDU), Life Offices' Association chairman Louis Shill said yesterday.

Shill said one of the unit's aims was to provide affordable housing and property for the small entrepreneur to operate out of rented or mortgaged premises.

The threat of a boycott placed unnecessary difficulties in the way of the IDU's programme for social upliftment, said Shill.

If the proposed boycott was pursued, warned Shill, the IDU would have to refocus on areas where there was more chance of achieving common purpose between investors and potential users of such money through sound ventures.

Sapa reports that an urgent meeting is likely between leading mortgage lenders and civic organisations after the SA National Civics Organisation's (Sanco's) threat of a boycott to support ANC mass action.

Sources in financial circles speculate that if such a boycott were to be reintroduced it would undermine banker confidence and fewer low-income sector bonds would be approved.

Association of Mortgage Lenders spokesman Martin Milburn-Pyle confirmed the possibility of lending cuts for certain income groups and in certain areas in the event of a boycott. This would be at the discretion of individual lenders.

Uncertainty pushes house sales up

BIDAY 14/7/92

(58)

PETER GALLI and ANDREW KRUMM

POLITICAL uncertainty is again increasing house sales and emigration inquiries, but there is still a queue of immigrants to match departing South Africans.

Estate agents and removal firms said more people were thinking of leaving because of uncertainty following the Boipatong massacre, the breakdown of talks and the threat of prolonged mass action.

International removal companies have reported a 15% to 30% increase in the number of inquiries about overseas removals over the past month, citing political uncertainty as the main reason for this.

"Nationally, the number of telephonic inquiries about moves abroad has risen nearly 20% in the past month, while in Johannesburg queries are up 30%," Stuttafords Van Lines director Louis Le Roux said yesterday.

Both Elliott International chairman Tom Ansley and Pickfords Transvaal manager Andy Baker estimated inquiries were up 15%. However, Ansley said although political uncertainty prompted the rise in inquiries, there had not been a corresponding drop in people moving to SA.

"The number of families moving into SA — predominantly from Europe and English speaking countries — matches the number of families moving out."

Latest Central Statistical Service fig-

☐ To Page 2

House sales

BIDA4 14/7/92 (58)

☐ From Page 1

ures for March showed 351 people immigrated whereas 330 people emigrated.

"It will take between three to four months for an accurate picture of how political factors are influencing international removals," Ansley said.

Baker estimated that the correlation between local inquiries and actual removals was about 45%.

Le Roux said the popularity of destinations had changed, with interest shifting from Australia and Canada to western Europe. "In terms of the volumes of actual removals, the UK is still top of the list at 25%, then the US at 20%.

"Next is western Europe at about 20%, while removals to Canada and Australia are nearly 10% of volume. Australia and Canada are still popular, but due to the recession and a lack of jobs, it is difficult to get permission to move there," he said.

Aida Holdings chairman Aida Geffen said a large number of homes had come onto the market. These ranged from middle to upper income markets.

"At the upper-end, we are having problems selling the homes. Despite their wish to leave SA, sellers are not dropping their prices," she said.

Pam Golding Properties director Ronald Ennik agreed. He said house prices were standing up better than expected.

Protea gives reassurance

BIDAY 14/11/92

(58)

Business Day Reporter

DESPITE SA's uncertain future, policyholders of life assurance products invested in the stock exchange need have little concern for their long-term security.

Protea Assurance assistant GM: investments Duncan Carmichael said investors should not withdraw from the stock market in panic as it offered a unique opportunity for SA investors to diversify their geographical exposure into overseas investment.

Carmichael pointed out that historical precedent had shown that the concept of equity trading would survive almost any political turmoil.

He said SA companies capable of performing internationally — such as Rembrandt and De Beers — were highly valued.

"New ventures such as Sappi's pulp-making plant in Germany, Columbus stainless steel, and Alusaf's proposed new aluminium smelter all hold great promise," he said.

Lew Geffen, board in row over clause

BDAY 15/7/92 (58)

Reports by
PETER GALLI

A ROW is brewing between Lew Geffen Estates and the Estate Agents' Board (EAB) over what the board regards as the agency's use of a "morally indefensible clause" in a contract.

The conflict centres on a "sudden death clause" in an offer to purchase contract regarding the date by which guarantees have to be furnished. In many offer contracts the buyer is given an additional period after the expiry date for the furnishing of guarantees if there is a hitch.

However, in the case in question the contract made no provision for extra time. As a result of a bank furnishing incorrect guarantees, the deadline was not met. The seller had meanwhile changed his mind, and used the clause to cancel the contract.

The buyer complained to the Estate Agents Board after Geffen held him liable for R20 00 commission.

"If an agency uses a clause that can result in the buyer losing his deposit, the board expects the agent involved to be more vigilant than normal, and to take every step to ensure that the guarantees are furnished, or to alert the buyer if there is a problem in this regard," said board chairman Norman Nel.

The board had found Lew Geffen agent Wilton Schwartz guilty of not upholding the good standing of the industry, and had also laid a charge against Geffen.

However, Geffen felt he had been wronged as the contract was legally binding and was freely signed by the buyer. He said a buyer had never before lost his money under this clause, which had now been removed from the contract.

"I will appear before the board next month and if found guilty I will take legal action, as I do not believe we were negligent," Geffen said. "The buyer had been given a warning that if the guarantees were late he stood to lose his deposit."

Nel said the board had no power of restitution and could either impose a R1 000 fine or revoke the agent's licence.

"We have asked Lew Geffen to refund the commission, in which case we will review the possible fine," he said.

However, even before Geffen's case had been heard by the board, Nel warned that if Geffen subsequently took legal action to uphold the contract, he ran the risk of losing his licence.

Geffen said it was unacceptable that the board should have unilateral discretion over moral issues, especially when the clause in question had been in existence for more than nine years. His most important consideration was to clear his name.

ANC starts voter education programme for supporters

BIDA4 15/7/92

RAY HARTLEY

THE ANC has embarked on a "mass voter education programme" and will establish regional "election commissions" ahead of elections for a constituent assembly.

ANC election planning committee head Popo Molefe said in an interview yesterday about 4 000 ANC supporters had been trained in "basic voter education" and would be training others.

The US-based National Democratic Institute for International Affairs and local training groups were helping the ANC with the "technical aspects", he said.

Molefe said the high-powered election planning committee included representatives of ANC president Nelson Mandela's office and involved at least eight other ANC departments.

He criticised government for going ahead with election preparations without waiting for Codesa to resume. He said government planned to "spring" an election on the ANC.

He said issues such as identification and the registration of those with prison records for political offences were yet to be discussed.

Responding to reports government was already preparing ballot boxes and polling booths, Molefe accused it of taking "unilateral decisions on matters that are not partisan".

Molefe said the ANC would have difficulty accepting an election organised unilaterally by government as free and fair.

"The government is determined to continue acting as the referee and the player in this whole business."

Home Affairs spokesman Thomas Dreyer said although elections were "obviously closely linked to the current negotiations" his department was responsible for getting ready "to conduct an election within a reasonable period of time".

He said planning only entailed the manufacture of polling booths and ballot boxes at this stage.

Civics to discuss bond boycott with lenders

BIDA4 15/7/92

ADRIAN HADLAND 58

THE Civics Association of the Southern Transvaal (Cast) has agreed to meet representatives of the Association of Mortgage Lenders to discuss the impending national bond repayment boycott.

Cast general secretary Dan Mofokeng said the meeting next week would probably include representatives from the SA National Civic Organisation (Sanco), which called for the boycott earlier this month.

Whether there would be a bond boycott from August 1 would depend on the attitude of the financial institutions, he said.

Mofokeng indicated Cast would request a commitment from the association to put pressure on the government with regard to an interim political dispensation.

Sanco would also request greater participation in the regulation of financial institutions' lending and credit policies, Mofokeng said.

advertising with other channels. Whether there would be a bond boycott Mofokeng said.

Development funds slashed

BDAY 15/7/92

DUMA GQUBULE

DEVELOPMENT Bank loans to support social and economic upliftment were reduced by nearly 25% last year because underdeveloped communities did not have the skills and structures to handle the funds allocated.

The lower level of funding comes at a time of increased pressure on the bank to provide funds for projects throughout the country.

In its 1991/92 annual report, the bank said loan disbursements fell to R760m (R988m), but interest income on development loans increased by 50% to nearly R200m.

The bank said the underdeveloped communities did not have the capacity, in terms of institutions and skills, to handle the funds. Project work had also been affected by "changes and constraints in the socio-political environment".

But ANC development official Shaheed Raji said the bank's problem was that it was continuing to support illegitimate homeland governments and local authorities, while many communities in the rest of the country were crying out for funds.

Bank vice-chairman Prof Wiseman Nkuhlu said the capacity constraints had been caused by the fact that the bank was bound by its articles to provide funds only through homelands and local governments.

The situation had worsened over the past two years as the legitimacy of the homeland governments had come under even more stress.

Nkuhlu said it was only this year that the bank had realised the need to change its focus and steps had been taken to include non-governmental and other community organisations in the provision of funds.

Staff shortage blamed for customs fraud

BDAY 15/7/92

CAPE TOWN — Low salaries offered by the Customs and Excise Department resulted in a shortage of skilled staff and were a contributing factor in the spate of import/export-related frauds currently under investigation.

This was claimed on Monday by Customs and Excise Commissioner Daan Colesky, who said his department did not have the human resources necessary to properly monitor all import and export dealings. "We have no problem recruiting, but we have a problem retaining staff once they have been trained."

At least 13 cases involving millions of rands and relating to the falsification of customs declarations are under investigation. Sixteen customs officials have been prosecuted for complicity.

The biggest export scam detected to date involved the dumping of containers full of scrap metal into the sea. The "goods" had been billed as motor spare parts and an amount of R600m was milked from the government by way of a 50% export incentive subsidy. — Sapa.

Tax conscience money

STEPHANE BOTHMA

CONSCIENCE-stricken tax dodgers have anonymously sent the Receiver of Revenue a total of R16 115,18, a spokesman for his office said yesterday.

During the past three years alone, amounts ranging from as high as R3 000 to as little as R5,07, have been paid. Some of the payments were accompanied by notes stating the purpose, such as "underpayment of income tax years ago", "sales tax on vehicle", "unpaid tax — will send installments", or "repayment for petrol stolen from a government vehicle", but often no explanation accompanied the money, he said.

In March this year, three payments of R1 000 each were received. In April, two payments of R1 000 each and a third payment of R3 000 were received, followed in May by R2 500. All are believed to be from the same anonymous person.

Payments often included carefully calculated interest, he said. BDAY 15/7/92

"We believe most of the payments are for taxes outstanding for several years and paid to ease the citizens' conscience." To date, nobody caught for tax evasion had used such an anonymous payment as a defence.

Life policies lapses on increase

MICK ELLINGHAM (58)

THE recession is beginning to bite into the SA insurance industry, with tight economic circumstances forcing many people to lapse their life policies. BDay 15/7/92

The Life Offices Association (LOA) recently reported that amounts paid out for individual policies surrendered increased by 28% from 1990 to 1991.

LOA chairman Louis Shill said in a recent report that "each surrender means that somebody's long-term savings plan has been discontinued or reduced, or that a breadwinner's beneficiaries have lost protection".

Spokesmen from Sanlam and Old Mutual confirmed yesterday that the life offices were experiencing recession-related policy lapses and surrenders, but did not disclose figures.

AA Life MD Joe Gates said his company had not seen any increase in lapses or surrenders, but did say "things are tighter from a new business point of view".

R50 000 telephone bill shock

HENRIËTTE GELDENHUYS
Staff Reporter

Argus 16/7/92

A VREDEHOEK woman got the shock of her life when she opened her telephone bill — instead of her average account of under R200, the account was for more than R50 000 for 266 387 units.

58

"I am absolutely stunned, shocked and furious," said Ms Lydia John, a single mother of two teenagers.

"We are all living stressful lives and we really don't need this nonsense. How do we know the previous accounts we received were correct?"

A Gardens woman who lives alone in a bachelor flat got an account this month for R1 227,33. Her June account was R109,38 and she says she normally pays less than R150 a month.

The woman, who did not want her name mentioned, said: "I will refuse to pay, no matter what they do."

Telkom has been widely criticised for sending astronomical accounts since it was split from the postal service and privatised in October.

In recent months The Argus has had more letters and telephone calls about telephone bills than any other issue.

Telkom has blamed the introduction of the premium rate (087) service and value-added tax for higher accounts, but most people who have complained say they or their families do not call 087 numbers.

Last month, seven organisations, including the ANC, Cosatu, the Consumer Council and the Housewives' League, threatened mass action against Telkom if the issue was not resolved.

● A Telkom spokesman said it was not Telkom's policy to comment on individual cases but mistakes could be made because of computer faults, cable or meter problems or other faults.

He said clerical errors had been made in the past, but there were more proved cases of people getting huge bills because of telephoning 087 numbers.

He said Ms John's account would be investigated immediately.

FNB clients complain of missing cash

■ **Police are investigating the case of a number of black account-holders whose money inexplicably vanished from their First National Bank accounts:**

Sowetan 16/7/92

By Ike Motsapi

(58)

SEVERAL blacks with banking accounts at the Edenvale branch of the First National Bank have complained that money from their savings accounts has disappeared mysteriously in the past months.

And the manager of the branch, Mr Ben Horn, has confirmed that several black clients had complained to him about this problem.

The latest victim is Mr Jim Maluleka, who was told that R7 000 had been withdrawn from his account.

Mr Clive Dickinson, administrative manager in the general manager's office at the First National Bank head office in Johannesburg, confirmed the incident.

What surprised Maluleka is that when he went to the bank on June 23 to deposit R52,25 his balance was R8 098,93.

But on June 25 when he went to withdraw R2 000 a teller told him that his balance was less than the required amount.

"I was then told that on June 13 I had withdrawn R7 000 from my account at the Verwoerdburg branch."

The strange thing was that Maluleka's savings book and identity documents were with him all the time and they did not reflect the mysterious withdrawal of June 13.

"I could not believe what I heard when I asked to see the manager. While they were handling my case another black person came to complain that about R520 had been withdrawn from his savings account."

Sowetan also discovered that two other people had lost their money under the same mysterious circumstances.

One man said he lost R520 and another R4 000.

Dickinson said information available to the bank regarding Maluleka's case pointed to fraud.

Fedlife buys into Ruhold

EDWARD WEST 56

A SIGNIFICANT minority interest of Rubenstein Holdings (Ruhold) has been acquired by the Fedlife Capital Fund through Templeton Capital, a one-year-old company which supports institutional investment in small- to medium-sized companies. BDAY 16/7/92.

Templeton director Thierry Dalais refused to divulge the exact stake acquired. But it was less than 30% and was acquired from shareholders on and outside the JSE.

Ruhold chairman Jeff Rubenstein said a number of transactions were being investigated which could enhance earnings and cash flow. He stressed the group was unlikely to deviate from its core businesses.

While Ruhold dispensed with divisional reporting for competitive reasons, approximately 25% of its capital was allocated to financing operations and the balance to its flexible packaging operations.

Templeton said Ruhold had performed well. Its earnings rose to 17,2c a share for the year to February 1992 compared with 15,5c the previous year.

Sage chief sees new tax deal for life offices

STAR 17/7/92

By Stephen Cranston (58)

There has been broad agreement on a new taxation basis to ensure equitable life assurance tax treatment, says Sage Life chairman Louis Shill.

Writing in the Sage Life annual report, Mr Shill says he believes the sixth schedule to the Income Tax Act, which he claims puts an unfair burden on life assurers, will be abolished in the coming year.

Hel says it would be unwise to pre-empt the move by offering policies or rights to policies which attempt to take advantage of the situation before the event.

He says the life assurance industry will soon show its willingness and ability "to respond to the socio-economic development needs of the country without necessarily sacrificing sound investment criteria".

In a reference to the call by Absa boss Piet Badenhorst to level the playing fields between life assurers and other financial institutions, Mr Shill says that the flow of savings has not been influenced by artificial forces such as taxation and other alleged "unequal playing fields."

In an example of cross-fertilisation, Mr Shill points out that a range of insurance products has been launched by Absa's Allied Bank division.

These products, which Mr Shill says are tailored to meet specific Allied client needs, are underwritten by Sage Life.

The most significant innovation of the year was that in both the life and employee benefits divisions, Sage introduced major medical and hospital pay plan packages.

FM 17/7/92

cobs, the committee head. "We have already drafted some legislation to put before the Cabinet this year. But we have still to consult with the private sector. We expect to release the report by August."

DTI Deputy Registrar Christo Wiese says: "Though a position paper has been finalised, it will not be released before finality has been reached on a regulatory framework contemplated by the Jacobs Committee. Money broking fits neatly into the proposed framework, but the document can obviously not be released until the framework is in place.

"Until then, the status quo should be maintained in the market." ■

MONEY BROKING

58

FM 17/7/92

Light on the grey market

FM 17/7/92

For a number of years, regulators of financial institutions have been committed to a process labelled "levelling the playing fields." But, despite their best efforts, they are unable to achieve a field which all players will concede is level. Each piece of legislation is greeted with cries of "foul play" from one or other of the participants.

Once again, proposed legislation is stoking controversy. It relates to money broking — the raising and placing of funds by people who act as agents not principals. What bankers describe as "radical proposals" were put to them at a recent meeting of the Standing Committee on Banking. Bankers are now waiting for a position paper clarifying the situation.

The issue was raised in the 1991 annual report of the Reserve Bank's Bank Supervision Department, tabled recently in parliament. It says the "possible granting of exemption to money brokers . . . provided they are registered as portfolio managers or trust companies and adhere to certain requirements regarding mandates and general disclosure . . . is under investigation."

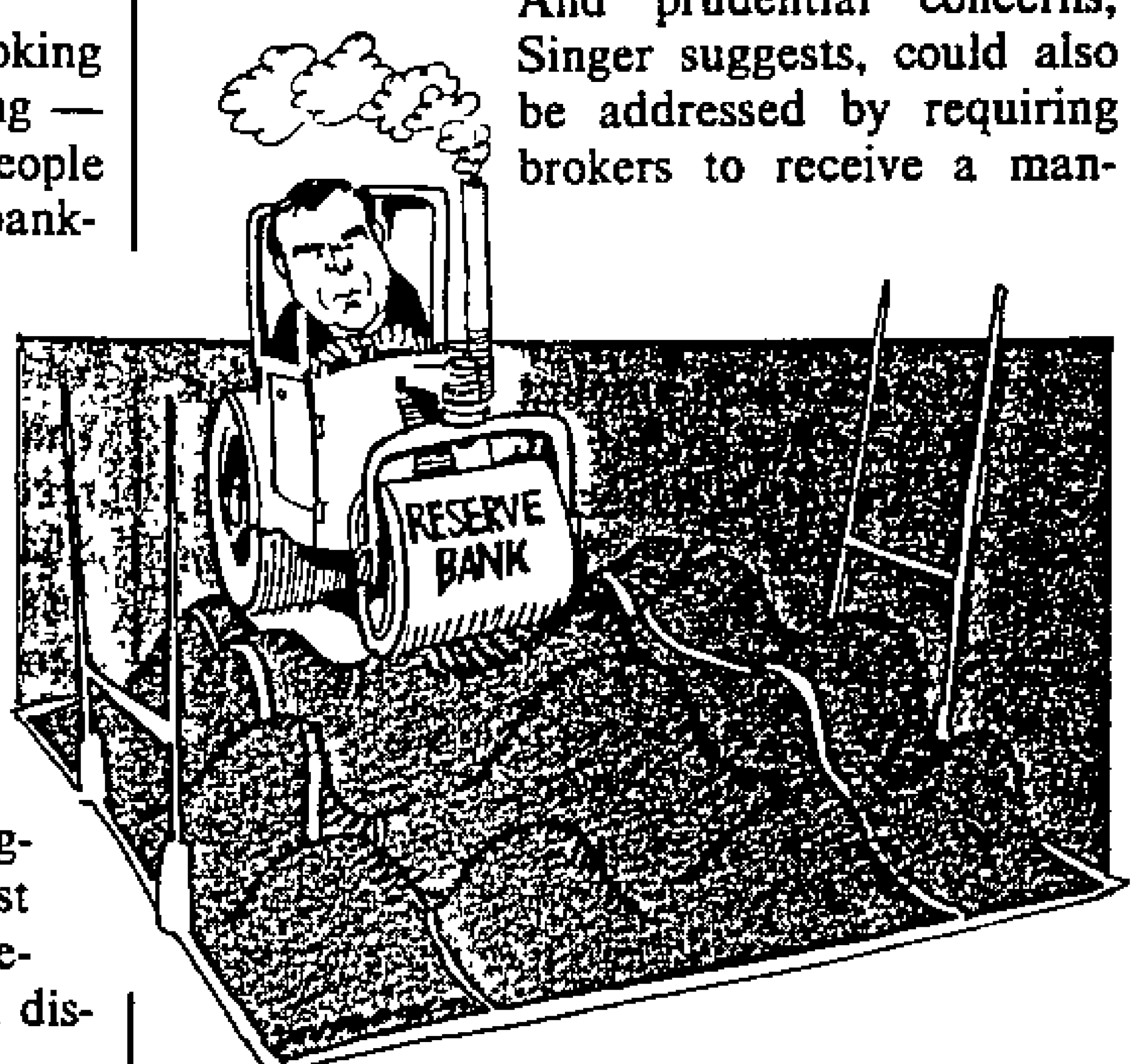
Before the DTI Act, brokers operated freely in the grey market — in which banks equally freely participated through money broking subsidiaries. This raised prudential issues as grey market activities were not subject to regulatory authority.

Under the DTI Act, passed in 1990 and effective since February 1991, the money broking activities of deposit-taking institutions was seriously constricted. Money broking could be done only through the subsidiary of a holding company and banks themselves were prevented from acting as agents and were allowed to raise and lend funds only as principals. And the pooling of funds by anyone other than a deposit-taker was prohibited. Brokers were required to place funds on the day of receipt in individual accounts with a DTI.

This, theoretically, put a stop to money broking. But the Registrar allowed brokerages a period of grace. While they are required to place the money with a DTI on the same day, they have not been forced to open separate accounts but only to provide the DTI with a list of names of individual investors. The period of grace was to have ended with the publication of the position paper.

Now it seems there may be a total rethink. Representations have been made, among others, by the SA Institute of Chartered Accountants (Saica). Says technical director Monica Singer: "Our concern is the public interest. Currently the activities of money brokers do not fall under any specific regulatory framework and this loophole could have significant consequences for the public if irregularities should occur. We have, therefore, proposed that money broking be regulated within an existing framework — the Stock Exchange Control Act."

Saica has accepted that the funds should be placed with a DTI within a day of receipt. And prudential concerns, Singer suggests, could also be addressed by requiring brokers to receive a mandate from clients, dealing comprehensively with the risks involved and the brief assigned to the broker.



The Bank Supervision Department's report says: "The existence of brokers can be justified from an economic point of view." If the legislation is amended to allow non-broking DTIs to pool funds, banks would presumably be free to extend their own agency business through holding-company subsidiaries. But this would raise a host of regulatory issues.

On the other hand, if they are specifically excluded from doing this, the amendment would contradict the spirit of the DTI Act which was designed to monitor functions rather than institutions. It would place the banks at a disadvantage: acting as principals, they are obliged to hold liquid assets against their liabilities as a prudential measure. In which case, they argue, it is unfair to allow money brokers, who are not subject to liquidity requirements, to continue in business.

However, some of the heat has gone out of that debate because changes to reserving requirements could substantially reduce marginal cost of funds. It is proposed that the interest-free component of the cash requirement be dropped from 4% to 1% and the liquid asset requirement from 20% to 12%. Depending on interest rates, say bankers, the impact of reserving requirements on funding costs is presently about 60 basis points. But if the proposed changes are implemented, the impact is estimated at around only six basis points.

A decision on money broking will be made by a committee set up to investigate "level playing fields in the financial markets," says Finance Minister special adviser Japie Ja-

Continue →

FUTURES FINALE

FM 17/7/92

The pace hotted up as dealers in the Safia Futures Risk Management Competition galloped to the finishing post as the competition ended on Wednesday.

The rapid fall in JSE prices last week upset the leader board again. Genbel Investments' Daron Walker and G Morkel-Brink sprang back into the top five from well down the log as leaders lost ground.

With three trading days left, Genbel was frontrunner for the *FM* Top Trading Desk Trophy, while SMB champed at the bit after its strong lead in past weeks. Finansbank Treasury stood third in line for the R15 000 company prize.

Finansbank's Friedel Meisenholl did his best to hold on to the number one spot for the R30 000 dealer prize.

This year's contestants have shown there is money to be made from futures in a bear market. They have performed almost as well as last year's players, after adjusting the underlying portfolio.

The winners of the trophies and R75 000 in cash awards from sponsors RMB, Prima, SMB, Reuters, Investec and the *FM* will be announced at a gala dinner-dance tonight.

THE FINAL LAP

		% Return
1	Finansbank Treasury	11,21
2	Daron Walker, Genbel Inv	10,05
3	SMB3	8,85
4	G Morkel-Brink, Genbel Inv	8,32
5	Trevor Tanchel, Discount House	6,75
6	Bear-Essentials	6,01
7	SMB1	5,29
8	Andrew Hurwitz, Lowenthal & Co	4,69
9	John Cutten, Hayes Cutten	2,10
10	Mark Frantzen, First Financial Futures	1,48

58 FM 17/7/92

LIFE ASSURERS FM 17/7/92

Struggling to Act

58

A new Long-Term Insurance Bill remains on the parliamentary calendar for 1993 but there is concern at the Financial Services Board and in the Life Offices Association (LOA) that many problems must still be resolved.

It is possible that the Bill, already the subject of many drafts and delayed for longer than a year, will not be ready in time.

For the board, Andre Swanepoel says he has a team of three working full-time to finalise the draft.

A three-day meeting has been scheduled next week with the LOA sub-committee to thrash out disagreements.

At present, the life industry operates under the 1943 Act (which regulates life and nonlife insurance) much amended.

Says Swanepoel: "If we have a new Act once in 50 years, we want it to be the best possible legislation. We want it to have broad industry consensus and we want it right from the board's viewpoint. Though we are going flat out, it would be pointless to rush in with something that may need amendments."

Consumer protection

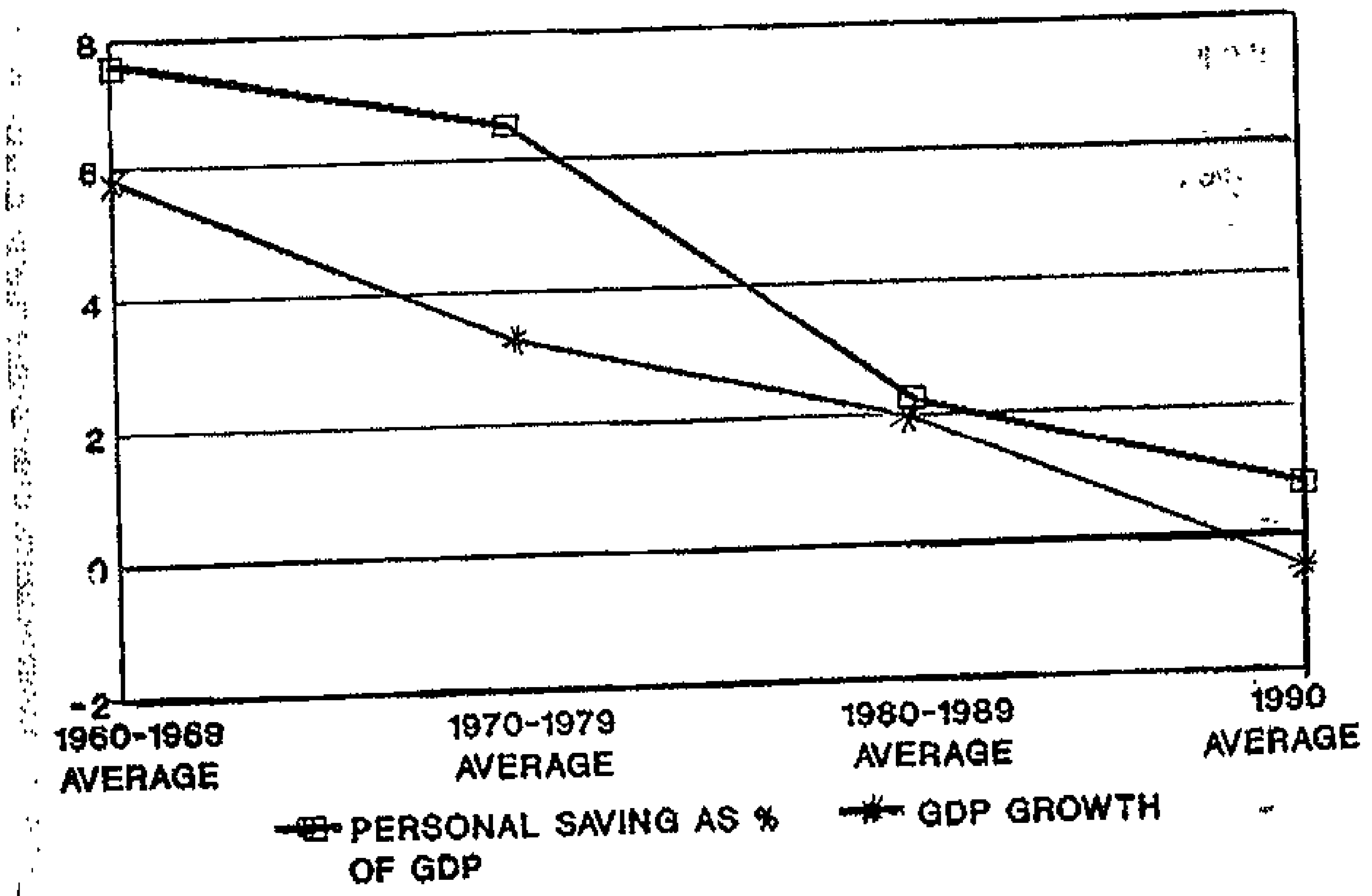
Among issues to be resolved is the level of consumer protection to be afforded by the Act and policed by the board. Life offices have said they favour consumer protection — indeed, they have advocated certain new measures — but that the Bill contains proposed clauses which amount to an invitation to consumers not to buy life assurance.

There are other clauses to be resolved, mostly technical. There is also the question of the effect of the potential removal of the Sixth Schedule of the Income Tax Act. If the schedule, which among other things determines the tax status of certain life products, does go, it may require alternative definitions to be drafted in the insurance legislation. Revenue has indicated its agreement to scrapping the schedule and the March Budget confirmed this view. But it cannot go until certain product definitions have been agreed and incorporated in the insurance legislation.

The board and the LOA are not alone in wanting the new legislation put in place next year; the short-term industry is also impatient. The proposed legislation to govern nonlife offices has been ready since last year, but needs to be enacted in tandem with the Long Term Bill.

If the legislation is not ready, it may be possible to further change the Act to handle some points where agreement has been reached, but the board and the LOA say that would run a poor second best. ■

GDP GROWTH AND PERSONAL SAVING



A deceptive picture... A fall in growth has accompanied a fall in personal saving, but that doesn't mean one has caused the other

SA thriftier than often made out, says prof

W/Mail 17/7-23/7/92

By REG RUMNEY

THE idea that "thrift has gone out of fashion in South Africa" is dismissed in a just-published report by a prominent economist who has advised the African National Congress on economic policy.

University of the Western Cape economics professor Lieb Loots, in a report on the life assurance industry, deflates a number of other myths about both savings and the role of the assurers in controlling savings.

The report was commissioned by the Life Offices Association.

Chief among those myths is the idea either that not enough or an improper mix of saving or both have contributed in a big way to South Africa's economic malaise.

Loots notes the view is widely held that, particularly in the 1980s, an unwillingness by households to reduce consumption spending in the face of economic decline resulted in low personal saving. This in turn, so the thinking goes, caused low investment and low economic growth.

Loots finds this incorrect: it rests on questionable assumptions about what actually happened in the South African economy, and the idea that savings lead directly to investment.

The assumption that saving causes investment is wrong, he believes, on two counts: savings can constrain investment rather than lead to it, and secondly, total savings, not personal savings, must be looked at.

Total household lending increased from 12 percent in the 1970s to 14 percent of the total value of all goods and services produced in South Africa, or gross domestic product (GDP), in the 1980s.

So policies aimed at increasing saving, particularly personal savings, may not work. Policies must be found to tackle the real causes of slow growth.

Also, Loots finds that the shift to "contractual" saving — *ie* money going into endowments, retirement annuities and other products offered by the life assurers — from interest-paying deposits with banks is not a problem.

Loots believes lack of investor confidence about future profitability has led to the low rate of investment by corporations in productive capacity.

Corporate saving has risen, not only as a percentage of gross domestic saving but also of GDP, from 2,6 percent in the 1960s to 6,8 percent in the 1980s.

Corporations, says Loots, have been able to use internal funding, which is a form of equity funding, rather than long-term borrowing, to finance expansion.

On the role of the assurers in applying savings, Loots finds the life offices don't seem to be able to channel savings to the more dynamic, non-corporate or small businesses.

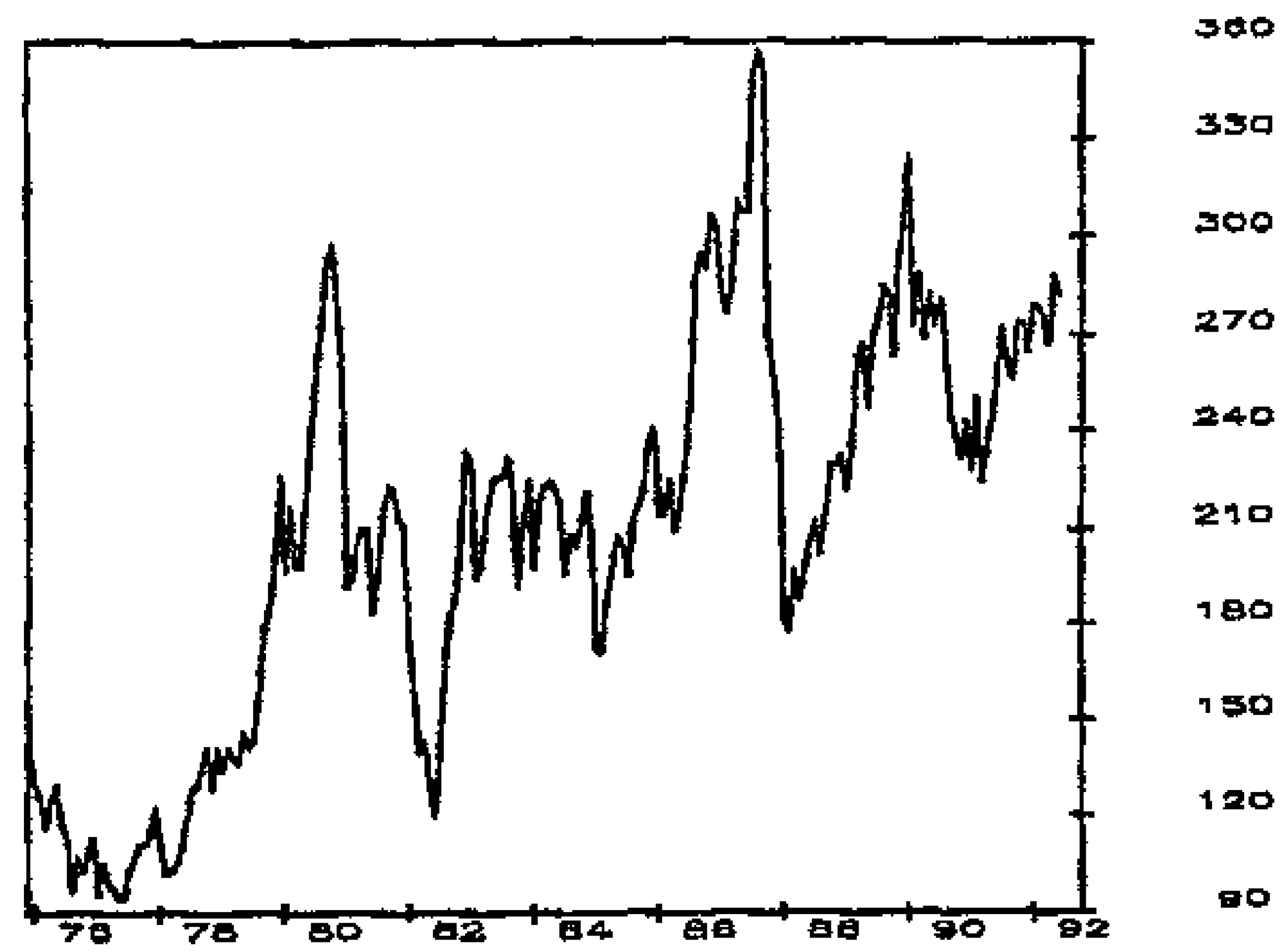
Loots addresses the concern, expressed by both conservative and leftwing thinkers, that the weight of investment by financial institutions on the stock exchange represents an unproductive and speculative "paper chase".

Among other things, he points out that the problem with small business in the 1980s has been a high rate of bankruptcies because of high interest rates, not raising the money in the first place.

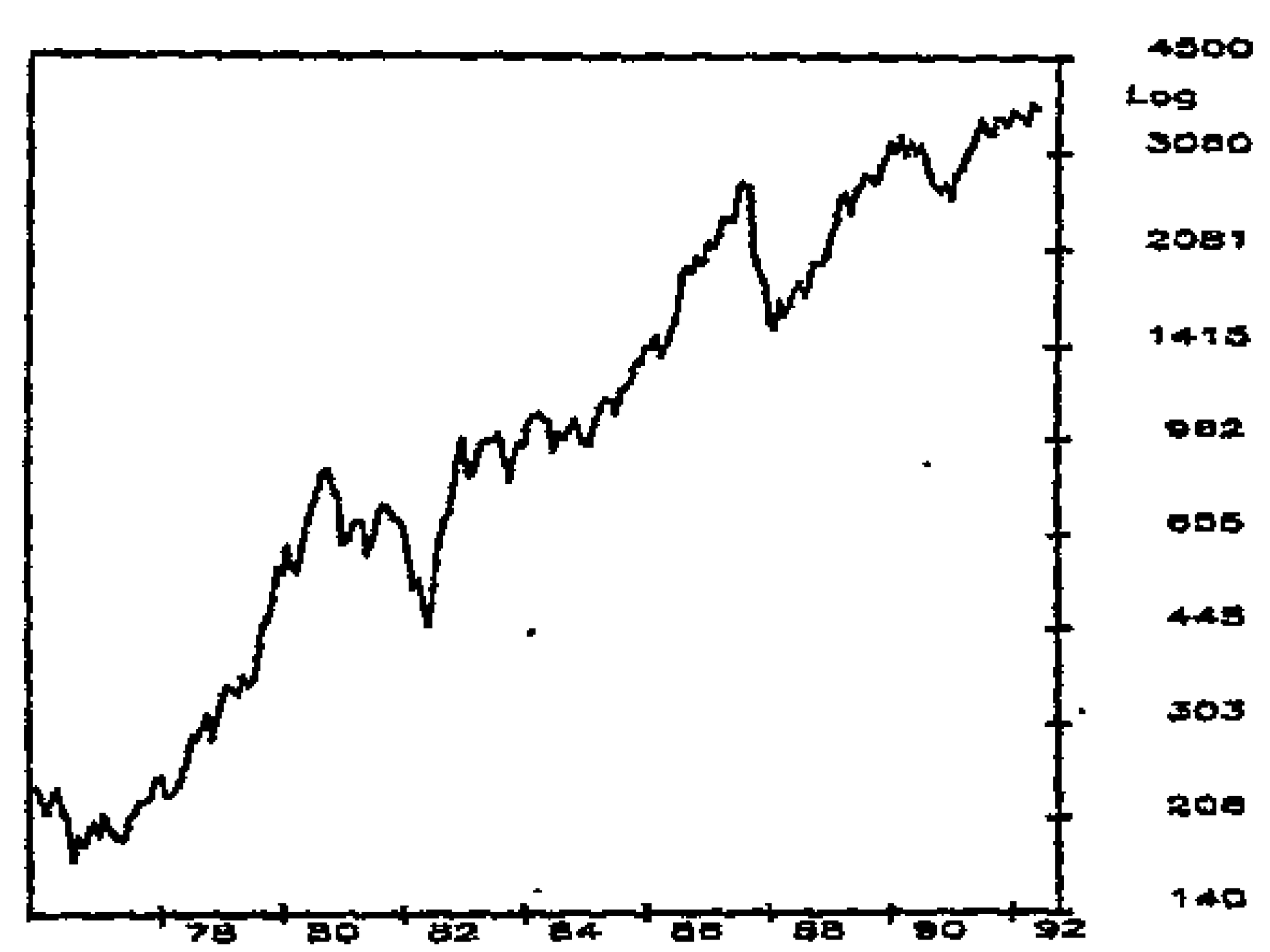
Loots acknowledges too they may not be able to channel money into socially desirable investments. But he reckons new specialised institutions may have to be developed to take care of these needs.

The advantage of having a well-developed financial system cannot be underestimated, says Loots.

Some form of prescribed asset requirement may be necessary, but not to try to reshape banks and life assurers into what they cannot be.



The JSE All-share Index adjusted for inflation: 1976-1992.



JSE All-share Index monthly: 1976-1992.

Right attitude paramount

STAR 18/7/92 ~~232~~ 58 ~~25~~

THIS is the last in the series of articles dealing with the relationship between the stockbroker and his client. The author is Dr MANNY POHL, head of research, at Davis Borkum Hare.

THIS series has examined many sides of investment in the stock market. Today's final article is concerned with the attitude we need to take towards investment in the present turbulent times.

Making investment decisions based on fundamental economic and financial principles is certainly more difficult when major political change is under way. As we have mentioned in previous articles, investment is a hard-headed business, requiring reliable data and all the powers of reason and judgment that one can master. Emotions are no help.

Future

Politics, on the contrary, tends to play on, and with, emotions. For decades, ideologies have had a strong, often damaging, effect. This approach may continue in the new South Afria, though priorities will be different.

How, then, does the investor plan for the future?

He is going to have to hold on tighter than ever to time-honoured rules of investment and not be blown around by the disturbing news or the apparently sudden political changes. I say "apparently" because the news often leads one to suppose everything is suddenly different, when underneath it all, life goes on more or less as normal, with most people going to work using transport, doing shopping, paying bills, enjoying sport and entertainment, more or less as usual. All these activities have their economic aspect.

Obviously, if a new government decided to nationalise all economic functions and activities, there would be no place for the individual or institutional investor.

It seems more likely that there will be a mixed economy, which is what South Africa has had throughout this century. There will, of course, be changes and there is a reasonably good chance that there will be economic growth.

The long-term investor must be prepared to ride out short-term events. A case in point is the crash of 1987. Our market was nervous because of high share prices but it was the collapse of Wall Street that precipitated panic in the investment community, causing, in five months, a 45 percent fall in the JSE Overall Index. As can be seen from the graph of the index, this collapse, which caused great distress, now appears as a short-lived down-spike which has since been overtaken by the long upward trend. Any investor who sold his shares would have had to buy them back quickly to avoid being left out in the cold.

A far more serious danger to wealth than the market's fluctuations is inflation. The upward trend in the index since the late 1970s reflects the power of equities to counteract inflation's destructive effect on money. Even if the inflation rate is subtracted from the index, the graph shows that real growth has been achieved.

Represents

The index is at present roughly 15 times what it was at the end of 1976. Adjusted for inflation, we see that it is now about three times what it was then. Assuming we can trust the official inflation figures, that represents the growth in real wealth that would have been achieved with a portfolio structured in line with the index.

Unions' growth fund already has R50-m

IMCG 18/7/92

ALIDE DASNOIS, Business Staff

JUST a month after its launch by seven trade unions, the Community Growth Fund is already halfway to its first year target of R100 million.

R50 million has already been pledged for the fund, set up in June by four Cosatu-affiliated unions — including the powerful National Union of Mineworkers — and three Nactu affiliates for the placing of workers' provident and pension fund money.

The CGF plans to invest in JSE-quoted companies which satisfy social as well as profitability criteria. Job creation, wages, trade union recognition, health and safety and affirmative action programmes to promote blacks and women will all be taken into account. Through their representatives on the trade union-controlled company Unity which controls the fund jointly with Syfrets, workers will have a decisive say in where their money is invested.

Thirty to 40 companies are under investigation for the final list, says Mr Ian Hamilton, senior manager of Syfrets which administers the fund and which is contributing R2 million.

"Management attitude towards unions is emerging as a key selection factor," he says.

But, insists Mr Hamilton, the first criterion is one of profitability: "We've been approached by companies which claim to satisfy all the social criteria. If they don't have the growth record we're looking for, we don't consider them".

The fund is looking for cash flow rather than lump sum investments, says Mr Hamilton. "We recommend that the provident funds leave their capital sums in guaranteed funds so if the market slumps, members don't suffer losses when they leave or are retrenched. Cash flow can be invested in non-guaranteed funds which offer better returns".

None of the potential investors approached so far has refused to invest, says Mr Hamilton, who is confident that the fund will easily reach its first-year target of R100 million.

Individuals can invest from R30 a month or a minimum lump sum of R500 and more than R1 million has already been pledged by the general public.

The fund's first quarterly report will be published at the end of September.

New tax deal seen for life assurers

Business Staff

JOHANNESBURG. — There has been broad agreement on a new taxation basis to ensure equitable life assurance tax treatment, says Sage Life chairman Mr Louis Shill.

Writing in the Sage Life annual report, Mr Shill says he believes the sixth schedule to the Income Tax Act, which he claims puts an unfair burden on life assurers, will be abolished in the coming year.

He says it would be unwise to pre-empt the move by offering policies or rights to policies which attempt to take advantage of the situation before the event.

The life assurance industry will soon show its willingness and ability "to respond to the socio-economic development needs of the country without necessarily sacrificing sound investment criteria".

In a reference to the call by Absa boss Mr Piet Badenhorst to level the playing fields between life assurers and other financial institutions, Mr Shill says that the flow of savings has not been influenced by artificial forces such as taxation and other alleged "unequal playing fields".

In an example of cross-fertilisation, Mr Shill points out that a range of insurance products has been launched by Absa's Allied Bank division.

Bank alliances, share swops kill independents

■ The threat of predators has sent many smaller banking institutions into the arms of industrial and insurance giants for protection.

Business Staff

58

ARGUS 18/7/92

JOHANNESBURG. — The share swops and the new alliances of the past 18 months have left the banking industry with four major players and very few independents.

In the KPMG Aiken & Peat 1992 Banking Survey, analyst Mr Alan McConnochie attributes the changes in the industry to the introduction of the Deposit-Taking Institutions (DTI) legislation and the formation of the Absa conglomerate.

The DTI and the threat of predators after the Absa merger sent the smaller building societies into the protective arms of the big industrial and insurance groups.

NBS, in a bid to ensure its continued independence, acquired the backing of the Barlows group through a share swop involving the French Bank.

The major shareholders are now Barlows (18 percent) and life assurer, Norwich (25 percent).

Mr McConnochie says NBS is well-placed to continue its independence unless a very high offer price is made.

Saambou strengthened its independence through a deal with insurance company Fedlife, in which Fedlife converted their debentures and so acquired a 35 percent stake in Saambou.

Fedlife also acquired a 22 percent holding in independent Investec Bank through a cross-shareholding transaction.

The control over Stanbic (Standard) was sewn up by Liberty Life which now has about 45 percent of the bank under its control. Mr McConnochie adds that Old Mutual retains a blocking stake of 25 percent in Stanbic.

Old Mutual also controls Nedcor. Nedcor has not been affected by changes in ownership but continues to strive for complete rationalisation between its bank and its home loan division, the Perm — a building society it acquired in 1988.

No major changes took place at FNB.

Absa has continued its acquisition trail with the purchase from Sanlam of the ailing Bankorp group.

The takeover will make Absa 60 percent bigger than its closest competitor, Stanbic.

Boland Bank says no thanks

(58) ARG 18/7/92

MARC HASENFUSS
Business Staff

LITTLE Boland Bank has snubbed a buyout offer from the giant Amalgamated Banks of South Africa (ABSA).

A senior spokesman at the Paarl-based Boland Bank confirmed that discussions relating to a takeover bid had taken place with ABSA.

However, Boland Bank's refusal to be swallowed up by the banking conglomerate obviated a formal offer being made.

Boland's chairman Mr Pietman Hugo said that a takeover price was not even mentioned during the discussions.

The spokesman stressed that Boland Bank would reject any ABSA offer on principle as the bank was determined to retain its unique "platteland" banking culture.

He explained that the bank was not prepared to compromise the hands-on approach it had established with its shareholders, management and clients.

But another banking source said, "Boland Bank just didn't want to give Absa representation on the board of directors, and ABSA's negotiators just turned their back on the whole story."

A takeover by the financially muscular ABSA makes good business sense because Boland Bank needs to expand its capital base.

The Boland spokesman discounted speculation that the bank was about to go to the market with a rights issue.

He said Boland Bank was more likely to place a number of preference shares with institutions to raise capital as and when it was needed.

Savers lose out as interest rates drop

STAR 18/7/92. (58)

PEOPLE relying on bank or building society deposits will be able to buy 30 to 35 percent less with their income than last year. MAGNUS HEYSTEK reports.

AFTER a brief period of relatively high interest rates on savings, savers are now again in the situation where they are earning negative returns on their investments — in some cases as much as 8 percent a year.

While the general decline in interest rates is good news for bond and overdraft holders and businesses, it has been catastrophic for savers, especially pensioners and elderly people living off their interest incomes.

Over the last 12 months interest on bank deposits has dropped on average by between 15 and 20 percent.

With inflation running at 15 percent, people relying on bank or building society deposits will be able to buy 30 to 35 percent less with their income this July than last July. Participation mortgage bond and gilt investors have been less hard hit but their purchasing power is still down between 20 and 25 percent over the year.

Surge in money

The following figures show how the interest rates on various savings instruments have dropped over the past 12 months. The first figure in each is for June 1991, followed by that for June this year and the percentage decline.

- BA Rate: 16,90; 13,80; 18 percent.
- Call: 17,00; 13,00; 24.
- Three-month deposit: 17,25; 13,50; 22.
- Six-month deposit: 17,00; 13,75; 19.
- Twelve-month deposit: 16,25; 13,50; 17.

Elderly pay the price of inflation

- Gilt E168 2008: 16,17; 15,50; 4.
- Participation bonds: 18,00; 17,00; 6.

Over the last 20 years savers have not had a fair deal from the monetary authorities. In only two years since 1971 have the returns on traditional savings instruments on average been positive. But when the effect of income tax is taken into account, the situation is even worse. The average negative return a year since 1971 has been 5 percent.

Take for example someone with R100 000 looking for an investment today. The highest rate of return I could find for a 12-month deposit was just more than 14 percent.

With the first R2 000 in interest tax free, it means that tax will be payable on the other R12 000. Assuming an average marginal rate of income tax of 30 percent, R4 000 will be heading towards the Receiver of Revenue.

This reduces the net return to 10 percent, almost 6 percent below the inflation rate.

The higher the person's marginal tax rate, the bigger the negative return.

A taxpayer on the top marginal rate of 43 percent will find his or her money losing out by at least 8 percent a year.

The negative rates of return earned by savers on traditional savings instruments have contributed to the surge in money flowing into the coffers of the life insurance and unit trust industry in South Africa.

This has caused animosity between banks on one side and the life industry on the other, which, according to spokesmen for the former, are operating on uneven playing fields.

This, off course, is vehemently denied by the life industry which claims that the superior or long-term returns are the result of inflation-beating returns achieved on the stock market and superior marketing efforts.

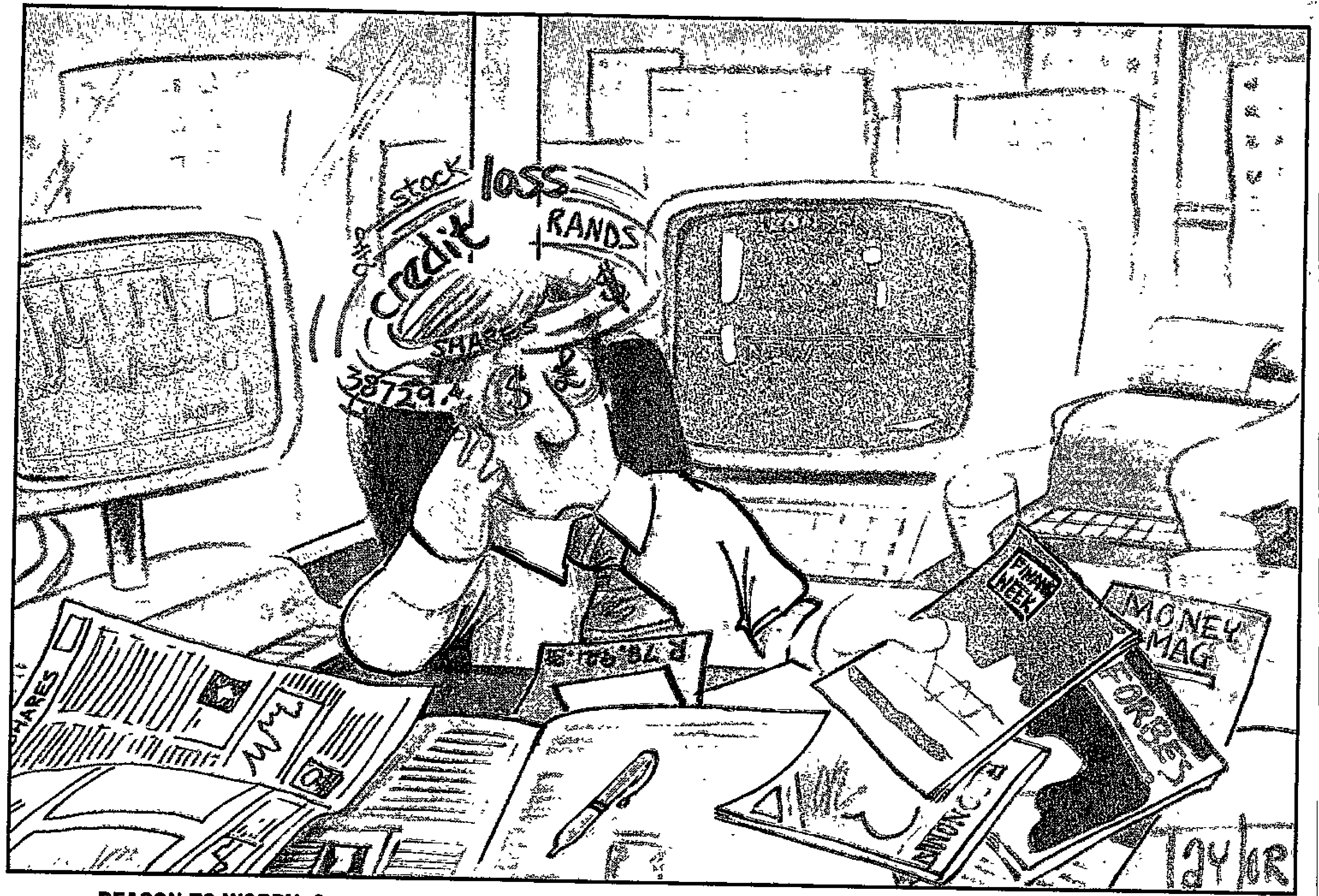
But while the large financial groupings swipe at each other, a generation of poverty-stricken pensioners, in particular, have to make do with less as inflation and taxation erode their spending power.

Forced into penury

This is nothing short of scandalous. The Government is actually permitting a situation where people are being forced into penury.

Many elderly people and pensioners committed themselves to fixed investments at a time when inflation started rising. Now they are paying the price (not of their own doing) of high inflation and taxation.

The best protection against dropping interest rates and high inflation is a balanced portfolio. The ideal portfolio contains some cash; some equity (for protection against inflation); some property (for protection against inflation and stock market cycles and because yields are usually better than on equity); and some gilts, for high fixed income and capital gains.



REASON TO WORRY: Savers have to make do with less as inflation and taxation erode their spending power.

PENSIONS

Tax stays put

58

A new tax formula for pension savings, mooted in this year's Budget, has been placed on the backburner.

The practical difficulties — not to mention the socio-political sensitivities — are, it seems, too great to be tackled now.

After ex-Finance Minister Barend du Plessis referred to the possibility of raising additional revenue from the pensions industry, State actuary Piet Robbertse called a thinktank of tax and pensions specialists, representatives of the Actuarial Society and the Mouton Committee. Organised labour was not invited. *(Economy,* April 24).

Between the Budget and the thinktank, the Life Offices Association (LOA) and some of its members had researched how retirement funds are taxed in other countries. Robbertse says their suggestions have been studied but no recommendations will be forwarded yet. He indicated that all parties with a legitimate interest in the subject would need to be consulted. For now, there seems to be no suitable forum to debate the pensions tax issue.

The thrust of Du Plessis' Budget reference was to link the raising of taxes on formal retirement savings to the separate issue of creating parity for the various classes of social pensioners. There were prompt complaints that it would be invidious to tax those who have provided for their retirement to subsidise those who have not.

There is agreement in the life offices that the fiscus receives little from the pension industry and some accept that a new tax structure could be introduced to improve government cash flow without drastically impairing the pool of savings at the end of the savings chain. But to change the system now, with pension/provident funds such a sensitive labour issue, could cause another big protest to add to government's woes. ■

Development Bank dusts itself off for the new order

By Lynda Loxton

58 SOUTH 18/7-22/7/92

IT HAS been a difficult year for the Development Bank of Southern Africa (DBSA). Not only did its founding chairman and chief executive, Dr Simon Brand, die in January, but it found itself operating in very unfavourable economic circumstances which resulted in actual lending for development programmes falling off slightly.

On top of all that, the rapidly changing political environment continued to prompt a wide-ranging review of the bank's aims and priorities.

Established by the government in 1983, at the height of the National Party's "constellation of states" fantasy, the DBSA has long focused on supporting infrastructural projects in the homelands.

But increasing urbanisation and the associated problems of urban unemployment and homelessness have made it pay more and more attention to urban problems over the years. It now has an almost 50-50 rural-urban bias.

Being a largely government-funded institution, the DBSA has at times had an "image" problem with opposition groups.

The ANC, for example, kicked up a fuss recently when the bank took up its first international loan of R497 million. It was felt it was inappropriate for the DBSA to be increasing South Africa's debt before a political settlement had been reached.

The DBSA has tried hard to win wider acceptance by, for example, becoming involved in development initiatives involving civics and other grassroots organisations.

Interestingly, the government has, for reasons of its own, has kept clear of some of these initiatives. As the recently released DBSA annual report indicates, the state has not always heeded DBSA's advice on economic policy issues either.

For example, the government ignored the bank's advice that the R600 million allocated for feeding schemes should be administered by an independent non-political body "to overcome the problems of legitimacy and to create equal access for private sector initiatives as well as non-governmental organisations operating in this field". The result is that little of that money has been distributed to where it is needed.

The DBSA is increasingly being asked for assistance and advice by the ANC and others on pure economic policy issues. But it must be difficult for its staff to be both part of the old regime and hoping to be part of the new, especially when politics is in a state of turmoil.

Yet the Development Bank is hanging on to the hope that it will continue to play a role in the new South Africa, although it is aware of the fact that a shake-out is due in the development field.

Apartheid has spawned a large number of agencies, both pro- and anti-government, which are active in a wide range of development issues, from rural housing to water schemes and job creation.

In a new South Africa, whatever shape or form that takes, there will have to be some rationalisation to provide the most effective service and make the best use of the limited funds available for development work.

A De Loor Commission report on the issue is still under wraps, but is expected to contain recommendations on the way forward, especially in view of the recent Department of Development Aid scandal.

The DBSA is one of the 50 "giants" in South Africa. Capital employed in the year to the end of March 1992 stood at R4,6 billion and disbursements totalled R760 million (or 23 percent down on the previous year), bringing cumulative disbursements on development projects to R4,2 billion.

As such, DBSA will have to be a player in the new order — and it is now obviously positioning itself to ensure that it survives.

Masterbond hits Buchner

By DON ROBERTSON

THE collapse of Masterbond has placed another property developer in financial difficulty. S Times (Buss)

The R100-million Buchner Property Group borrowed an estimated R80-million from Masterbond for its Marina Martinique project at Aston Bay near Jefferys Bay in the Eastern Cape, for which it stood surety. 19/7/92

It was also involved in the development of the Lonehill residential township north-east of Johannesburg as well as other property projects at the coast and on the Reef.

Managing director Glen Buchner refused to comment when approached by Business Times. He said his father Oswald, who is abroad, would discuss the matter on his return in two weeks.

Unsold

As a result of the Buchner financial problems, Johannesburg Consolidated Investments (JCI) has successfully applied for the liquidation of six companies in Buchner Group involved in Lonehill.

In 1987, JCI acquired a 55% interest in the Lonehill development. For the past four years, Lonehill was managed on JCI's behalf by Buchner Group. It was virtually fully developed.

Buchner Group ran into financial difficulties after the collapse of Masterbond which financed its development of Marina Martinique, says a JCI spokesman.

JCI successfuly applied in April for the liquidation of two Buchner management companies — GG Buchler Properties and Buchner Management cc.

In May, four-land owning companies were liquidated — Aston Centre Investments, another company previously known as Buchner Realtors, GG Buchner Uitgewers Edms and Lonehill Development Company.

The few remaining unsold stands at Lonehill are partly owned by JCI and Buchner companies which were liquidated.

JCI has indicated to the liquidators that it is considering the purchase of the properties, with the intention of selling them when the market improves.

Development of the 42ha Marina Martinique is almost complete. Main contractor LTA completed the marina, harbour and access roads about a year ago at a cost of

● To Page 3

Buchner S Times (Buss)

● From Page 1

R32-million. About 3,5km of canals have been flooded and the locks opened to the sea.

Philip Reynolds, director of Ernst & Young Trusts which is involved in the liquidation of some of the companies, says Buchner Group also administered 50 or 60 stands at Aston Bay.

They will be auctioned in Johannesburg on July 30. Trust Bank holds bonds over several stands.

The auction of stands on the old Geduld gold mine east of Springs in which GG Buchner Properties had an interest is expected in August. The properties have been converted into flatlets.

Buchner Group administered the Malabuild project near Walkerville where ranch-style houses were sold. Liquidation of this raised only R5 000. Standard Bank is involved and efforts have been made to rescue the project. It is now being marketed under the name Blue Saddle Ranches. 19/7/92

Boland Bank refuses to join Absa stable

STAR 20/7/92

By Marc Hasenfuss (58)

Boland Bank has snubbed takeover approaches from the giant Amalgamated Banks of South Africa (Absa).

A senior spokesman at the Paarl-based Boland Bank confirmed that discussions relating to a takeover bid had taken place with Absa.

However, Boland Bank's refusal to be swallowed up by the banking conglomerate obviated a formal offer being made.

Boland's chairman Pietman Hugo said that a takeover price was not even mentioned during the discussions.

The spokesman stressed that Boland Bank would reject any Absa offer on principle as the bank was determined to retain its unique "platteland" banking culture.

But another banking source said: "Boland Bank just didn't want to give Absa representation on the board of directors, and Absa's negotiators just turned their back on the whole story."

Unit trusts attract the veteran investors

STAR 20/7/92

Older investors have been quick to grasp new long-term investment opportunities offered by unit trusts, says Old Mutual Unit Trusts assistant GM Bastiaan van der Westhuizen.

He says: "This group of investors makes up more than 115 000 of our 400 000 investors. Furthermore, holders of unit trusts administered by the life assurer who are over 50, represent approximately 11 percent of all account holders in the entire industry."

The outstanding inflation-beating returns offered by unit trusts is clearly a major factor attracting these investors. Another contributing factor is that most people who fall into this age group no longer have dependants and can therefore afford to supplement their retirement annuity with a unit trust investment.

Old Mutual Unit Trust offers various packages tailored to meet the investor's retirement needs. One of these packages is Old Mutual Retirement Trust — an investment in the R3 billion strong Investors' Fund.

58

Retirement Trust is aimed at investors who want to supplement their retirement annuity or who want to invest the cash lump sum received from their annuity on their retirement.

A good example of investing in the Retirement Trust is when Darby and Joan Wilks (not their real names) invested R10 000 in June 1981. Darby was 50 and planned to invest the money for 10 years (all distributions were reinvested).

By the end of May 1991 his investment had grown by 25,02 percent a year, leaving him with units to the value of R93 273.

Darby and Joan did not need the money immediately, but instead decided to have the half yearly distributions paid out to them. Over the following year, to May 1992, they received more than R4 000 and their capital had grown to R115 925.

A second option available to the investor who has a lump sum to invest is Old Mutual's Phased Portfolio.

Specialist funds bring in more than R28-m

(S8)

STAR 20/7/92

Standard Bank's two new specialist unit trust funds, the International Fund and the Industrial Fund, have brought in more than R25 million since their launch on May 18.

"Sales inflow from these two funds has vastly exceeded all expectations," says Derick Finlayson, managing director of Standard Bank Fund Managers.

The new funds complement the existing Mutual, Gold and Extra Income funds.

The International Fund, a first in South Africa, is made up of equities in JSE-listed companies whose operations are focused on the international markets or which operate businesses overseas.

The Industrial Fund, a first in South Africa, is made up of equities and, where appropriate, high interest-bearing investments.

Mr Finlayson says that the more specialised requirments of the investing public and the need to broaden its range of funds to meet these demands prompted Standard to launch the new funds.

South Africans have typically concentrated their savings on investment available in the local market, but the International Fund has created an opportunity for them to broaden their investment horizons by purchasing a stake in a unit trust with an international flavour.

He says South Africa is being increasingly welcomed back into international business, and fuller participation signified considerable opportunities for many JSE-listed companies.

The fund will maintain a substantially fully invested portion in order to optimise investors' exposure to the international counters held in the portfolio.

"A unit trust investment specialising in companies which trade and operate in foreign economies gives scope to South

Mr Finlayson says that most African investors to participate in the diverse and significant markets available in the international business sphere.

"Diversification is a key ingredient of any successful investment strategy and the International Fund presents investors with an ideal opportunity to spread their investment risk beyond the local business arena."

At present, exchange-control regulations restrict the fund to investing in companies listed on the JSE. However, should there be a relaxation in these regulations in the future, the fund is earmarked to invest in companies listed overseas.

A further benefit of investing in the international fund is the protection it provides against the possibility of a continuing decline in the value of the rand, something local investors face due to the high rate of inflation in this country compared with its major trading partners.

"The International Fund presents investors with an excellent opportunity to invest in South Africa's return to the international business arena and to accumulate assets with an international pedigree," says Mr Finlayson.

The Industrial Fund is a specialist unit trust offering the opportunity of investing in the industrial market.

Mr Finlayson says: "The industrial sector of the South African economy has a track record of dynamic performance and contribution to the local economy.

"Its importance is likely to grow as the country builds up an economy less dependent on gold and precious metals."

Mr Finlayson says that industrial shares have provided excellent returns — among the best on the stock exchange and well ahead of the inflation rate.

Top industrial equities spearhead the selection of the portfolio and are supplemented by high interest-bearing investments when appropriate.

He says: "Having recently attained the R1 billion mark in assets in our existing three funds, we felt that the time was right to launch these two specialist funds.

"The fund aims to provide a return comprising long-term growth of capital and income which will exceed inflation and the return associated with the industrial index."

Mr Finlayson says that Standard Bank's family of funds now offers investors a more diverse spread of unit trusts.

Syfrets is top performer

STAR 20/7/92

The Syfrets Growth Fund has been independently rated as South Africa's top performing general equity fund over five years with an all-in annual return of 21,7 percent — more than two full percentage points ahead of the nearest rival.

The rating, released by the Association of Unit Trusts for the quarter ended June 1992, puts the Syfrets Growth Fund ahead of the 15 other general equity funds, which boast a five-year track record.

Backbone

General equity funds, which are invested in a spread of JSE-listed equities, are the backbone of the unit trust industry and account for R10 billion of the total R1 billion market capitalisation of all South African unit trusts.

The five-year return is regarded as one of the industry's most important benchmarks because it illustrates a unit trust's ability to sustain income and capital growth over a meaningful investment period.

The Syfrets Growth Fund was launched in April 1987 during the pre-crash bull market.

Despite subsequent market turbulence, the fund has managed to consistently deliver good investment returns.

Hugo Lambrechts of Pretoria University said of the Syfrets Growth Fund: "This fund became five years old in April and can, in my opinion, be regarded as by far the most successful unit trust established since 1987."

The Syfrets Growth Fund, which has 41 000 investors and a market value of R627 million, is one of five unit trusts managed by Syfrets.

The others are the Syfrets Trustee Fund, the Syfrets Income Fund, the Syfrets Gilt Fund and most recently the Community Growth Fund, which was launched on June 1 in conjunction with the union movement.

Syfrets unit trusts marketing manager Kevin Hinton says: "The five-year performance figure for the Syfrets Growth Fund confirms our ability to deliver good investment returns on a consistent basis."

Anniversary

Mr Hinton attributes the performance to the fund's portfolio manager, Tony Gibson, and to the strong skills base Mr Gibson has been able to draw on within Syfrets Managed Assets, the firm's investment management company.

"The blending of diverse talents into a strong team structure is a key element of our portfolio management," says Mr Hinton.

The Association of Unit Trust's recognition of the Syfrets Growth Fund is expected to enhance the growth prospects of all Syfrets unit trusts.

A fifth anniversary advertising campaign kicks off today in the press and on radio.

Geoff Richardson
UAL MD

Pioneering products for SA's needs

STAR 20/7/92

The UAL unit trust division is both an originator and an ongoing participant in this increasingly popular investment arena.

The division manages and markets open-ended unit trusts and a comprehensive range of related investment/retirement products.

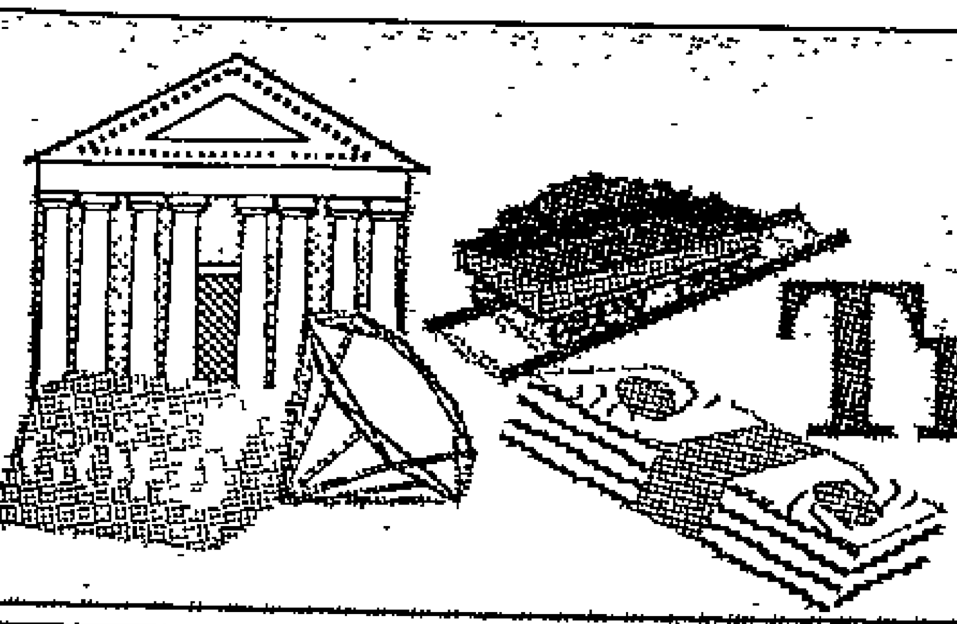
Through UAL Management Company, the department administers three equity and one gilt unit trust. According to UAL's MD, Geoff Richardson, the department has been highly creative in pioneering the successful design and marketing of products for personal investment, pension and retirement needs.

Unit trusts are sold into the retail market by UAL Investment Planning Services, largely through independent intermediaries such as personal financial advisors, lawyers, accountants and brokers.

The main UAL Unit Trust is the flagship and is a general trust seeking value from exposure to quality shares in all the major sectors of the JSE. UAL Mining and Resources is a specialist trust primarily investing in the natural resources and mineral extraction industries.

UAL Selected Opportunities focuses on medium-sized companies that are undervalued and have re-rating potential; as well as on companies whose equity may not be sufficiently tradeable for the general equity trusts.

UAL's Gilt Unit Trust is designed to meet the prudential guidelines followed by pension funds and insurance companies. However, with its focus on total return on capital and income, it has decided attraction for the individual investor as well.



Unit Trusts

A Star survey

The unit trust industry is the main vehicle for the small investor to get into the stock exchange. It now has more than a million account holders and all the major institutions run unit trusts. Stephen Cranston interviews some of the principals in the sector.

Old Mutual's biggest multimedia campaign

STAR 20/7/92.

(58)

Old Mutual Unit Trusts has launched its biggest multmedia campaign which underscores the advantages of investing in their six unit trusts.

Old Mutual, which has more than 30 percent of the unit trust market, began the campaign with a 40-second TV1 commercial.

The environmental theme features the honey badger, listed as a vulnerable species by the SA Red Data Book.

"The concept is the symbiotic relationship between the honey guide and the badger, the guide being the investor and the honey badger — Old Mutual Unit Trusts — accessing the wealth for him," says Lindsay Smithers-FCB's Anton Oosthuizen.

The new campaign by the unit trust division is in synergy with the parent's corporate campaign — handled by Ogilvy and Mather.

Old Mutual Unit Trusts are positioned separately with great expertise but still within the folds of Old Mutual itself.

The campaign on television, radio and in the print media will have a broad mass reach and marks a new stage in Old Mutual Unit Trust's marketing.

At the end of last year Lindsay Smithers-FCB began reviewing the strategic positioning of Old Mutual Unit Trusts.

Says Mr Oosthuizen: "Old Mutual Unit Trust has more account holders than anyone else and are also performance leaders.

"We decided to emphasise their leadership," he said.

"The basic positioning of the campaign is that if thousands of other South Africans are profiting through investing in Old Mutual Unit Trusts, why not you?"

"The campaign has a strong call to action and will support the sales force in their operations by creating interest," he said.

"Old Mutual Unit Trusts have always been highly responsible in marketing unit trusts.

"In the past the approach has been educational, featuring the R3 billion flagship fund, the Investors' Fund.

"But with the growth of Old Mutual Unit Trusts — there are now six funds — the educational approach in mass media has become outdated.

"Old Mutual's track record and expertise applies to all the funds and we are urging investors to consider the wide range of investment opportunities offered by Old Mutual Unit Trusts.

"Their leadership flows from the spread of funds which have consistently beaten inflation and is reflected in their dominant market share and number of account holders," Mr Oosthuizen said.

The financial category of advertising is probably the most cluttered.

Old Mutual's is a fresh campaign which would be both different, relevant and unexpected.

"Our second objective was to invest as much as possible in flighting the commercial and not in production.

"While we did shoot locally, stock footage was sourced from Kenya, London and the United States which was cost-effective," he said.

STAR 20/7/92.

Unit trusts can have educative role

Unit trusts can make a large contribution to cultivating an understanding of the advantages of the free-market system among everyone in the community, says deputy chairman and chief executive of Sanlam Pierre Steyn.

Mr Steyn was speaking, at a recent occasion where Sanlam Unit Trusts' top marketers were recognised for their achievements, about the role of unit trusts in the economy.

(58)

Recovery

Mr Steyn said that as South Africa was on the verge of a new political and economic order, the country could not afford to make the wrong choices.

"The recovery of South Africa's economy will depend on the role that the free market plays in it.

"The IMF and the World Bank state categorically that a free-market economy based on capitalistic principles will guarantee foreign loans and aid."

Mr Steyn said: "Other alternatives like nationalisation will have exactly the opposite effect.

"Communism as an economic system has been proved to be a failure throughout the world," he said.

"In South Africa, many big companies which are known for their role in job creation and prosperity have free-market principles to thank for their existence," said Mr Steyn.

"Unit trusts have a large role to play in helping everyone to savour the advantages of the free market.

"Buying shares on the Johannesburg Stock Exchange is widely regarded as something that only the rich and privileged have entry to," he said.

"Sanlam and Sanlam unit trusts take a great deal of trouble to bring the message home that unit trusts are there for everyone."

Mr Steyn said thousands of South Africans had a feeling of mistrust about the free-market system.

Exploited

"Many regard it as a system in which people are exploited to make a handful of people rich.

"Through unit trusts, Sanlam strives to convey the message to investors and to the community, that we want to establish and maintain a healthy economy based on sound principles," Mr Steyn said.

In units we trust . . . . Sanlam chief executive Pierre Steyn says unit trusts can help illustrate advantages of free-market system.

BUSINESS Pensioners and cevil servants hard hit by bank move ● Farmers threaten strike

Bank closure decried

Sowetan 20/7/92

■ PUBLIC OUTCRY FNB closes its Elim branch after robbery - now clients must travel 30km to do banking:

By Don Seokane

BUSINESSMEN around Elim, near Louis Trichardt in the far Northern Transvaal, have slammed the closure of the First National Bank branch in the area as killing black business.

The branch has been closed as a result of a robbery about a month ago and FNB management said the area was risky for the continued operation of the branch.

However, FNB's clients criticised the bank's decision as the closure of the branch would force them to do their banking about 30km away at Louis Trichardt.

Said one businessman: "The branch had a lot of people patronising it. Our clients changed their cheques at the branch and then bought their requirements from us. Now they are being made to go to town and patronise white shops."

The bank's decision affects pensioners and civil servants employed by the Gazankulu government in the area who receive FNB cheques.

Distressed FNB clients and businessmen said the closure of the branch was unrealistic as it was the first time that the branch was robbed and that it was surprising that the bank decided to close the branch because of the robbery.

Standard seeks hold on Africa

A SUCCESSFUL takeover of the African operations of ANZ Grinakers Bank by Standard Bank Investment Corporation would set the group up in seven African countries, giving it a much larger reach than other major SA banks. (B58)

London-based ANZ Grinakers has branches in Zimbabwe, Kenya, Uganda, Botswana, Zaire, Zambia and Ghana. BDAY 20/7/92.

Standard Bank confirmed last week that it was involved in discussions with ANZ Grinakers, but refused to comment further on how far negotiations had progressed.

ANZ Grinaker is a wholly owned subsidiary of the Melbourne-based ANZ banking group. Its business stretches into Europe, the Middle East, Pakistan and Africa, a spokesman for the Zimbabwe branch said last week.

SHARON WOOD

The move is part of a concerted effort by Standard to expand its international operations.

Standard Bank Investment Corporation recently expanded into the UK. The group acquired merchant bank Brown, Shipley's banking interests on Jersey and the Isle of Man and its London subsidiary, Standard Bank London, was granted a UK banking licence.

Standard Bank has already established a presence in Africa through Standard Bank Namibia, Standard Bank of Bophuthatswana and Union Bank of Swaziland.

The group's 1991 annual report said the banks in the African Banking Group were well established.

Combined after-tax profit improved to R36,2m compared with R28,6m in 1990.

AMA buys 50% stake in MediCor

GAVIN DU VENAGE (58)

SOUTHERN Life subsidiary AMA bought a 50% stake in MediCor, CE Timothy Gelman said yesterday.

Gelman said the acquisition provided it with the combined strategic skills necessary to implement a cost-effective form of managed health care. BDAY 20/7/92

The restructuring of debt and funding of the properties involved financing of more than R100m.

MediCor owns and operates the MediCity chain of hospitals in SA and Namibia.

AMA is the second-largest assurer of health care in the country.

Gelman said managed health care involved the elements of price, medical necessity and outcome, creating a partnership between providers, funders and consumers.

African Life brokers' boon

(58)

BDAY 28/7/92

Business Day Reporter

AFRICAN Life Assurance's broker division increased new business premium income in the year to March 1992 by 123% — more than double the compound increase in the division's premium income of 52% a year in the past five years.

African Life's total income for the year ended March 1992 increased 30% and total new business 78%, of which the broker division contributed about 20%.

The division now had branches in Pretoria and East London to complement the existing network in Johannesburg, Durban and Cape Town.

Each branch was capable of issuing new business as well as paying claims locally. This was supported by a broker service department based at African Life's head office, the company said.

Acquisition taken all the way after seven years

PETER GALLI (58)

MURRAY & Roberts Properties yesterday acquired the remaining 50% of the Retail International Group's (RI's) equity — seven years after its initial share acquisition.

"RI is a private company and the shareholders are finding it increasingly difficult to match the capital availability of the larger shareholders as deals and projects become bigger," M & R Properties executive chairman Eric Field said yesterday.

The price was based on earnings over a three-year period to June 30 1993. B/Day 21/7/92

One of the strengths of the company was the expertise that rested in its management team, which would not be changed in any way and would continue to operate as a separate business unit.

"About 80 staff are employed in Johannesburg and Durban, but we are looking to spread regionally to Cape Town in the near future," Field said.

The companies were currently involved in the joint development of the R340m Pavilion shopping centre in Westville, Natal — this was sold recently to the Eskom Pension Fund — and the recently completed R160m East Rand Mall.

"SA is not overshopped and the more dominant the centre the more successful it is," he said.

"The East Rand Mall, which opened three months ago, has no vacancies and shop turnovers are high."

Stockbrokers waiting to help out

BDay 21/7/92

INVESTORS who lack the time or skills to carry out all the functions of sound money management can employ the services of reputable stockbrokers.

Many find themselves in a situation where personalised investment advice is vital. For example:

- They may be professional advisers managing the affairs of estates or trusts in the role of trustee, but needing specialist advice on the investment of assets;
- They may have exercised share options but need to diversify their holdings;
- They may be needing to protect their capital against inflation while receiving adequate income with sound security; or
- They may have an inheritance which they are unsure how to invest; and
- They may be receiving lump sums periodically.

In an uncertain political and economic environment, most investors recognise the need for professional advice.

Simpson McKie's portfolio manager (Johannesburg) Fairfax Gray says the stockbroking firm employs a highly regarded team of specialists to meet such a need.

Investments can comprise unit trusts, gilts, money market instruments and quoted shares, in particular.

58

Fundamental

"We conduct analytical fundamental research covering all the main market segments, as well as the broader issues influencing the general investment environment.

"We seek out fundamentally under-valued securities, concentrating on companies which operate in markets where opportunities exist for above-average growth in corporate profits.

Simpson McKie (Cape Town) portfolio manager Howard Mountain says private investors also find it hard to keep track of paperwork associated with self-administration of investments.

"Our fully managed portfolio service caters for them and services include scrip safe custody, deposit of liquid funds, collection of income and appropriate action in relation to new issues, rights issues, scrip options, schemes of arrangement, splits, consolidations and the like."

The service can be operated in conjunction with other professional advisers such as accountants and attorneys.

It differs from life and pension advisers because it offers a tailor-made investment strategy suited to the individual's circumstances.

"An analysis of the client's specific objectives and requirements is undertaken," he says.

Estate agent seeks court interdict against Board

STAR 21/7/92

By Frank Jeans (S8)

A prominent Johannesburg estate agent, Alan Sampson, MD of Balloon Estates, is seeking an urgent Supreme Court interdict against the Estate Agents Board (EAB), following a recent ruling by the Board against Lew Geffen Estates.

Mr Sampson, who is also chairman of the Ethical Standards Committee of the Southern Transvaal branch of the Institute of Estate Agents, is seeking the interdict "to restrict the EAB's power vested in them by law".

The EAB, which is the industry's statutory body, ruled that a clause of forfeiture of a deposit by a buyer in a sale agreement concluded by Lew Geffen Estates was "morally indefensible".

The EAB intervened followed the loss of the deposit by the buyer after his alleged failure to meet his obligation in terms of the agreement.

The Board found Lew Geffen's agent guilty of improper conduct and issued a fine against Lew Geffen Estates.

"The decision to pay the fine is now his, but Mr Geffen could find himself without a job if he does not pay," Norman Nel, chairman of the Estate Agents Board warned. Mr Geffen has to appear before the Board next month.

"Draconian"

In a statement, issued by Lew Geffen Estates yesterday, Mr Sampson said: "Through the interdict I will attempt to prevent further abuse of authority and terminate the excessive and patently Draconian powers that the Board has adopted."

He claims that forfeiture clauses similar to Geffen's were "perfectly normal, reasonable and equitable" and were commonly used in most agreements.

He predicted that the EAB's decision was likely to precipitate a tidal wave of complaints from defaulting purchasers, whose deposits had been forfeited.

Mr Nel responded: "The board has no objection to 'sudden death' clauses but when agents rely on such clauses the board expects them to be vigilant in every respect to ensure that the buyer does not lose his money."

Mr Nel said the EAB had put the following question to Mr Geffen: "Do you think the clause is fair and equitable to the purchasers in these circumstances?"

He claims that Mr Geffen's reply was "No, and because of this we have changed the contract by removing the clause".

Mr Nel added: "There is nothing illegal about such a clause, but we expect people to do what is right and the board believes that in this case the agent was not vigilant."

Mr Geffen welcomed Mr Sampson's support stating: "I feel very strongly about the decision by the EAB and I am going to take the matter as far as I can to ensure that justice is served."

Growth policy boosts profits seven-fold

(58)

BDAY 22/7/92

ONE of the most notable things about the Seeff Organisation's numerous acquisitions over the past three years is that all of them were funded from internal resources and consequently the group has no gearing.

The sale of 25% of its equity to Absa assisted in this regard, but the bank's stake is small enough to ensure that Seeff management still directly controls the company.

As a result of its growth policy, bottom-line profits have increased seven-fold over the past three years while staff numbers have risen to about 600 from 100 five years ago.

Independent

In addition, the group employs numerous independant financial services brokers countrywide.

Seeff Organisation Holdings chairman Lawrence Seeff says growth is essential as it is dangerous to be limited to a single industry sector and the company felt it needed to diversify.

"Expanding in recessionary times can be beneficial but this has to be controlled and, if you can survive in such a tough market, you should be well positioned in good times," he says.

Few companies cater for the young, ambitious, well-educated person, and the group believes that if you want motivated, productive staff, they have to be offered an equity share.

Each of the five companies in the group — Seeff Residential Properties, Seeff Commercial, Seeff Trust, Seeff Slot Projects and Seeff Mergers and Acquisitions — runs as a separate entity.

LAWRENCE SEEFF

Future growth will be individually determined by each of the companies, but the common focus is to become the best in the market in each area of expertise before growing.

The group is now emerging from its entrepreneurial phase and is moving into a consolidation phase where its future direction and further growth will be examined.

"We cannot allow ourselves to lose our entrepreneurial flair, but it must also be remembered that the bigger we become, the more our associates will expect us to become a corporate entity," Seeff says.

A company cannot just diversify, it has to follow a set plan and direction. The Seeff Organisation is working in a dynamic, volatile environment and Seeff Trust will probably diversify the most, he says.

The investment market needs innovation and the group is looking at a capital guaranteed investment fund where the capital is invested for a predetermined period and the interest portion is reinvested over that same period.

Thus, the risk will be limited to the interest for the period of the investment.

Seeff Trust is looking to sell investment products in Botswana and Namibia, in particular.

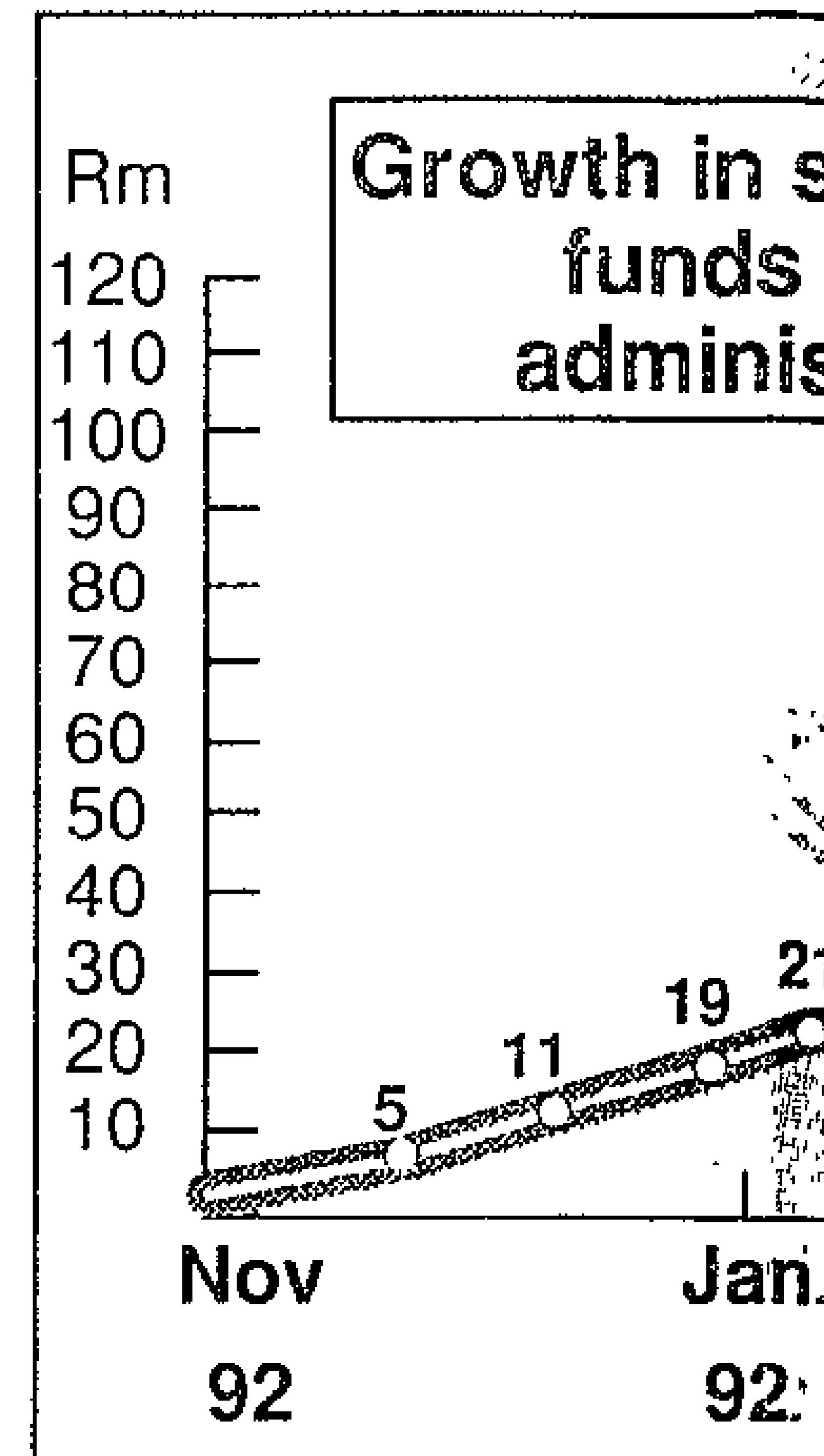
Reduce

It is also looking at joint ventures internationally to reduce its risk and exposure, but this will probably be in the development and investment areas rather than in brokerage.

"We have no plans to seek a JSE listing at the moment, but have given this a lot of thought. In order to become a listed vehicle, our company needs a far greater track record.

"Institutions invest in people and track records and we need to show continued success over the next few years before this becomes a real possibility.

"However, we will have to eventually follow this route to satisfy the share expectations of our employees," he says.



Graphic: LEE EM

Brokers lu a share of

BDAY 22/7/9

SEEFF Financial Services (SFS) is to launch an innovative scheme whereby independent assurance brokers wishing to retain their identity will be offered equity in the company, says GM Riaan Heyns.

"We are expanding our operation into the Transvaal and intend to attract top quality brokers by offering a good commission contract and an equity share proportionate to the brokers' contribution to company sales," he says.

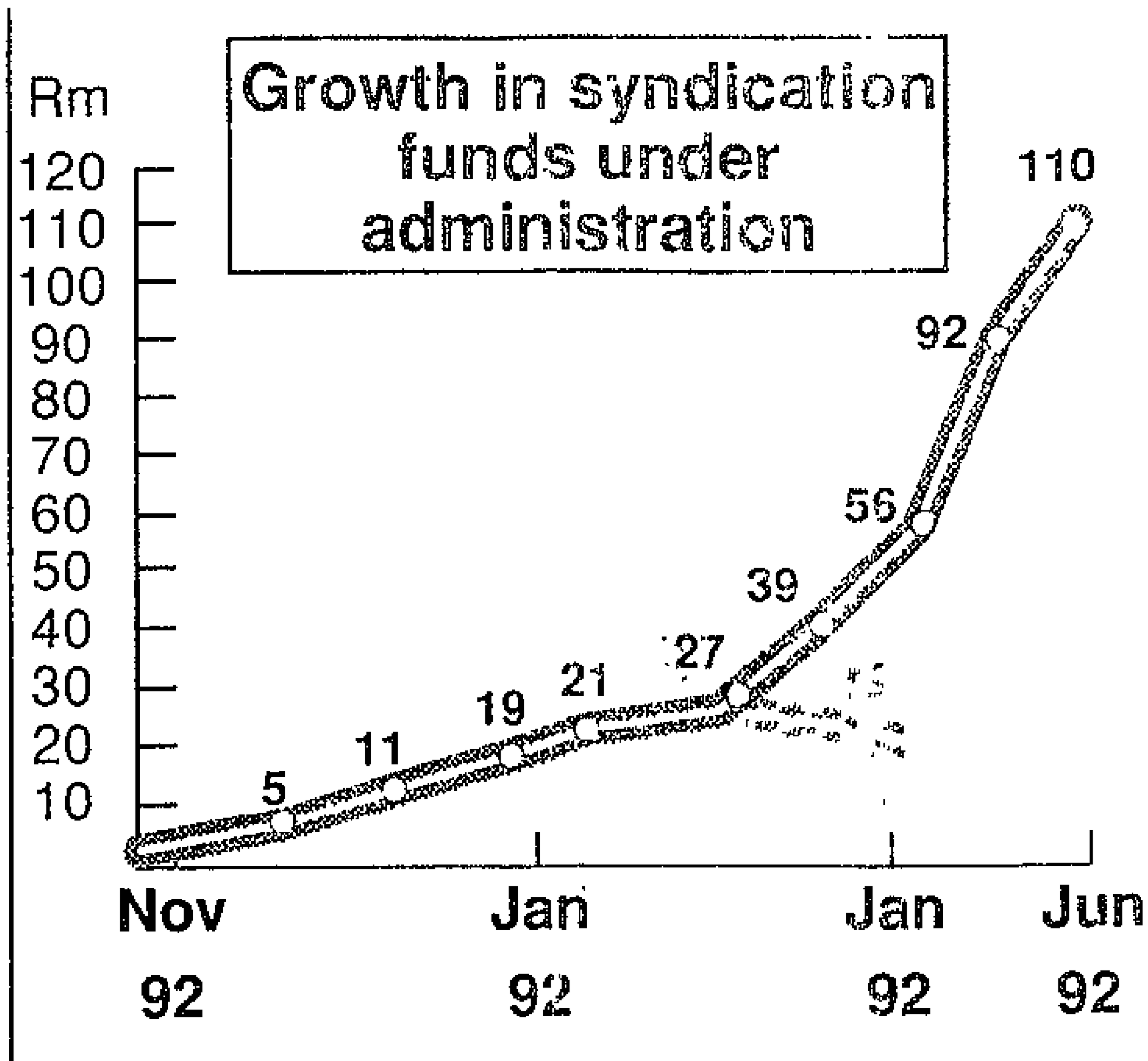
The company will offer these opportunities to in-house and independent brokers.

SFS, a division of holding company Seeff Trust, was established last August.

Much of the past year has been spent consolidating the operation and identifying possible areas of growth. The company strategy is to grow SFS into a national brokerage operation.

While life assurance will remain its core business, a wide spectrum of financial services and products will be offered, including a mortgage bond protection and redemption package, he says.

Products, underwritten by other



Graphic: LEE EMERTON Source: SEEFF TRUST

Brokers lured with a share of equity

BDAY 22/7/92 (58)

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Products, underwritten by other institutions, will be packaged and branded as SFS products.

"The idea is not to offer a one-stop financial shop, but rather to offer expertise in a number of areas. Specialists will be employed as the need arises and other financial services will be grown in line with demand," Heyns says.

SFS realised it needed to expand to achieve synergies with other players in the group.

At present 14 staff are employed in the division, but this is expected to rise to around 30 by year-end. The Transvaal expansion is about to happen "in a big way", while Natal and the eastern Cape have been targeted as future growth areas in the medium term.

Priority

Seeff Trust has already appointed regional managers in Natal and the eastern Cape, but the Transvaal is SFS's first priority.

The company already receives more than R100 000 in gross commission a month, which will rise

"The local insurance industry is very competitive and SA has become a world leader in the field of product innovation.

"Accordingly, in order to gain market share you have to offer your clients innovative products and be able to service them in the

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"The local insurance industry is very competitive and SA has become a world leader in the field of product innovation.

'Accordingly, in order to gain market share you have to offer your clients innovative products and be able to service them in the most professional and effective way. We are already achieving this and will go from strength to strength," Heyns says.

Commercial Properties staying on growth path

BDAY 22/7/92 (58)

SEEFF Commercial Properties is only two and a half years old and is still on a growth path, MD Theodore Yach says.

"We are becoming entrenched in the Cape market ... we have already made great advances as the market has realised we are now here to stay, whereas it was rather sceptical at the start," he says.

The company operates in five niche areas, identified as growth nodes. It needs to specialise as future success depends on its ability to show growth now.

The investment sales market achieved significant sales in 1991, but the first six months of this year has shown this will be exceeded.

"Investment sales totalled R40m last year, but about R31m has already been achieved in the first two quarters of this year," Yach says.

About 60% of its present client base comes from Johannesburg and the key to concluding sales is to add value to a property, he says.

"The company only entered the industrial sales and leasing market in 1991, when deals to the value of R4,5m were achieved. We have seen deals worth R2,5m already concluded in the first quarter of this year," he says.

While it is still creating a niche for itself, this will probably take the rest of the year.

Despite the fact that rental levels are static in real terms, traditional nodes are still popular, but speculative development has virtually stopped.

Despite the depressed and oversupplied commercial market, with Cape Town having 104 000m² or 14% of its total A and B grade space unlet, deals are still being done. But rental levels are generally showing negative real growth.

"We are also involved in the retail leasing market, which is a small niche market with good trading areas in certain nodes. We have found areas of growth and are doing a number of deals a month," Yach says.

Expertise

On the property administration side, only a few buildings are being handled, but the systems and expertise are now in place to offer a complete service to clients.

Asset management has been identified as a niche growth area for the next few years and this service will be offered in the Cape from August 1. It will be extended to the PWV and Durban areas once established.

"We will be administering our syndication properties in conjunction with Seeff Trust and expect to have 20 buildings on our books by the year-end," he says.

whole page.

Seeff

58

Business Day SURVEY

As a result of its policy of funding acquisitions from within the company, the Seeff Organisation's bottom-line profits have increased seven-fold over the past three years, while staff numbers have risen from 100 five years ago to 600. ***PETER GALLI*** *reports.*

Group taps mergers and acquisitions market

BDAY 22/7/92.

IN A move designed to tap a lucrative and volatile market, the Seeff Group established Seeff Mergers and Acquisitions Group in February.

The joint venture between Seeff, Errol Finkelstein and Rory Stear has two divisions. M & A deals with the sales of businesses between R500 000 and R10m, while the Business Broking division deals with smaller transactions like franchises and the sale of cafes.

"We deal with the trading of equity, sales, partnerships or the refinancing of companies — in short whatever is required. Of a total staff complement of eight, three are CAs and two have MBAs," says MD Rory Stear.

58

Last year the ~~local~~ mergers and acquisitions market totalled R12bn, but this included the Absa and Middleburg Steel deals.

The group's target area is the bottom end of the merchant bank market.

Stear says the current economic climate is creating a vibrant mergers and acquistions market, with the Business Brokerage division seeing an increased number of people taking retrenchment packages and buying their own firms.

"A number of large companies are also taking advantage of economic conditions to acquire businesses at less than their net asset value. We have a large number of prospective buyers looking for deals," he says.

Involvement includes an initial analysis of the project, drawing up of a prospectus, marketing the deal to buyers, introducing the parties and structuring the deal.

While the company is based in Cape Town, it plans to have a major branch in Johannesburg by year-end.

"We would also like to develop our international connections as we believe there will be huge opportunities for foreign investors once the political situation has stabilised," Stear says.

JCI gold mines overcome gloom in June quarter

B10A4 22/7/92

MATTHEW CURTIN

JCI's three gold mines have posted a 19% higher after-tax profit in the June quarter in spite of the gloomy conditions which prevailed in the period. The mines benefited from a lower overall tax bill, some lucrative forward sales contracts, good cost control, production cutbacks and higher grades which helped offset lower gold prices.

Aggregate after-tax profit rose to R71m from R60m. Randfontein Estates and Western Areas, which made a dramatic return to profitability, paid no tax in the period.

Milled throughput fell 4,6% to 2,9-million from 3-million tons, and the average yield increased by nearly 4% to 4,3g/t (4,1g/t).

Masked

Gold production held steady at a little over 12 tons altogether. Forward sales masked the drop in nominal gold prices and the group's revenue fell only 0,9% to R32 823 from R33 134 a kg.

That compared with ruling gold prices of about R31 000/kg in the quarter.

Gold division chairman Kennedy Maxwell said the mines had a "successful quarter", with the turnaround at Western Areas following similar improvements in the past two quarters at Randfontein and H J Joel.

Gold division MD Bill Nairn said Western Areas had focused on eliminating the mining of unprofitable areas of reef.

Some projects which involved mining low grade areas had been phased out.

Nairn said the mine was "going for gold", concentrating on "quality not quantity".

This has been the practice industry-wide in the past three years, first championed by Gengold.

At Western Areas, management has struggled to sustain improvements in grade and profits as it has had difficulty successfully introducing trackless mining systems to the mine.

Mine manager John Brownrigg said yesterday that mining at Western Areas was now split 85:15 in favour of conventional mining.

He said some trackless projects had proven far more profitable than others, and Nairn said it was vital that trackless mining was introduced only in areas where the underground conditions suited the technology.

Brownrigg said the mine could sustain the sharp increase in yield, up at 5,99g/t from 5,19g/t.

Production fell nearly 8% to 496 000 from 537 000 tons, knocked by a minor accident and strict grade control. Gold output rose nearly 7% to 3 tons, from 2,8 tons.

Nairn said the productivity scheme in place at the mine, which has yet to pay mineworkers out, was a key factor in encouraging employees to contain costs, which had risen less than 10% in the past year.

Working costs at Western Areas were still higher than ruling gold prices, but the mine was able to turn in working profit because of forward selling. The mine realised a 3% higher gold price received of R34 167/kg. Working costs stood at R33 933/kg.

Randfontein achieved its highest yield since 1987 of 3,7g/t, as tons milled fell to 2,1-million from 2,2-million in the quarter.

The mine's profitability has ensured it has an adequate tax shield for the capital spending necessary to prolong its long-term future, concentrated on opening up high-grade areas from the so-far disappointing Doornkop section. Randfontein spent R116m on capex in the past year.

The mine paid another R5m productivity bonus to workers, amounting to more than R20m in the past year, equivalent to a 12% pay increase in addition to the 4% implemented last year.

Shareholders also benefited, with the mine declaring a higher final dividend, taking the year's to 85c from 60c.

Steady

H J Joel recorded its second after tax and after-capex profit, as capital spending fell in the quarter to offset poorer operating results.

Nairn said the mine had done well to contain the fall in grade to only 7,3% as production remained steady.

Total working costs fell to R42m from R43m, and he said the reorganisation of the mine's haulage system, relying on rail and diesel trucks rather than trucks alone, would cut transport costs and overall costs still further.

Nairn added that the most recent development results from the South Deep project exceeded original estimates. Exploration so far showed an in situ grade of 14g/t on the Ventersdorp Contact Reef, compared with prospectus forecasts of 11,5g/t.

JCI June Quarter	Tons milled 000s	Yield g/ton	Gold produced kg	Costs per ton milled R	Costs per kg gold produced R	Price received R/kg	Net profit R000s	Profit after capex R000s	EPS after capex cents
Randfontein Estates	2 130	3,7	7 817	94,15	25 655	32 142	55 651	18 833	30,8
March	2 227	3,6	8 014	93,31	25 929	32 201	50 293	26 377	43,1
Western Areas	496	6,0	2 972	203,32	33 933	34 167	9 360	1 175	2,9
March	537	5,2	2 787	182,24	35 113	33 184	1 854	(18 824)	(46,7)
H J Joel	242	6,0	1 447	173,95	29 092	33 737	5 870	2 250	2,3
March	242	6,5	1 560	178,70	27 722	32 708	7 455	2 016	2,1

Mystery British buyer eyes Tek

Business Day Reporter

A UK electronics company is reported to be in the process of buying troubled East London-based Tek Industrials (TI), SA's largest manufacturer of printed circuit boards.

Tek Corporation, TI's holding company, said it and co-owner Siemens had been involved in negotiations for the past six months. B10A4

The media would be informed at a later date, Tek said. 22/7/92

But a source close to the company said the takeover would mean a change in focus, enabling TI to produce for the international market.

It was also agreed with the potential buyer that 90 workers would be sacked at the end of this month.

☐ It has been disclosed that poor consumer confidence and the economic downturn have forced Tek to retrench about 146 workers at East London subsidiaries Tek Appliances and Tek Electricals.

'Converter' knocks platinum

B10A4 22/7/92

MERVYN HARRIS

YET another claim of a platinum-free catalytic converter for motor cars put the skids under the metal's free market price yesterday, pulling the price down almost $10 to a London afternoon setting of $380,90.

The decline came despite the fact that the announcement by the Japanese National Institute for Resources and Environment of a palladium-based catalyst referred only to diesel catalysts.

The news was also dismissed as of little significance to platinum by both Ayrton Metals and Johnson Matthey, Reuters reported. Platinum depends on catalysts for about 40% of total world demand.

Ayrton MD Brian Nathan said diesel catalysts were already based on palladium rather than platinum and rhodium, while a Johnson and Matthey spokesman said the announcement was "not dramatically new or a possible product".

The news was the latest in a string of such announcements over the last few years which have adversely affected the price of the metal. There were three such announcements in 1991.

These included the development of a converter by Nissan which was of limited application while that of Isuzu was applicable only to diesel. A third involved a manganese-based converter.

The platinum market faced its biggest scare in the late 1980s when Ford announced the development of a platinum-free converter, sending the price of the metal into a free fall.

Analysts said a feature of all the announcements was that while they had pulled the market down, they had little or no effect on the use of platinum or rhodium in catalysts.

Moreover, industry sources remain confident that platinum and rhodium are essential ingredients in efforts to meet stricter clean air standards enforced in Europe and the US.

COMPANIES

Mutual fund raises liquidity

SHARON WOOD 58

A VOLATILE and uncertain equities market has prompted NBS Hallmark Mutual Fund to raise its liquidity level to 25% from 20% at the end of the June quarter.

NBS Hallmark MD Ken Burns says current market weakness has been anticipated and the fund is well positioned to take advantage of opportunities which will arise in the months ahead.

Investment in NBS Hallmark grew 23,5% to R42m from R34m during the second quarter, and support has continued during recent weeks, he says.

Burns advises investors to hang on to unit trust investments, despite current uncertainties. BIDAY 22/7/92

"Fund managers, who are experts in the field of investment and monitor the market by the hour, will already have taken the necessary defensive strategies (such as raising liquidity levels) and will have positioned their funds to take advantage of buying opportunities as they arise."

The cost of withdrawing and re-entering unit trusts is high and should be avoided if at all possible, he warns.

Burns stresses the importance of getting the official go-ahead to deal in derivatives, such as futures and options, to hedge unit trust portfolios.

The industry is waiting for a decision by the Financial Services Board.

Morkels sets sights on high turnaround target

BIDAY 22/7/92

DUMA GQUBULE

FURNITURE and sports goods retailer Morkels has set itself a target of 40% growth in earnings a share in the year to end-march 1993, after a year which saw attributable profit plunge by 56%.

Management objective for the year is a sales increase of only 7%. But it is expected that better asset management to limit working capital increases, a curtailment of further growth in the store base, the rebuilding of margins, and reduced costs will help cut gearing to 130% (from 165%) and increase earnings a share by 40% to 14,3c (10,2c).

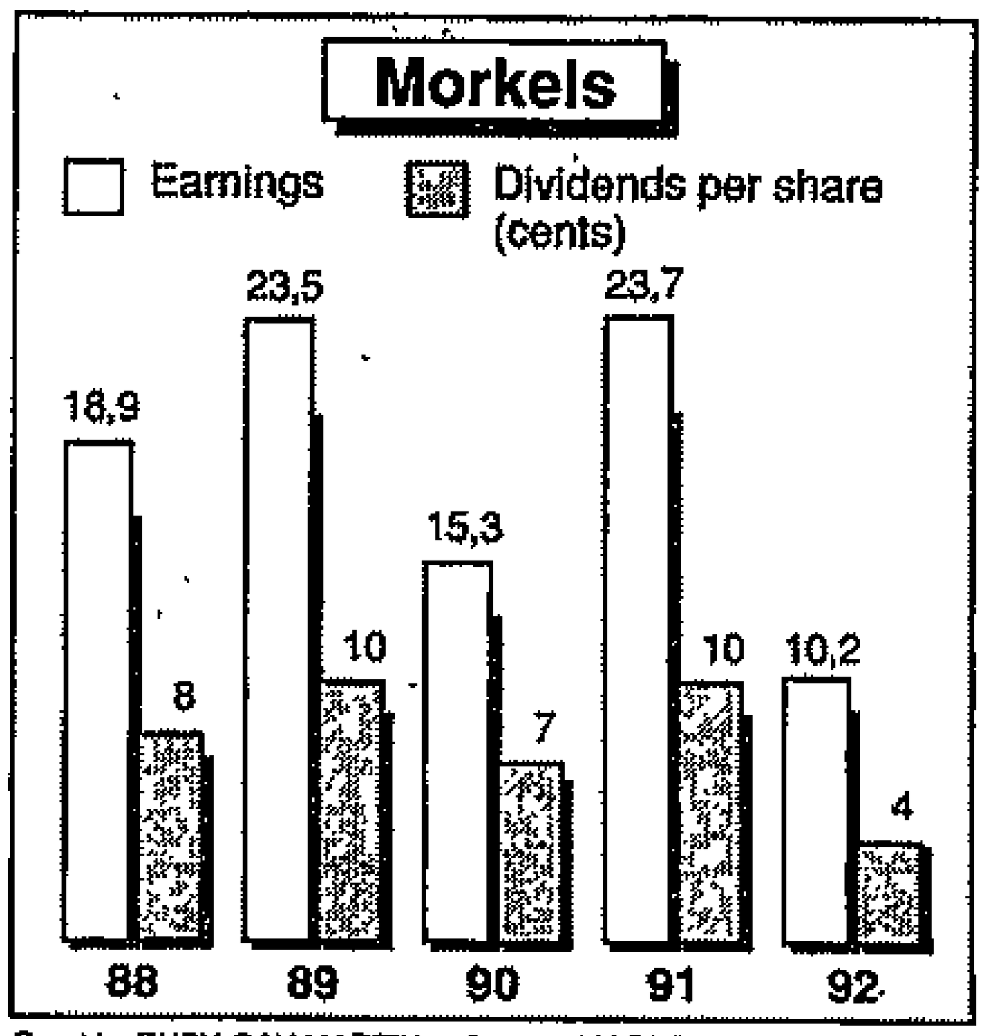
In the year to end-March 1992, Morkels' sales advanced by 14,6% to R307m. But reduced merchandise margins and a high fixed cost base contributed to a 25,3% decline in operating profit to R43,8m (R51,3m).

Borrowing to fund store expansion to take advantage of the next upswing increased the interest bill by 70,6%, and attributable profit plummeted by 55,6% to R4,2m (R9,5m). Management was aiming at attributable earnings of R10m for financial 1992.

Chairman Riaan Pauw said in the 1992 annual review that he endorsed management's view that it had contributed to the shortfall in performance by pursuing long-term strategies at a time when the focus should have been on dealing with more immediate problems in the marketplace.

MD Carl Jansen said the reversal of Morkels' profitability justifiably gave rise to the view that errors in judgment and timing had exacted a "savage" price on the company.

Jansen said the company's 56% decline in earnings was linked to the scale of operational expansion initiated during the year. In the year to March the group's Morkels chain was extended by five stores to 94 and the Total Sports chain by 12 stores to 37. A sports distribution channel Ajay was bought during the year.



Graphic RUBY-GAY MARTIN Source MORKELS

Funding

The growth, which represented a threefold increase over the average expansion rate achieved in the preceding four years, had distorted performance and investment ratios.

Pauw said the increase in working capital resulting from the exceptional growth had placed further strain on already unsatisfactory balance sheet ratios. Funding expansion with borrowings had resulted in an uncomfortably high gearing ratio of 165%, underlying the need to address the company's permanent capital structure. However, a rights issue would not be in the long-term interest of shareholders.

In the directors' report, it was disclosed that Morkels had ceded its debtors book to its major bankers as security against their loans. In terms of the agreement this cession would automatically fall away once gearing fell below the 100% level.

The company was pursuing a financing structure which went beyond the current concept of joint finance companies. Until such a strategy was in place, the company would continue to retain all assets on the balance sheet.

DIAGONAL STREET

Shares move in narrow range in directionless JSE trading

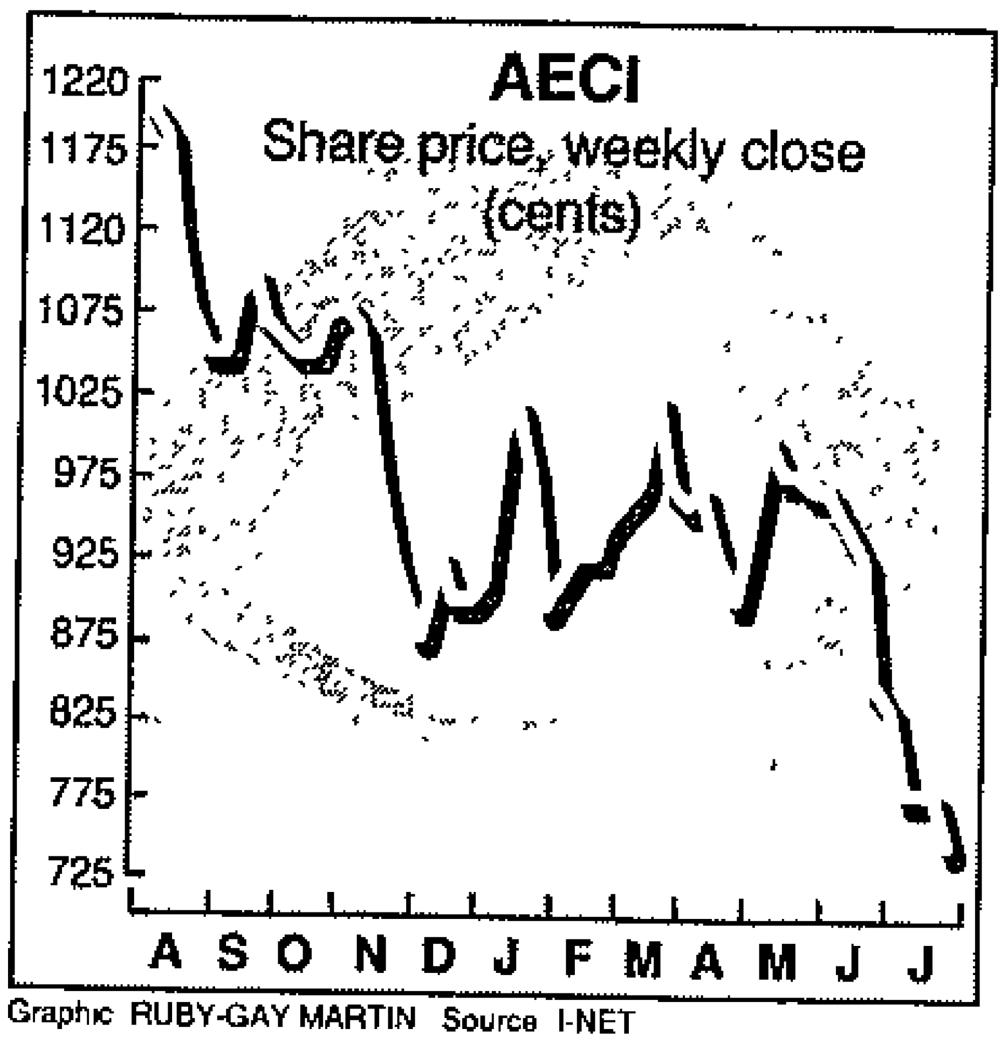
THE market lapsed into limbo in directionless trading yesterday with little institutional buying and limited interest in golds as the metal's failure to build on Monday's gains prompted nervousness among investors.

Steady overseas equity markets after Monday's tremours helped keep most share movements in a narrow range and the JSE overall index closed eight points down at 3 429 with losses outnumbering gains by 93 to 36.

The industrial index slipped one point to 4 213 and the all gold index fell 28 to 1 121 points.

But DE BEERS edged up 25c to R78,50 after tumbling 4,5% on Monday on concern over diamond sales this year.

"The market's going nowhere. There is no buzz and very little direction with few sellers and indifferent buyers," a dealer said.



Graphic RUBY-GAY MARTIN Source I-NET

Gold recouped early losses to trade above $358 after falling in sympathy with platinum as US fund managers offloaded the metal on news of a Japanese palladium-based auto catalyst. The metal shed more than $9 to trade at $379 in early New York dealings.

RUSPLAT held steady at R80 but IMPLATS shed 100c to R50, while MESSINA fell 25c to a new year low of 125c. Messina was at 825c a year ago.

The downtrend of golds was led by HARTIES which fell 6,7% or 100c to R13,75. WINKELS, at R53 a year ago, shed 150c to R31,50 to approach its year low of R31 and DRIES fell 75c to R43,50 after touching a new year high of R45,25 on Monday.

Marine diamond exploration group BENCO gained a further 17% or 8c to a new high of 55c to bring its rise to 71% so far this month.

The group confirmed yesterday that Australia's Broken Hill company was one of 10 parties considering a possible interest in the group.

Market sources said the other parties included De Beers and a Canadian company. Benco has seven concessions on the west coast, which is rich in diamonds. It also has one of the best diving operations.

Turnover on the market was boosted by large parcels of shares changing hands. SOUTHERN led the pack with shares worth a total of R11,7m, followed by ADCOCK with 100 000 shares worth R6,1m traded in one deal at R61 each, 50c below the ruling price.

Other large parcels changing hands included PPC, FIRSTBANK, LIBERTY RICHEMONT and REMGRO, worth a combined total of nearly R23m.

ISCOR continued its steady decline to new lows, dipping 1c to 118c, while DORBYL gave up 200c to R21 which is closer to its year low of R15,50 than its high of R32.

AECI eased 30c to a new year low of 750c in the chemical sector. This represents a decline of nearly 43% from the year ago level of R13 and does not augur well for results to be released shortly.

AECI subsidiary CHEMSERVE reported lower earnings for the first time in nearly a decade but the dividend was maintained. The shares look set to test the January low of R39,50 after rising to a peak of R47 in June this year.

Investment trust TEMPORA eased 50c to a new year low of R15 despite reporting good results after a hefty increase in shares in issue.

Publishing group PUBLICO accelerated its recent uptrend with a surge of 20% or 30c to a new high of 180c. This represents a rise of 140% from the September low of 75c. Parent PUBHOLD has risen from a low of 45c last August to the current level of 160c.

The deal of 900 000 Publico shares involved a reshuffling of the Shapiro family interests wih the purchaser a major institution.

RAINBOW was a weak spot in the food sector as the shares continued to retreat from the February high of 550c. The price eased 20c to 370c. ROYFOOD gained 75c to a new high of 850c on talk of a deal with Del Monte Europe.

Engineering group GIC rose 50c to a new high of 800c in further reaction to its acquisition from the UK controlling shareholders by management and Firstcorp. But ED L BATEMAN eased another 25c to 525c, surpassing its year ago low.

MCARTHY was steady at 430c and PREFCOR eased 10c to go back to its March low of 320c on news the two groups planned to merge their retail operations to create a new group with market capitalisation of about R900m.

Electronic share AUTODEK made the largest relative gain of 39% as the shares recouped recent losses with a rise of 8c back to last week's level of 25c. Construction group BSI registered the largest loss of 87% as the shares shed 7c to 1c.

MERVYN HARRIS

Financial services arm outperforms its competitors

B/DAY 22/7/92. (58)

SEEFF Trust, the financial services arm of the Seeff Group, operates in the retail property syndication market, MD Mike Flax says.

"Property syndication is suited to and is in demand by the market and has helped fuel growth in the investment area. While Seeff Trust was originally started for property syndications and life assurance, it became necessary to form two separate companies," he says.

The company has outperformed its major competitors over the past year with sales of more than R100m being achieved on the back of 3 000 new investment clients.

While market conditions have been tough over the past two years, sales grew from a zero base to R10m in the first year and R100m last year.

A number of highly qualified people are employed and the staff complement now stands at 50 from four initially.

The Transvaal operation is a branch of the Cape Town head office and concentrates on product development and marketing management. A Durban branch will open on August 1, he says.

"A major thrust of ours is to use independent brokers and we have some 1 000 nationally. This is the future direction as these brokers have their own loyal existing client bases," Flax says.

The goal is to become recognised as a credible investment house that provides a broad range of products. Future growth will focus on fund management with a bias towards becoming listed property fund managers.

The group is looking at bringing guaranteed capital fund management to the market, as well as an equity portfolio management service.

On the syndication front, Seeff Trust is looking at three major redevelopments — in Durbanville, Verwoedburg and Cape Town.

"We believe the redevelopment must be financed and completed before the property is syndicated, while guarantees need to be put in place to cover projections," he says.

Investors now have a far better understanding of capital structuring and are aware of the importance of location. While syndication involves a lot of trust, a code of conduct and strict disclosure requirement are being mooted.

Investors are looking for high yielding, problem-free investments and are moving towards simplifying their portfolios. The syndication target market is the 50-plus age group and pension fund investors.

The property market tends to offer less volatility than the share market and yields are traditionally close to fixed deposit rates, but property investment also offers capital growth.

"In addition, banks will extend loans against property syndication investment. We are projecing about R120m in new business this financial year, some of which will be in syndications and some in other projects.

"We are also looking at putting together a fund of a couple of hundred million rand consisting of properties held by existing clients and institutional portfolios. This will be a Cape-weighted portfolio listed on the JSE and existing owners will get a shareholding according to their interests," Flax says.

The investment market is recession proof as both retiring people and institutions have money that needs to be placed.

The ratio of investors is presently 70% individuals to 30% institutions, but this is expected to shift more towards the institutions as they have come to realise the liquidity is a lot better than they ever expected, he says.

whole page But photocopy for additional categories

Seeff

(58)

Absa group takes 25% equity stake

BDAY 22/7/92

THE Absa group has taken a 25% equity stake in the Seeff Organisation in recognition of its potential, says Absa group consultant: strategic planning Clive Brummer.

"We already had a sound relationship and the equity move was concluded to formalise this.

"Seeff represents a source of bond applications and Absa is presently working on improving the efficiency of its bond service. The support of groups like Seeff greatly contributes to providing clients with a better service," he says. (58)

The banking group has taken equity in a few companies it has felt has good growth potential and which could become national players. Seeff is the right size and has the right management to achieve this.

"We took a minority equity stake in the Seeff Organisation as we believe that for the company to perform at its best, management must retain control and be allowed to exercise its entrepreneurial skills," Brummer says.

Absa has seen a good flow of bonds from Seeff Residential Properties. However, the bank continually needs to provide a superior service to attract the business.

Absa is not looking to increase its equity stake in the group, although Seeff is performing well in comparison to some of its competitors.

ANC land policy deters farm buyers

BDAY 22/7/92 (3) Gen (58)

ANC statements on the redistribution of agricultural land, and the tough economic climate, have created severe problems for that industry, says Seeff Agricultural Division manager Jan Hofmeyr.

While the company sold 30 farms worth about R30m last year — six of them to foreigners — only a single farm has been sold to an offshore buyer this year.

"However, business is picking up from local buyers and we are seeing a lot of interest from Transvaal buyers. Political uncertainty is seeing many people relocating from the Transvaal to the Cape, where they perceive the situation to be less tense," he says.

The division is looking forward to doing good business once the political situation is settled as the western Cape is one of the most sought after areas by local and foreign buyers.

The Paarl-based agricultural division was started five years ago from scratch.

There are eight staff members who cover the area from Heidelberg to Lamberts Bay and Clanwilliam.

"Selling a farm is far more difficult than selling a residential property. You are selling a way of life, business and home," Hofmeyr says.

While the accusation that foreigners were buying up SA's heritage had some validity in the past, farms now have to be bought by commercial rand.

Offshore buyers generally plough large amounts of capital into the farms, making improvements and creating employment.

BHP report boosts Benco

BENGUELA Concessions' shares were up 17% in mid-afternoon trade yesterday following a report confirming the marine diamond exploration group was talking to Australia's Broken Hill Proprietary. (216)

Benco chairman John Gurney said BHP was one of 10 parties showing interest in investing in Benco's two deep-water concessions, bought for R3,4m in April from Ocean Diamond Mining. BDAY 22/7/92

"But there is no deal in place and no figures have been worked out," he said.

Analysts said Consolidated Diamond Mining was also interested.

Benco shares were up 8c to 55c yesterday from 15c at the beginning of April, taking the gains to 267% for the period. — Reuter.

Residential division punts its services

BDAY 22/7/92 (58)

ONE of the strengths of Seeff Residential Properties in the Transvaal is that it believes in advertising and marketing and puts a lot of money into this, says MD Bearnard O'Riain.

The company was formed in June 1991 through the acquisition of O'Riain Estates and several other agencies. It has advanced more rapidly than expected, with sales over the past year increasing from R9m a month a year ago to over R20m.

"We achieved record sales of R25m in April, which was bettered by June's R32,7m. This continued improvement is largely due to a lot of hard work and the fact that the merger brought a lot of top-level agents into the group, in addition to our existing high achievers," he says.

The number of agents employed has risen from 50 to 150, while the number of branches has increased from four to nine, comprising seven in the greater Johannesburg area and two in Pretoria.

Sales in Pretoria have grown from R8m last August to R5m in June. Despite the tough market conditions given the protracted economic recession, the company has gained market share.

"This growth is due to a well motivated management team which has responded well under the innovative, stimulating leadership of chairman Lawrence Seeff. We plan to grow our agent base to 200 by the year-end and 250 by mid-1993," O'Riain says.

This year will primarily see the group consolidate and grow existing branches but if an excellent new opportunity presents itself, this will be acted on.

Seeff Residential Properties has the infrastructure and management in place to take advantage of the economic upturn and its first priority is to offer the best service in the market.

"Once this is achieved, we will then concentrate on becoming the biggest. Our Transvaal residential operation is already bigger than Cape Town. Turnover is expected to grow further and we exercise lean, tight budgetary constraints.

"One of our strengths lies in our diversity, with our operations covering both middle and upper income areas. Every week we visit the branches and look at their standards and sales and the ways these can be improved," he says.

"If we see agents working hard and well, but not achieving any sales due to market conditions, we retain their services as they remain an asset to us. Our people have been our single greatest asset in the past and will remain so in the future," he says.

Foreigners put off by politics, violence

BDAY 22/7/92 (58)

OFFSHORE interest in local residential properties has dropped off substantially due to political instability and violence.

Seeff international properties director Carmella Seeff says that after Nelson Mandela's release interest was brisk and had been expected to continue.

"We saw a lot of inquiries for farms and holiday accommodation along the Atlantic seaboard. We sold over R100m worth of properties after Mandela's release and believed that would continue as SA moved towards a political solution.

"However, foreign investors are now still looking at our properties but definitely adopting a wait-and-see attitude. They are concerned about the security and reurn on their investment and are not prepared to buy until the situation has improved," she says.

A more concrete ANC policy on foreign investment, the resumption of Codesa talks and a more positive mood would see renewed foreign interest.

Regular tours of prospective buyers are brought out from London, Germany, the Far East and the US.

The London office has received more than 300 inquiries from prospective immigrants, who are unable to sell their present homes due to the tough English market.

"We are looking to move into the investment field rather than the residential market in the UK and are talking to two of the largest London-based English real estate firms," she says.

Trade missions are being opened in Pretoria and Cape Town, but tend to rent residential properties rather than buy them. Speculation in residential property by foreign buyers has also dried up as it is now difficult to rent the property, resulting in the investor receiving no return on his investment.

Interest is still centred around Cape farms and several spectacular sales are concluded every year.

Tenders pour in from Columbus

EDWARD WEST

COLUMBUS had sent equipment tenders to all industrial sectors involved in the multibillion-rand stainless steel export expansion project, CE Fred Boshoff said yesterday. BDAY 22/7/92

The tenders are set to close by the end of September 1992.

Boshoff said although it was premature to price the value of the tenders, the fact that they were being called for pointed to how serious Columbus was about going ahead with the joint expansion venture between Anglo American plus Gencor subsidiaries Highveld Steel and Vanadium plus Samancor.

Analysts believe Columbus will formally announce the go-ahead for the project towards the end of July 1992.

The project's aim is to produce 600 000 tons of stainless steel a year with help from expansion of the existing Middelburg stainless steel plant, which was acquired by Highveld and Samancor from Barlow Rand for R500m last year.

Analysts said the expansion would make Columbus the third-largest producer of its kind in the world. About 70% of its production would be exported. Anglo American planned to contribute R1,5bn to the venture.

Boshoff warned there had been much speculation about production volumes and funding. An announcement concerning volumes, funding and other factors such as export incentives was being worked on.

The tenders, the first of which had been dispatched about four weeks ago, involved all major equipment for steel smelting, hot and cold rolling, annealing and pickling, welding and casting plus finishing-line categories.

Boshoff said Columbus had met all criteria necessary for the accelerated depreciation allowance offered by Section 37E of the Income Tax Act, and would soon apply to government for participation in the scheme.

However, in terms of the Act, export benefits such as the general export incentive scheme and the regional industrial development programme may be forfeited.

But the existing Middelburg Steel and Alloys plant, which would provide the base for completion of the project three to four years down the line, operated under normal incentives, he said.

Highveld Steel's shares remained untraded yesterday after nearly two weeks of no trade at 1 275c after coming off its low of 1 017c in May.

Analysts said Highveld's participation in the venture was a deviation from its traditional carbon steel-orientated production and would improve the long-term fundamental potential of the group.

Columbus recently qualified for SABS 0259 accreditation, which will improve its global competitiveness.

Intelligent risk management key to property development

(58) BDAY 22/7/92

INTELLIGENT risk management is the key to successful and profitable property developments, says Seeff Slot Developments MD Mark Slot.

"While we are prepared to develop in risky areas, we structure our risk carefully and never proceed until development costs are covered," he says.

The company was formed in November 1990 as an across-the-spectrum property development company and, while it has good access to prospective residential developments, it is also looking at commercial developments.

Developments are underway in Clifton and Stellenbosch, while a number of Johannesburg schemes are under negotiation. It has two development managers in Cape Town and one in the Transvaal but the Johannesburg market is its first priority, Slot says.

About 36 residential units are under construction in Stellenbosch, which is a niche market with strong demand among students. The project will be complete early next year.

Limit

"We are always looking at prospective deals, but limit the work we undertake so that it can be handled effectively. We have a staff of six and are looking to employ another three over the next 18 months, which will be adequate for the volume of work we intend to handle as we use professional consultants extensively," he says.

Despite the tough economic climate, opportunities still exist, but have to be carefully thought through. The group tends to acquire sites for a specific purpose rather than for long-term use.

"Commercial developments have to be actively chased and we are presently involved in a motor showroom in Rivonia. We have changed the market's perceptions that we are just a residential developer and are now accepted as a commercial developer," Slot says.

While the property market is linked to political developments and unlikely to turn much before the year-end, Seeff Slot Developments operates in select markets and has a number of developments on its books for next year.

Plan to increase homes market share

BDAY 22/7/92

SEEFF Residential Properties aims to become the strongest player in the SA market, Cape MD Samuel Seeff says. (58)

While the Cape residential market is currently a buyers market and reflects difficult local economic conditions, the group has identified areas of growth to concentrate on, he says.

The company has set itself the goal of becoming the strongest residential agency in Cape Town, Johannesburg and Durban.

Growth in the Cape market has been identified as lying in the coloured market where more and more people are becoming white collar workers and either starting to buy homes or upgrade existing property.

"The company employs about 130 agents and we are negotiating with several companies in Durban and intend to take that market by storm.

"While we are going to become a national player, we may franchise some of our operations in certain areas," Seeff says.

Cape Town is considered a safe-haven by many and is seeing a net inflow of people, which has helped the market sustain activity, compared to other regions.

But the protracted economic recession has seen sellers struggling to achieve prices.

"There is still good demand for properties, but only for those that are realistically priced. While buyers are now determining the price, most people are beginning to realise that their home is their biggest asset and are paying more attention to its maintenance," he says.

If there is a rapid political settlement, the upturn in the market will take place very quickly and Cape Town will again take its place as the most sought after area for foreign investors and upcountry buyers alike, he says.

However, should political developments continue to stagnate, there is little chance of an upturn before mid-1993.

BUSINESS Since its inception, the company has achieved impressive track record

Afsure secures Olympic deal

Sowetan 22/7/92 (58)

ECONOMIC EMPOWERMENT A black-owned insurance company has been chosen to handle insurance for South African athletes at Barcelona:

By Joshua Raboroko

A BLACK-OWNED BROKING company is the official insurance consultant for the South African Olympic Team.

At a Press conference in Johannesburg, the managing director of Afsure Pty Ltd, Mr Kehla Mthembu, announced that his company, in association with Louis Volks and Associates, would insure all the 120 participants to the tune of R12-million.

He said the cover will be as follows:

- Death R12-million; R100 000 each;
- accidental injuries R6-million; - injury benefit R500 each a week to cover medical bills;
- R250 000 personal belongings;
- equipment R400 000; and
- R500 for medical expenses;

The cover would last for a year, Mthembu said, but declined to say by how much money the company would benefit out of the transaction.

He would also not release the terms of premiums.

The team, including officials, left the country on Monday night.

The move, the first of its kind, is a major breakthrough aimed towards economic empowerment of a black company in South Africa.

It is understood that this is the second major undertaking by Afsure this month after they handled the three-day Cameroon tour of South Africa for R5-million.

The Cameroon tour was offered to the company by the South African Footbal Association (Safa).

Sources have disclosed that the company would also benefit from the Crystal Palace tour - a move that might add another feature to the black enterprise.

Afsure's director, Mr Gibson Thula ,praised Nocsa for the "wonderful work" they have done to further black economic empowerment."

Mthembu said: "We see the moves as a step in the right direction for our company that is making a success in the insurance industry.

"Since our inception as a truly South African insurance and financial broking company, we have achieved an impressive track record.

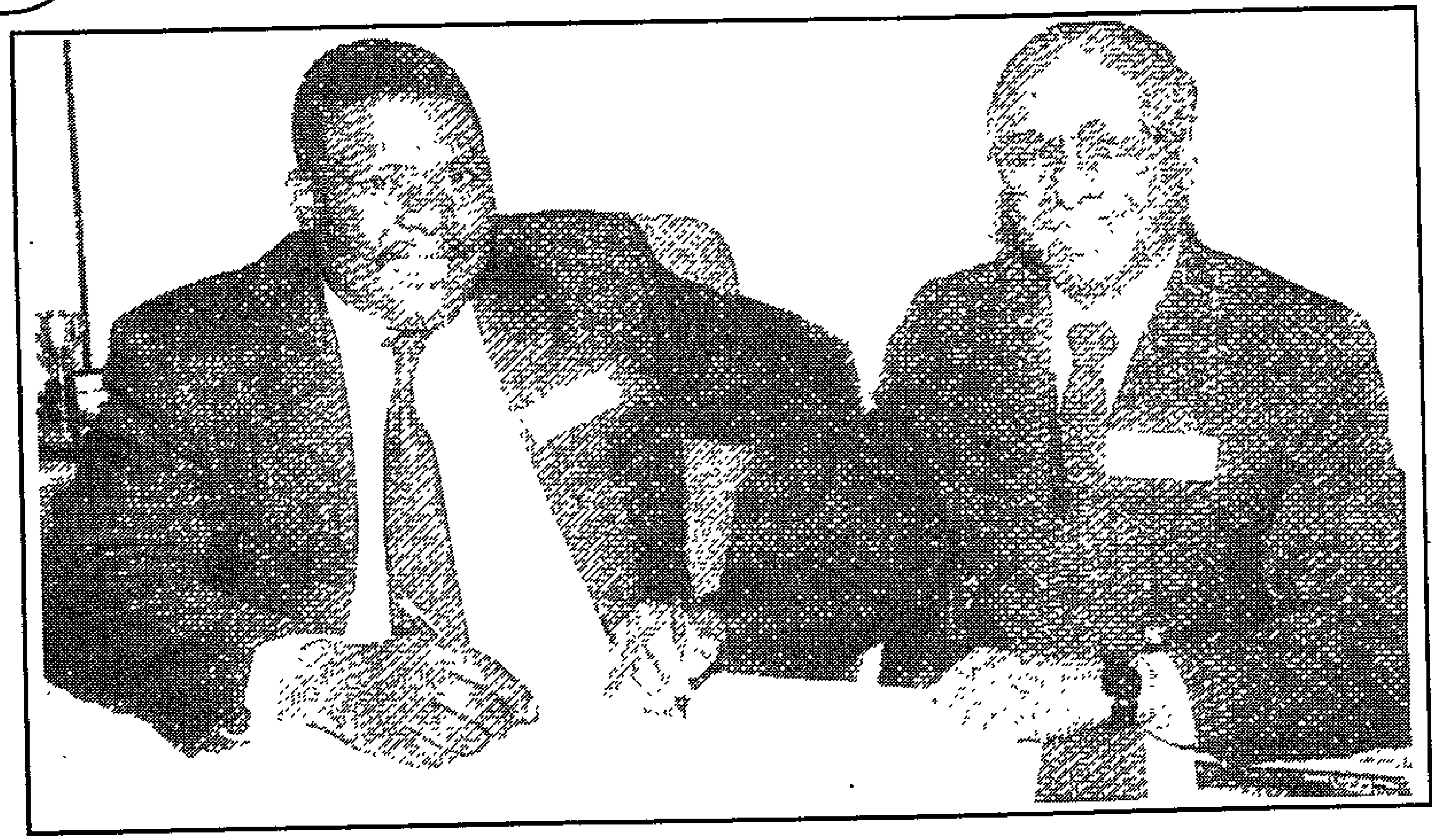
"We consider it part of our mission to assist our South African athletes to reach for gold at the Barcelona Olympics,'' he said.

He added: "We hope this will be an eye-opener to black business to play a leading role in supporting their organisations - political and others - in South Africa. We need to support each other,'' Mthembu said.

Afsure would strive to offer professional services to all its clients as long as it had resources to handle the business, he said, adding, "We are on the right track.''

The president of Nocsa, Mr Sam Ramsamy, said that Afsure was nominated to take the "care of the deal''.

He said that the company was nominated in view of its credibility and "the deal was aimed at advancing blacks in the new South Africa.''



Afsure's Khehla Mthembu and Nocsa's Sam Ramsamy.

Office space planning

PETER GALLI

PROPERTY developers seem to be finally taking note of the glut of unlet office space and cutting back on future developments, latest private sector building statistics show.

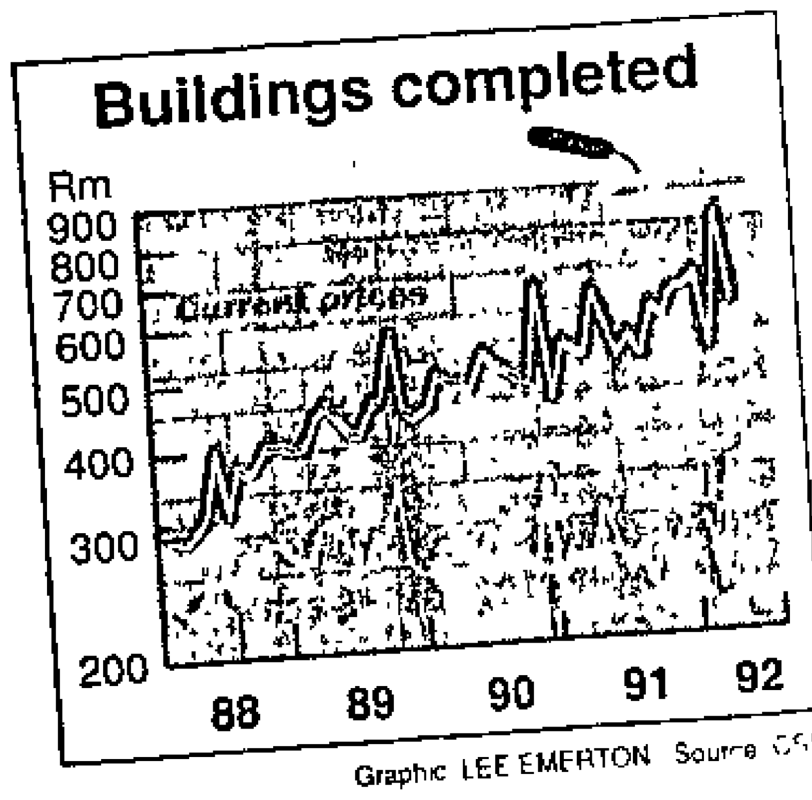
Building plans valued at R3,7bn were passed over the first four months of the year, a 5,3% drop compared with the same period the year before.

Non-residential buildings showed a 35,2% slide in plans passed, while residential buildings and additions and alterations rose 13% and 6,9% respectively.

Property economist Neville Berkowitz said "demand had been wrung out of the economy" and most developers were not undertaking speculative developments.

International experience had proved that developments needed to be tenant driven and developers who disregarded this, such as Olympia & York, had paid the price.

"Institutional players, with their massive cash flows, are generally finding niche markets or developing their own properties. A trend is that they are now buying properties from about R250 000 upwards, which is something they would never do before as these are cost inefficient to manage," he said.



Graphic LEE EMERTON Source CSS

Once again, political uncertainty and escalating crime and violence saw plans for flats and townhouses soar by 55,2% to 3 989 compared with an 11,2% drop to 12 574 in plans passed for dwelling houses. This was an indication of the public's perception of the need for more secure homes and would continue as long as violence and crime escalated.

"This has negative implications for freestanding homes as demand will soften, as will prices," Berkowitz said.

However, existing town houses and cluster homes would see prices rise to compete with new stock becoming available, he said.

The Central Statistical Service (CSS) said large increases were reported in the number of flats and townhouse units in the Witwatersrand (659 units) and Pretoria (362 units).

An analysis of dwelling houses with a floor area less than 81m² reflected

-PROPERTY

Property group spent R2[illegible]

(58)

PETER GALLI

OLD Mutual Properties had spent about R250m on commercial and industrial developments this year, regional manager Anton Bieber said in an interview.

This comprised about R90m for 70 000m² of industrial space and about R150m on 50 000m² of commercial space. BDay 22/7/92

However, no office developments were undertaken before they were at least 75% pre-let, he said.

Old Mutual had let more than 20 000m² of commercial space in Sandton alone since the beginning of the year and negotiated several leases in Johannesburg.

"One has to be flexible when the market goes against you and we have negotiated deals but are not prepared to give space away.

"There were minimum rental levels and the company was not prepared to drop below these or to offer rent-free periods as it was big enough to sit out the recession," he said.

Tenants looked for a stable landlord who was fair when things were bad as well as in boom times. Agents were actively canvassing the marketplace and the company was seeing better leasing activity than last year.

While the Sandton market was currently oversupplied, well located properties were continuing to be let. Rentals of more than R30 m² had been achieved, but most ranged in the R23/m² to R30/m² range in Rosebank and Sandton.

Certain parts of the Johannesburg CBD offered potential. The PAC had signed [illegible]-year lease for [illegible] Anderson Place and consulting [illegible] eers Read [illegible] Voight [illegible] taken 30[illegible] in Swiss [illegible]. Rental levels here [illegible] between R16.0 [illegible] and R[illegible].

The industrial market, which traditionally lagged the commercial market, was performing relatively [illegible] and seeing activity [illegible].

"We [illegible] some excellent land available for future development and are [illegible] to redevelop [illegible] some of our [illegible] existing developments," Bieber said.

If [illegible] the [illegible] supply situation continued to worsen, Old Mutual Properties [illegible] investing in [illegible] alternatives [illegible].

Stocks considers nationwide projects

BDAY 22/7/92

PETER GALLI

THE Stocks & Stocks group is considering a number of countrywide projects, including developing and financing low-cost housing units in certain identified sites, MD Bart Dorrestein says.

"We have a huge number of countrywide projects in the pipeline, but these still need the approval of political parties," he says.

An example of this is the group's offer to develop an area north of Randburg — Cosmo City — for the resettlement of the Zevenfontein squatter community, which will not be underwritten.

A 50m² shell house will be offered, complete with waterborne sewerage, toilet and sink for R20 000 a unit. The company has also offered to finance the sale of units at R178 a month over 20 years, while other options as low as R8 000 or a R75 a month repayment will be offered.

While no decision has been made in this regard, the group is believed to be considering a number of similar projects.

In another development, Dorrestein says work on the R350m Sandton Square development has been slowed down to accommodate Stocks staff working on The Palace hotel at the Lost City.

"When the present hotel project at Sun City is finished, we can transfer most of the workforce to that project," he says.

About 4 000 staff are employed on the construction of The Palace and, except for some local Bophuthatswana labour that will not be moved to the Sandton development, all staff will be retained.

Stocks has an order book of R1,2bn and will be involved in the construction of a "mini town" for Lost City workers. The first paying guests would occupy The Palace on October 15 and the complex was scheduled to be opened on November 15.

The Sandton Square development is intended to fill the void between the civic centre and existing shopping centre and the 22 000m² site is to the north of fifth street.

Immediately to the east lies the Civic Centre and directly to the south and west lie Sandton City and the Sandton Sun Hotel. A total of 2 000m² penthouse office space, 24 000m² of general office space, 3 200m² of banking area and 15 000m² high fashion and speciality retail space will be offered.

"At the end of construction, the Sandton Square development will amount to about R350m and will, in building terms, be as big as The Palace hotel project," Dorrestein says.

Bophuthatswana's first fully private hospital, Ferncrest Hospital at Tlhabane near Rustenburg, was officially opened last week. The 120-bed hospital was built at a cost of R25m by Stocks Construction (Bophuthatswana).

Finance was provided by the Sefalana Employee Benefits Organisation (Sebo) and it is managed by Clinrun. Ferncrest, in which 57 local doctors have a 60% shareholding, lease the premises from the pension fund. Sebo, Stocks and ClinRun hold the other 40%.

Border business knits it's way to success after loan boost

SOUTH 18/7-22/7/92

(58)

By Lynda Loxton

WITH jobs getting scarcer and poverty more entrenched in South Africa, more and more people are jumping on to the small business development bandwagon.

This includes the Development Bank of Southern Africa (DBSA), although some might wonder why it is "competing" with that other state-funded body, the Small Business Development Corporation (SBDC), which is always complaining that it is not getting enough funds from government to do its job properly.

Unemployment is so big and potentially destabilising that everyone who can, wants to get involved in some way, including the DBSA. The bank last year increased its loans to small business support programmes by 31 percent to just over R1 billion.

The DBSA also tends to see itself as a "wholesaler" of loan finance to non-governmental organisations and other groups who then on-lend to small businesses, rather than a direct lender to small businesses.

This wholesale function cuts out a lot of the hassle of dealing with individual loans.

The bank has, until recently, concentrated on small business development in the rural areas, as befitted its original role, through the homeland development corporations. With political change, it has now also started to work with the large number of non-governmental organisations active in the field in the urban and rural areas.

One of these is the Border-based Independent Business Enrichment Centre (IBEC), which last year received a R300 000 loan from the DBSA to support its loan scheme for small businesses.

Established in East London in November 1990 with an initial private sector social investment grant, IBEC offers small businesses loans from below R500 to more than R5 000.

After an initial interview, entrepreneurs go through a basic business course and have to pass a test before they are eligible for a loan.

One of the 450 people who have already received loans from IBEC is Ms Xoliswa Kaka. With the help of four knitters, she produces hand-knitted mohair jerseys in a small room in her Mdantsane house.

The jerseys sell for around R250 each and she can hardly keep up with demand.

When Ms Kaka obtains her certificate for repaying her first loan of R1 500 over 12 months, she will qualify for a larger loan. Every time she repays a loan, she receives a certificate indicating her creditworthiness.

In the process, says the DBSA annual report, she is building up a credit history which will stand her in good stead when, one day, her business is in need of more than a micro-loan and she will be advised to approach the formal banking system.

The five IBEC field officers visit their clients regularly, provide business advice and check the record-keeping of the loan recipients while encouraging them to make regular repayments. IBEC has had less than a two percent default on repayments.

KNIT ONE: Xoliswa Kaka and her helper show off their wares

Banking group fails to prevent annual meeting

(58) Arc 23/7/92

LIBBY PEACOCK
Supreme Court Reporter
and Business Staff

SPARKS are set to fly at Boland Bank's annual meeting in Paarl today following an attempt by Amalgamated Banks of South Africa (Absa), South Africa's largest banking group, to prevent it taking place.

In an urgent application to the Supreme Court yesterday Absa, which has a 9,7 percent shareholding in Boland Bank, sought an order postponing the meeting.

But the meeting is going ahead, as no order was granted and the matter was postponed indefinitely.

Absa, which has been trying to draw Boland Bank into takeover discussions, also sought an order declaring that one of the articles of association of Boland was in violation of the Companies Act.

In an affidavit Absa chief executive Mr Petrus Badenhorst said various resolutions would be considered at today's meeting and, if deemed fit, passed.

The key issue would be the voting for the allocation of new redeemable cumulative non-participating preference shares.

He claimed article 53 of the articles of association was invalid and conflicted with the Companies Act.

Absa staff cuts could reach 4 400

BDAY 23/7/92

SHARON WOOD (58/81)

ABSA staff cuts could reach 4 400 during the group's rationalisation process, sources close to the bank said yesterday.

Absa human resources group executive Petrus Claasen said the staff complement had been reduced by 1 570 by end-July and he expected this number to reach 2 500 by end-September. Therefore, by end-September the staff rationalisation process would be only 60% completed.

Absa CE Piet Badenhorst said the rationalisation process was on schedule and he was happy with progress. He said there was no official target number for staff cuts.

Staff reductions have also led the group to vacate some of its rented office space.

Anglo American Property Services (Ampros) chairman Gerald Leissner said Absa had moved out of its rented space in the African Life building. The group was still paying rental because the lease ran for another three to four years, he said.

It is believed that the bank has moved out of other premises as well.

Leissner confirmed Absa would be negotiating upcoming leases on office space. In addition, he also expected movement out of retail space.

Ampros office leasing manager John Meynard said there had been a lot of movement by Absa, which was a part of its reorganisation, but that this had not affected Ampros.

R3-m misappropriated by agents

By Frank Jeans (58)

There has been a big increase in the misappropriation of trust money by agents in the real estate business.

At its recent claims meeting the board approved claims totalling R775 000 against 50 agents.

Andrew Harrison, the board's manager, says: "There is obviously a close connnection between the poor economic times in which we are living and the misappropriation of trust monies in our industry."

The board's latest figures shows that claims paid out in the first six months of this year totalled R3 million, compared with R1,3 million for the same period in 1991.

STAR 23/7/92

Alarming

"This is an alarming figure, but we are happy that the public is being protected by the board's fidelity fund and that criminal action is implemented against these agents in all cases."

Ninety-five percent of all claims were made against registered estate agents.

Only five percent of all claims were rejected by the board because they were not within the board's jurisdiction.

"We actively seek to secure convictions by the courts in cases of misappropriation of trust funds," says Mr Harrison.

Board accuses estate agents of stealing

PETER GALLI

(58)

MISAPPROPRIATION of money held in trust by estate agents is soaring, the Estate Agents' Board reports.

The board also expressed particular concern yesterday at the sharp increase in misappropriations by black estate agents.

Nevertheless, the total value of misappropriations by whites exceeded that of black agents. At the most recent meeting of the board's claims committee, approval was given for payment of claims totalling R608 000 against 14 white estate agents, compared with only R167 000 against 36 black agents. BDAY 23/7/92

Board manager Andrew Harrison believed the rise in misappropriations was closely connected to current economic difficulties. "In short, agents are stealing like crazy and the unsuspecting public continues to be taken unawares. Unfortunately, the crux of the problem is that it is too easy to register as an estate agent."

In the first half of 1992 the board's fidelity fund paid out claims of R3m, against R1,3m for the second half of last year. The fund is financed from interest earned on deposits on home purchases and flat rentals which are not claimed by estate agents' clients. At present the fund totals R90m.

The board wanted to make it more difficult to enter the profession, but faced opposition from those who believed it might prevent blacks becoming estate agents.

The board would look at alternatives it had to reduce such thefts.

"The increase in claims is a sign of the times as agents see sales volumes drying up yet still need cash flows," Harrison said.

While the board sought to secure convictions where trust funds were stolen, most of the agents had disappeared and were difficult to trace. Only 5% of all claims were rejected by the board as they fell outside its jurisdiction, he said. The board was also liable for the payment of claims even if an agent was not registered.

Attorneys Fluxman, Rabinowitz, Raphaely, Weiner partner Ivan Oshry said buyers had the option of placing their deposit with a lawyer of their choice.

BUILDING SALES 58

Checking the facts

FM 24/7/92

Seeff Trust MD Michael Flax has responded to rumours that Seeff stands to make a healthy profit through its latest Verwoerdburg Shopping Centre syndicate. The complex, to be syndicated for R17,75m, was said to have been acquired for roughly R12m from Pangbourne Properties.

But Flax says: "You merely have to check the transfer document when it comes through in October to see that we paid substantially more. We are bound, however, not to disclose the sale price."

Pangbourne acquired the property in 1986 for around R8,5m. "Therefore," says Flax, "a rumoured R12m sale is out of line if you take into account the fact that Pangbourne has spent a few million rands on the building since it acquired it and the value of the property has appreciated significantly over a six-year period. Like Pangbourne, we have also spent a substantial amount to complete the refurbishment."

Flax adds that besides these costs, more expenses are incurred bringing a building to syndication, including letting activity.

The current syndication, the first in which the group chose not to underwrite the placing, has been well received, with roughly 40% of the paper already taken up. Though Seeff normally underwrites its syndications, Flax says the Discount House Merchant Bank underwrote the Verwoerdburg syndication "due to the development's size."

The 13 000 m² of retail space in the centre is fully let. Major tenants include Standard Bank, Checkers, Foschini and CNA. Altron has taken 750 m² of the 2 000 m² of offices and the balance is being let, on a short-term lease, to the Verwoerdburg Town Council for its art gallery.

Flax believes the syndicate's investors — mostly individuals, small pension and provi-

continue →

Flax . . . *squashing rumours about his syndication*

58

dent funds, as well as family-type investment trusts — have been liquidating their equity positions, moving over to property investment. He reckons this explains why the placement has been successful despite the current political instability.

Explaining the location, Flax says the Seeff group, along with other property developers, has identified Verwoerdburg and Midrand as growth points — indicated by the flourish of activity in these regions.

The complex is a suburban one in Lyttelton, about 2 km from the Verwoerdburg lakeside development. Roughly R1bn has been invested by the major institutions in Verwoerdburg over the past few years, with the lake development accounting for a significant portion.

Pangbourne, a listed variable loan stock company, acquired the building in line with its strategy of buying, refurbishing and disposing of buildings. The Verwoerdburg shopping centre was acquired by Pangbourne in a R16,2m deal together with Durban's 385 Smith Street office block and another Verwoerdburg retail property sold for R3,8m two years ago.

The Durban property is on the market for R10m as Pangbourne moves out of CBDs. Pangbourne's Brian Clarence notes this is one of the last CBD buildings in its portfolio. Proceeds from the disposal will go towards acquiring industrial, retail and decentralised office developments. ■

SAVING (58) (EP)

All academic? FM 24/7/92

There is little comfort for bankers in a research study on savings conducted by Professor Lieb Loots of the University of the Western Cape. In analysing the sustained decline in savings in the fixed interest sector and the concomitant increase in contractual savings with the life offices, Loots finds no evidence that fiscal policy favours the assurers.

Also, he castigates the banks for their inability to service the rapidly growing informal sector and suggests the "system" should be extended to cater for such needs.

Loots observes that the decline in the shares of personal and government saving was compensated by increased corporate saving and provision for depreciation. Since the mid-Seventies, corporate saving consistently exceeded investment by corporations. "Their low rate of investment could not have been as a result of insufficient saving. In fact, as generators of a financial surplus, corporations became net lenders of funds."

This supports the view, says Loots, that the real cause of low investment since the mid-Seventies is not low saving, but a combination of factors which produce low investor confidence — the government's deflationary policies among them. Two of the factors which led to unsatisfactory saving need particular attention, he argues.

"While the financial intermediaries fulfil their traditional role relatively efficiently, they do not seem able to meet the need for channelling saving to the more dynamic, unincorporated or small businesses. New, specialised institutions may have to be developed to take care of this need. This seems preferable to a major restructuring of the financial sector or the assignment of tasks to financial institutions which do not have the capacity to undertake them."

The lack of confidence about future profitability, the most important reason for low investment, he says, needs to be addressed. "Our objective should be to improve the effectiveness of the application of saving by strengthening and extending the financial

Continue →

FM 24/7/92 (58) (EP)

system. This will be easier to accomplish if broad consensus can be reached about the mechanisms the State and financial institutions will have to adopt."

However, Tony Norton, director-general of the Council of Southern African Bankers, maintains that Loots has missed the point. "On current economic criteria of risk/returns, banks have gone as far as — and in some cases possibly further than — they ought to in the light of their imperatives of protecting depositors' funds and promoting shareholders' interests. Initiatives such as a National Community Bank and housing support are receiving the active support of the banking sector."

Banks, Norton notes, contribute just about everything "but their depositors' money which, as trustees, is not theirs to commit to any sub-economic project or risk."

Loots's arguments on contractual and discretionary savings, Norton says, in some ways anticipate the findings of the Jacobs Committee, which is investigating the degree of level playing fields between savings institutions.

Says Norton: "Loots's views on corporate savings and depreciation have to be qualified by the realisation that corporate ploughback or savings are distorted by inflation. The actual cash available to back a non-inflation adjusted ploughback is usually limited." Also, he notes, depreciation expressed on historic cost has to be an unreal expression of savings as "the true cost of replacing an asset in an era of double digit inflation is much higher than historic cost." ■

UNIT TRUSTS (58) (2...)

Turning to cash

FM 24/7/92

Effects of political irresolution are finally working their way through to the market. One consequence is that the unit trust portfolios have shown a marked swing away from holding industrial shares and towards increased liquidity. This reverses the trend

FM 24/7/92 (58) (2...)

FOX

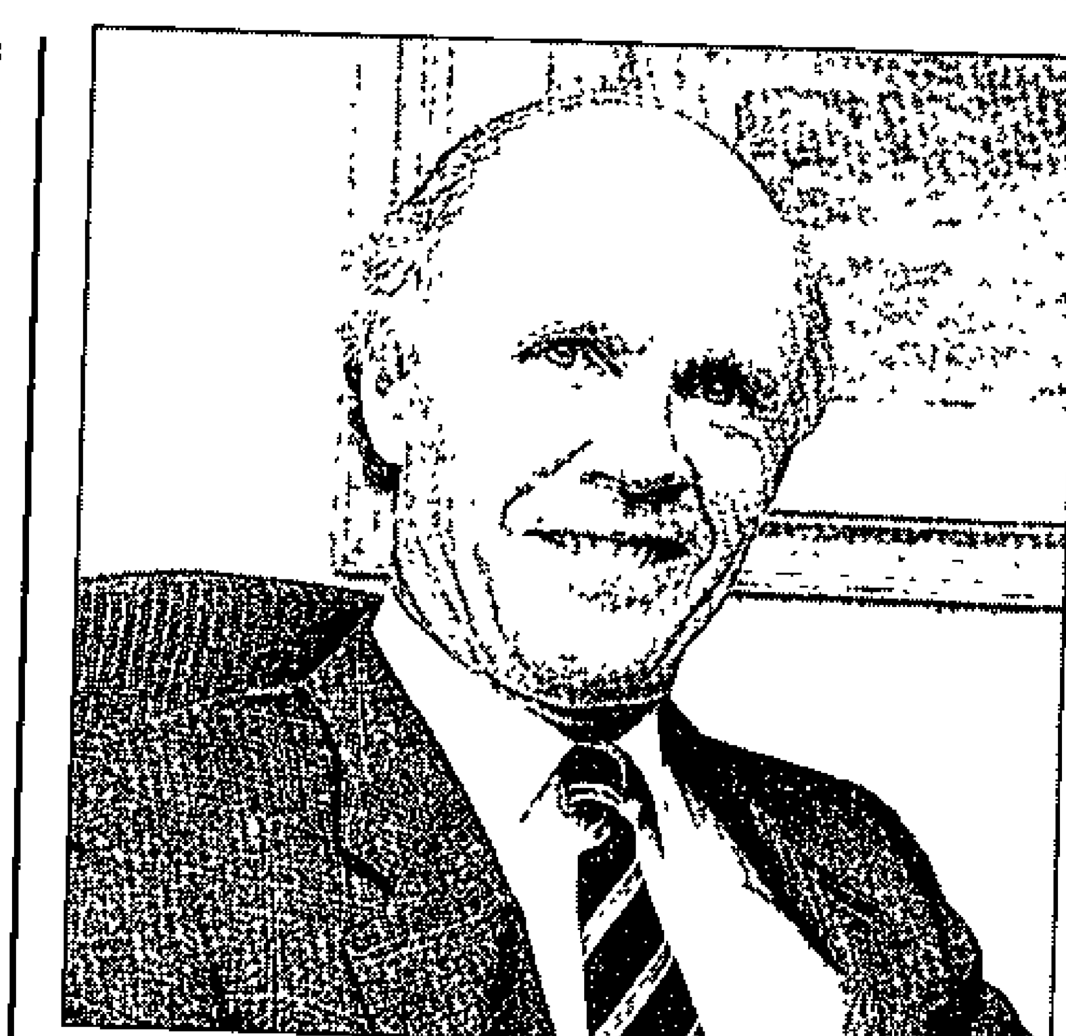
seen over the past 18 months or so, where portfolio managers had been reluctant to sit on cash.

Throughout most of the June quarter, cash flow into the market remained strong, with a record net inflow of R600m. More than 280 000 new accounts were opened and the market value of assets managed by the 46 unit trusts rose some 6%, to exceed R12,8bn.

But Unit Trust Association chairman Clive Turner advises a cautious approach to the equity market in the coming months, again emphasising the long-term nature of this type of investment. This comes after an unusually heavy demand during the past few weeks by private investors to liquidate their holdings or switch them.

Uncertainty in the market has also seen a swing by unitholders towards high-income trusts; this represented a tenth of the quarter's gross sales. Industrial shares still make up the bulk of portfolios, though this is probably due more to capital gains than a continued high level of purchases.

Average annual return from general equity funds, which account for 81% of the industry's assets and accounts, was 18,5% — outperforming both inflation and the JSE All Share index. Best return was achieved by Southern Life's equity fund (24%), followed



Unit Trust Association's
Turner . . . cautious

closely by Syfrets Growth fund (23,6%).

Strategies of the two companies differed in terms of their preference for liquidity. Southern Life increased its cash and short-term holdings to 15% of its portfolio, while Syfrets reduced its liquidity from 15% to 10%. Both marginally increased their exposure in mining finance. Sygro outperformed the industry average of 16,7% on a five-year performance, with a return of 21,7%.

For general equity funds as a whole, cash holdings increased by 18,5%.

Performance by the more volatile specialist equity funds in the year to June ranged from a negative 20,8% by Old Mutual's Gold fund, to a positive 25% by Senbank's Industrial fund. The divergence in results reflects the poor performance of the mining and related sectors of the JSE in the months to June.

There still remains, not without reason, a strong preference for mining financials and other mining shares over gold producers, though with some exceptions. Momentum holds 11% of its portfolio in gold, reflected in its one-year performance, which showed a return of 13%, well below the average.

Sage remains the only unit trust with a foreign portfolio, where 80% of the funds are held in cash and bond holdings.

Five new funds were established in the quarter, providing further choice for investors. In addition, the former Safegro fund was taken over by IGI and the Volkskas equity fund was renamed ABSA.

The broader spread of trusts available to investors reflects the continued sophistication of the industry. The choice ranges from the traditional portfolio under the umbrella of companies such as Commercial Union to the more high-risk investment such as the UAL Select Opportunities fund. *Marylou Greig*

COMPANIES FM 24/7/92

OVBEL HOLDINGS

Still at a discount

(58)

Activities: *Property development and trading.*
Control: *Ovenstone family and directors 32,2%.*
Chairman: *A D P Ovenstone.*
Capital structure: *29,6m ords. Market capitalisation: R16,3m.*
Share market: *Price: 55c. Yields: 11,8% on dividend; 17,8% on earnings; p:e ratio, 5,6; cover, 1,5. 12-month high, 63c; low, 50c. Trading volume last quarter, 77 000 shares.*

Year to March 31	'89	'90	'91	'92
ST debt (Rm)	3,7	10,2	4,8	11,4
LT debt (Rm)	8,9	13,4	10,8	19,4
Debt:equity ratio	0,36	0,61	0,42	0,79
Shareholders' interest	0,33	0,33	0,50	0,43
Int & leasing cover	4	19	n/a	n/a
Return on cap (%)	7,0	6,2	7,9	1,4
Turnover (Rm)	269	322	234	53,6
Pre-int profit (Rm)	7,6	7,6	5,6	1,2
Pre-int margin (%)	2,8	2,3	2,3	2,2
Earnings (c)	17,4	21,3	15,3	9,8
Dividends (c)	7	8,5	8,5*	6,5
Net worth (c)	112	125	113	112

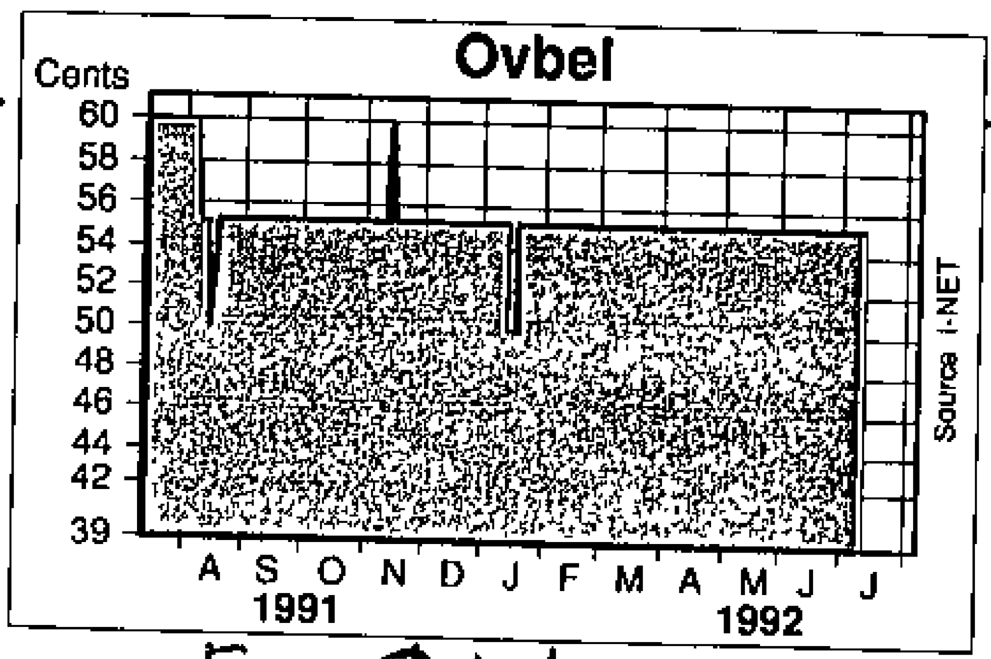
* Excludes special dividend of 12c.

Ovbel's share continues to trade well below net worth and its directors appear to be obsessed with this fact. They have introduced various schemes to try to unlock intrinsic value over the past few years but, no matter how clever or convoluted (*Fox* May 15) these have been, the market has paid scant attention. Ovbel trades at a 55% discount to NAV.

Chairman Andrew Ovenstone says this phenomenon is common in property companies throughout the developed world for three reasons. First, there is the perennial difficulty in achieving adequate returns on capital employed. Second, until sales take place, unrealised gains are not brought to book. Third, there may be a liquidity risk associated with diminishing demand — it is not easy to sell real estate in a recession.

It seems Ovenstone is now attempting to change the emphasis of the group from one that develops its own properties and markets the finished product, to one that will be more of a project manager. Hence he intends to realise all Ovland's property stock over the next three years and use part of the proceeds

Ovbel's Ovenstone ...
changing the emphasis



FM 24/7/92

to fund new projects in joint ventures with other investors.

Should this come about as planned, Ovbel's borrowings and gearing would decline. With debt:equity now at a peak, this is more necessary than ever.

Fiscal 1992 was not a good year. The 1992 figures in the table are not comparable due to the hiving off of Ovcon (*Companies* July 5 1991). The group's original 70% of Ovcon is now reduced to 20%. Excluding Ovcon, operating income declined by 16% to R3,9m.

If, however, pre-interest earnings are used to assess the performance, the picture is worse. Again excluding Ovcon, pre-interest earnings declined from R3,3m to R1,2m. Ovbel has always maintained that interest earned — mostly from instalment debtors — is an integral part of its operating activities and should not be separated. Even so, the trading operations produced considerably less income in 1992 than in the previous year.

Borrowings jumped 85% to R28,9m. The increase was generated because of the belief that an upturn in the property market is around the corner. About R15m was committed to improving the stock of property in anticipation. It is a brave step because the outcome is likely to be somewhere along the scale of the two extremes — boom or bust.

The politico-economic situation is increasingly forcing businessmen into decisions like this. If they don't invest, inflation and a stagnant business climate assures retrogression. If they do invest, and the fears of today translate into reality, business failure is possible tomorrow. Ovenstone's action is a commendable indication of faith in the country's future, but to have borrowed to make the commitment could become a folly.

When the market senses that sort of vulnerability, it marks down a share's rating. In Ovbel's case, it is not so much a reflection on management's capability as a perception of unduly high risk — hence Ovbel's discount to NAV.

Gerald Hirshon

SAAMBOU FM 24/7/92

Chinks of light (58)

Loss-making Saambou has reached a point where belief in the group's ability to recover rests largely on investors' confidence in new management and the path on which it has set the business. There are signs in the 1992 results that Saambou has potential to turn but the R69m attributable loss — with more write-offs likely — suggests the road to recovery will be long and steep.

The banking business, to which Saambou is trying to divert funds from its low-yielding property holdings (*Fox* July 10), has picked up considerably. It showed a profit of R36,5m compared with the previous year's R3,6m. Advances are up 16,2% and insurance funds have nearly doubled to R26,1m. That suggests the core business can be run profitably but Saambou still relies too much on interest-turn business.

The big burden, however, is the baggage Saambou is carrying from the past. Last year's R75,1m abnormal write-off has dented shareholders' funds, which are down 7,1%, to R176,1m, and 13% from 1990, when the first abnormal provision of R28,1m came through — and pushed Saambou's creditable R9,1m operating profit (1991: R24,5m loss) into a net pre-tax loss of R66m.

Reserves are low, leaving little room to manoeuvre if the operating performance continues to improve or the economy picks up. Senior GM Dawie Botha admits funds are low but says Saambou is counting on getting a better return on assets. "The need for extra capital is not desperate now but the need might arise in a year or so." A rights issue could then be considered.

To make that attractive, Saambou will need to improve the quality of its assets. That has become a priority under MD Johan Myburgh, who has been running the group for 18 months and is largely responsible for the spring clean. He has implemented a new marketing strategy by carefully differentiating the market and targeting a broad range of salary earners.

It is not dissimilar to the marketing approach he implemented while CE of Santam Bank. It remains to be seen whether the strategy will work at Saambou, though it has become better focused.

Other skeletons, indentified when new management took over, are still coming through the accounts. Botha says a close examination of the book shows the need to

continue

FM 24/7/92 (58)

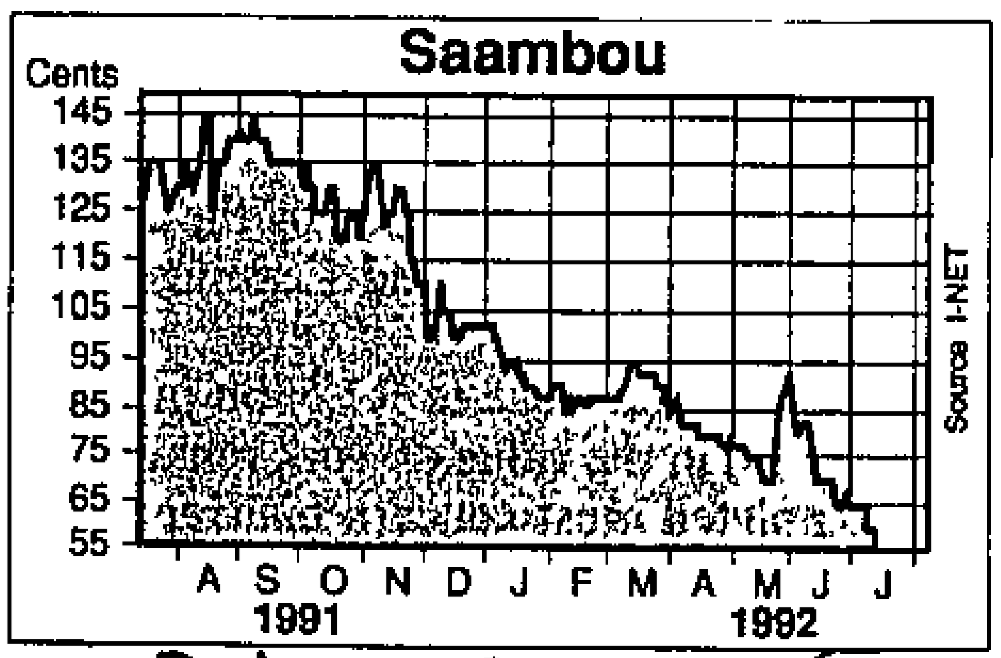
revalue the risk profile of some business. The provision for losses on advances, while down on last year's R35m, remains a high R25,4m.

There is also a post-balance sheet note indicating that claims from alleged breaches of warranties have been made by major shareholder Fedlife against Saambou, in terms of an agreement signed 18 months ago and now being negotiated.

Botha says this agreement, concerning warranties relating to net asset values and bad debts, was signed before the new management took over and before Fedlife had board representation and converted its debentures in Saambou's Planet Finance Corp to become a 32% shareholder. "In theory, Fedlife could have material claims against us, as we could against it, but in view of policy changes since Saambou's new management came in we are negotiating on whether the warranties still apply," he adds.

Shareholders have little option but to be patient. The share shows little indication of improving after its steady slide over the past year. It might still have some way to go before it can be seen as a recovery stock.

Shaun Harris



FM 24/7/92 (58)

Activities: *Deposit-taking institution providing a range of financial services and products.*
Control: *Fedlife 31,8%.*
Chairman: *H A Sloet; MD: J P Myburgh.*
Capital structure: *125,1m ords. Market capitalisation: R75m.*
Share market: *Price: 60c. 10% on earnings; p:e ratio, 10. 12-month high, 145c; low, 60c. Trading volume last quarter, 1,6m shares.*

Year to Mar 31	'89	'90	'91	'92
Total assets (Rbn)	3,15	3,70	4,20	4,27
Total advances (Rbn)	2,18	2,58	3,08	3,58
Int on advances (Rm)	322	472	598	703
Int on deposits (Rm)	426	631	632	624
Pre-tax profit (Rm)	25	29	(25)	(66)
Taxed profit (Rm)	18	25	(27)	(68)
Earnings (c)	21,6	29,6	(26,4)	(59,0)
Dividends (c)	11,5	11,5	6,0	nil

Boland shelves shares plan

BDAY 24/7/92

LINDA ENSOR (58)

CAPE TOWN — Last-minute pressure by major shareholders Rembrandt and Sanlam resulted in Boland Bank withdrawing its controversial proposal yesterday to increase its authorised share capital by the creation of 200-million redeemable cumulative preference shares.

The AGM went ahead despite Absa's urgent court application on Tuesday to prevent it taking place; to declare the bank's system of voting rights invalid; and to prevent a special resolution on the shares being passed. It was postponed indefinitely.

Absa is believed to have designs on Boland Bank and observers say Boland's system of voting rights, which limits each shareholder to a maximum of 1% of the voting rights regardless of the stake held, is a severe stumbling block.

Absa's plans would apparently be prejudiced were the bank to strengthen its capital base by creating preference shares, as other financial institutions would gain an interest in the bank and it would be making it less vulnerable to takeover.

"Absa is trying all ways possible to push Boland Bank into a corner," a source said.

Boland Bank vice-chairman and MD Gert Liebenberg said there was room for

☐ To Page 2

Boland

BDAY 24/7/92. (58)

☐ From Page 1

big and small banks.

He said it had been decided to withdraw the proposal to create redeemable preference shares, to avoid long-term liability on redemption. A preferable route would be a rights issue to create permanent capital. This would be discussed.

It was originally thought conditions were not ripe for a rights issue, Liebenberg said. Boland Bank had no great need for capital at present. However, this could change, especially by year-end when the next phase of the Deposit-Taking Institutions Act took effect.

But Liebenberg was adamant that Boland Bank would not change the system of voting rights contained in the articles of association. Legal opinion was that this did not contravene the Companies Act. He conceded the article served as a protection against takeovers.

Sparks flew at the meeting as the Absa representative voiced his opposition to the articles of association and questioned the legality of Boland Bank changing its preliminary figures and increasing its bad debt provision by R9m in the audited figures.

Liebenberg said that when the preliminary unaudited profit was announced, it was necessary for the first time to give an abbreviated balance sheet, and all profits were included into capital. Two months later the board decided on the basis of a deteriorating economic situation to increase the bad debt provision and strengthen the reserves out of the published profit.

Absa declined to comment yesterday.

Ruling on loan-linked deals

BDAY 24/7/92

PETER GALLI (58)

CONTRACTS involving a sale dependent on the conditional granting of finance could be rendered invalid, following a Natal Supreme Court ruling.

"The conditional granting of finance is common practice in most contracts as the financial institutions need to protect themselves should circumstances change," attorneys Moss, Morris, Mendelow, Brodie partner Selwyn Cohen said yesterday.

The judgement in the case of Basson versus Remini — delivered by Judge J Magid last August and published in May in the Law Reports — held that an agreement subject to the granting of a loan was not enforceable if the granting of the loan was itself subject to the condition that the grantor could withdraw it for any reason.

In this case, the sale of the land was subject to a condition that the buyer was able to raise a loan before December 15 1990. If the loan was not raised by this time, the sale would be "automatically cancelled and of no force and effect".

The buyer applied for a loan from Saambou Building Society, which was subsequently granted. However, the application was granted subject to Saambou's right to withdraw from the loan agreement at any time without furnishing reasons.

Some time after December 15, Saambou withdrew the loan as its valuer, after inspecting the property, was concerned there could be structural defects.

The court held that the contract of sale for the property was accordingly of no force and effect.

Practically, this meant that when an offer to buy something was conditional on a loan being raised, the condition would not be fulfilled if the approval was subject to withdrawal, as in this case, Cohen said.

Most agreements subject to loans could be affected.

"The seller can cover himself by inserting a clause in the contract stating that even if the loan is subject to a condition, once approved in principle it will be regarded as fulfilment of the condition.

"But this still places the buyer at risk as, if the loan is withdrawn, he is then still liable to fulfil his contractual obligations to pay or furnish guarantees by the dates stipulated in the contract," he said.

As the case was heard by a single judge in Natal, the judgment is binding only in cases heard by single judges in Natal and on magistrates countrywide.

Hubert Hosken dip hits HCI

SHARON WOOD (58)

A 50% plunge in the profit of Hubert Hosken, the unlisted insurance broking arm of Hosken Consolidated Investments (HCI), saw attributable profit of the insurance group grow by only 1,8% to R20,08m in the year ended March. The previous year's figure was R19,73m.

However, the group's two listed domestic subsidiaries, IGI Insurance Group (IGI) and Safrican Life Investment Holdings (Saflife) showed healthy growth in attributable income during the same period of 14,8% and 17,5% respectively.

HCI chairman Michael Lewis said the diminution in Hubert Hosken's profits was a result of normal market trends.

"Rates are under pressure and commissions are down, but I am looking for a significant improvement in its performance during the next year. The company is being streamlined and rates are hardening," he said.

IGI turned last year's R9,1m underwriting loss into an underwriting profit of R9,5m and pushed dividends up by 14,6% to 55c a share from the previous year's 48c.

"The IGI group has had a wonderful year in its underwriting account ... we can attribute this to sound management, aggressive marketing and strict control of costs," Lewis said.

Saflife, holding company for the life insurance and pension fund operations of IGI Life Assurance Company, increased earnings by 17,5% to 54,4c a share from 46,4c a share in 1991. BIDAY 24/7/92.

The final dividend rose by 16,7% to 16,7c a share. This compared with the previous year's 15c.

Crendell Investment Corporation, acquired by the HCI group in December 1990, recorded net income of R5,2m in the 15 months ended March and earnings of 22,7c a share — both marked increases.

As a result of Tollgate Holdings repaying an R8,7m loan to Crendell, HCI minority shareholders will receive a total share and dividend benefit of R82,09 for every 100 shares held.

Lewis was very happy with the performance of the recently listed international arm of the HCI group, Amity International, which contributed R1,1m to the group's attributable profits.

Local banks 'face stiff competition'

(58)

CT 25/7/92

Business Editor

FOREIGN banks will move into SA as soon as conditions have stabilised — and provide stiff competition, Hennie Diedericks, operating executive of Trust Bank/Volkskas, said in Cape Town yesterday.

"They will probably concentrate on corporate business at first. And they will be able to give us a hard time, operating on very small margins, because they are international players doing business on a very big scale.

"Although Absa (Amalgamated Banks of SA), is the biggest bank in SA, it is only 200th in size among world banks."

But, Diedericks told a media conference to announce the completed restructuring of Trust Bank and Volkskas, the Absa group will thrive on competition.

"We are going aggressively into the marketplace, offering affordable banking and a range of new products."

He stressed that Trust Bank and Volkskas would retain their separate identities. "Each bank serves a specific market segment and has a strong following of clients. It doesn't make sense to force them together."

But behind the scenes administration was now carried out by Absa, with a centralised computer system which was one of the most powerful in the world, and savings were passed on to the consumer.

"Absa is probably unique in world banking, in having a number of strong brand names in competition with each other but with the same central administration."

No bank takeover

From page1

58 ARGUS 25/7/92

Boland did, however, bend under pressure from the 'big boys' and two vital resolutions that needed to be passed were not tabled. This prevented the approving of a 200 million preference share issue needed to bolster Boland's capital base.

Absa sought, albeit unsuccessfully, an order from the Cape Town Supreme Court to postpone Boland's meeting. Speculation is that Boland's other major shareholders Rembrandt and Sanlam also put the squeeze on the bank not to table the resolutions.

This poses the question of whether Sanlam and Rembrandt will support Boland Bank's independence or support an Absa takeover.

Boland's managing director Mr Gert Liebenberg said Sanlam and Rembrandt's positions regarding the matter were still unclear. He said he hoped Boland Bank could rely on the support of both Sanlam and Rembrandt.

Absa seeks showing on Boland board

CT 25/7/92

Absa does not intend to take over Boland Bank now, this could change in the future.

It was pointed out that Absa must be aware that sentiment in the Western Cape might cause a backlash against it if a hostile take-over were carried out.

However, it was also pointed out that the cultures of Volkskas and Boland Bank were similar — and that Absa has the resources to erode the Paarl-based bank's customer base by cutting charges.

Make use of planning strategy to increase your capital gain

STAR 25/7/92

FOOTSTEPS TO FORTUNE

RICHARD *Cluver*

IF you listen to the campaigns of the unit trust marketers, the path to fortune is the monthly instalment, for with it comes that instant panacea, rand-cost-averaging which, they argue, allows one to ignore market ups and downs. Well yes ...

Consider my long-term graph of the JSE Actuaries Overall Average. It is plotted on a basis of month-end prices which in fact makes it very much a replica of the average "general fund" which is invested in a wide spread of shares.

On to it I have overlain an average line which plots a moving average of the buying price one would obtain were the index in fact the selling price of a unit trust and one were buying into it on a regular monthly basis.

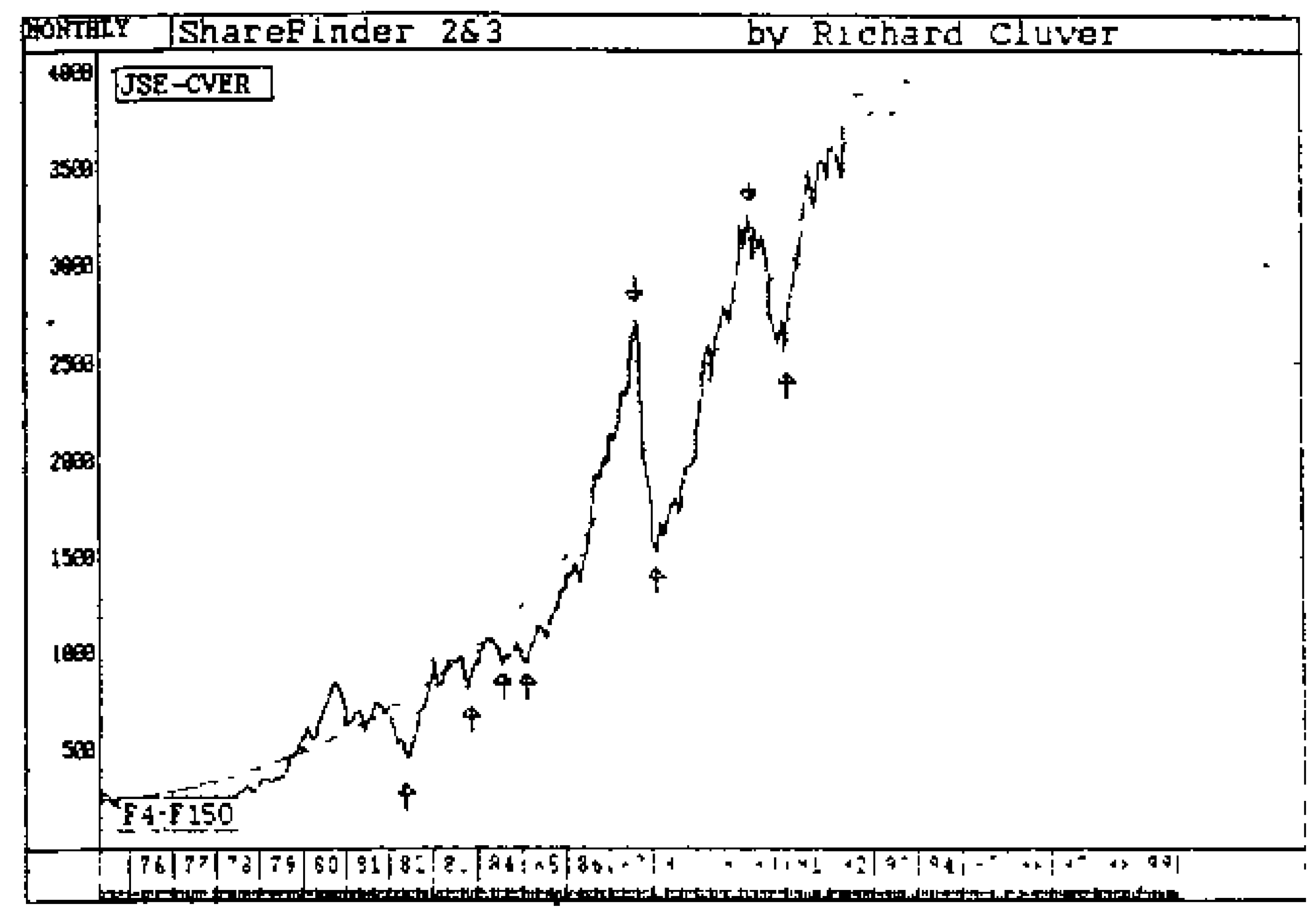
31-day call

Four distinctly different investment strategies are possible. Let us start each one on January 1 1982 and assuming we have R100 a month to invest, run computer models of each one from then to the present.

□ Rand cost averaging:
Unit trust salesmen constantly extol the virtue of investing a fixed sum every month. Had one done so one would have invested a total of R13 000 to date and the current value would have been R33 988. That is an attractive overall growth of 161,44 percent.

□ Averaging at the bottom:
This strategy would have one investing R100 a month in the bank on 31-day call and buying every time the index line cuts below the average line, continually investing R100 a month throughout the time the index is below the average. Once the index line cuts above the average line, one ceases buying units and diverts the monthly R100 once again into the bank call account.

Such a strategy would by now have won you a 188,43 percent capital gain. This strategy is, in other words, 16,72 percent more efficient than rand cost averaging.



□ Buying only at the bottom:
Refining the above strategy, one might save the monthly R100 in a call account and, ideally by using computerised share market analysis techniques, attempt to make lump sum buys at the precise moment when the the market reaches the bottom of each cycle — the points indicated by the bottom line of arrows in my graph. In practice it is very hard to precisely hit these bottom points, but not at all difficult to average in at the bottom by splitting your money into three or four lots and buying at timed intervals when you think the bottom has been reached.

The result of buying in at the bottom and staying in for the rest of the ride would have been a 235,5 percent capital gain. That is, in other words, 45,9 percent more efficient than rand cost averaging.

□ Buying at the bottom and switching out at the top:
It stands to reason that the most profitable strategy of all would be to not only buy in at the bottom, but to attempt to switch out every time the market peaked. Since the unit trusts permit their customers to switch around within their family of funds at an up-front charge of just one percent, it is practical to switch to a gilt fund whenever the market peaks and switch back to a general fund whenever the market hits bottom. In between times one would, of course, continue saving R100 a month in a call account.

The result of this fourth strategy would be a remarkable 585,5 percent capital gain. It would, in other words, be 263 percent more efficient than rand cost averaging.

FundFinder 2

Past experience has taught me that advocating this buy-at the-bottom, switch-at-the-top strategy invariably brings forth criticism from the unit trust industry which, understandably shudders at the prospect of vast numbers of investors simultaneously liquidating their units. Their response has always been that it is fine in theory but it cannot practically be done. I am accordingly delighted to be able to now retort that it can.

To prove it I have created a very simple computer programme, FundFinder 2, which anyone can operate and which tells you precisely when to buy and when to sell.

Next week I will explain how you can pick out market tops and bottoms with considerable accuracy.

□ Footsteps to Fortune is a serialisation of Richard Cluver's latest book "How To Make a Million" which, together with his other titles, "Making Money With The Mutuals" "Investment Without Tears" and "Advertising For Free" is available from The Promotions Department, The Daily News, Box 47549, Greyville 4023. They are priced at R40 each inclusive of postage and VAT. Demonstration disks of his ShareFinder sharemarket analysis computer programmes cost R35.

IGI Life's new angle on RAs

58

STAR 25/7/92

If you thought until now that retirement annuities are a standard package, IGI Life has a new angle on it with its Domestic Provider policy.

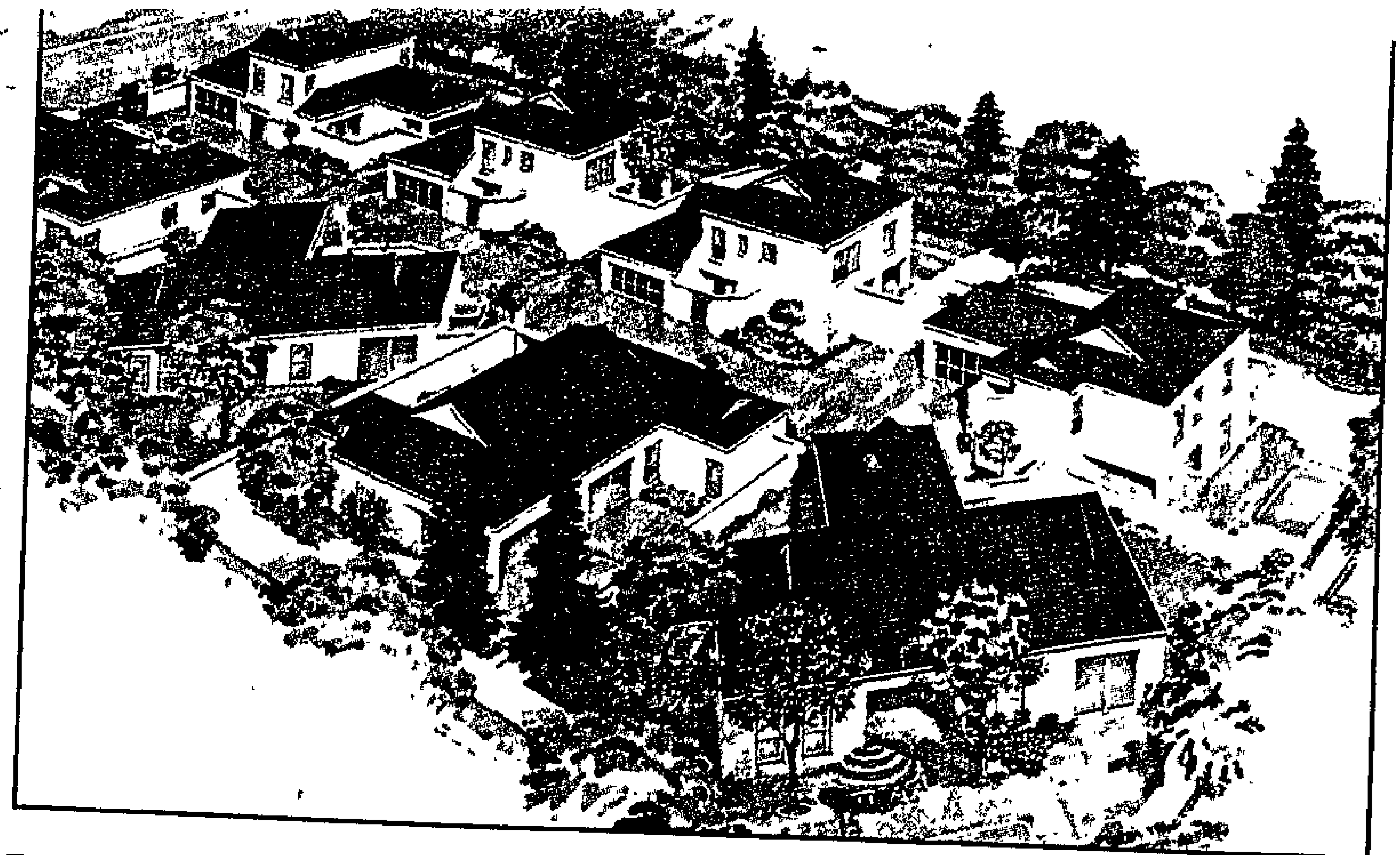
The Domestic Provider, launched last year, is aimed principally at looking after the late life needs of domestic workers, but it can have — and is having — a wider application.

IGI Life's MD, Paul Cushway, says the Domestic Provider may be viewed as an alternative to the standard RA as it can incorporate some of the RA features — notably the post-retirement income — but has greater flexibility in line with the circumstances of the average domestic worker or small business employer.

Among the package's flexible components are the fact that it can be transferred from one employee to another and also contains a provision for access to cash to provide for an employee's emergency needs.

Another important way in which it offers more than the typical RA is that it makes provision for money for retirement as well as funeral benefits and basic accident benefits.

The policy is unique in that it comprises an owner (the employer) and a second life assured (the worker). This means that the employer has a savings scheme held on behalf of the employee and a small amount of life cover, whilst the employee enjoys a range of other insurance benefits.



BEST OF THE BUNCH: Cluster homes, with their lifestyle and superior security, are the rage right now.

Property is seen as top route for capital growth

STAR 25/7/92. (58)

THE relative downward potential of the capital value of a house should make it an attractive investment compared with alternatives.

And if transaction costs, commissions and taxes are ignored, a house has been a better long-term investment from both a cash-flow and capital appreciation point of view than gold, a fixed deposit or even shares.

Strong stuff indeed! And from no less an authority than Absa's latest quarterly review of the property market.

Clear message

For investors there is a clear message, points out Camdon's group MD Scott McRae. Nevertheless there are different avenues of investment in the property sector, and this is the way McRae sees matters:

Conventional residential property: Steady if unspectacular recovery from the doldrums of the past year or two. The lower end of the market is already very active with projects in the R150 000 to R200 000 range selling well and even off-plan.

THE experts believe there are currently fewer risks and greater rewards in bricks and mortar than in any of the current options.

The mid-range properties are also showing signs of renewed buyer interest and sellers are more realistic in their pricing, so there is good upside potential in this market.

The upper end is still soft, however, and buyer sentiment will still take time to catch up with asking prices in spite of the fact that they have declined significantly from the heady days of the late Eighties.

Cluster homes: These are arguably one of the best investments at the moment for reasons of lifestyle and the high security demanded in the current climate.

Retirement villages: Without a doubt an excellent investment, says McRae. There is a shortage of retirement units due to Government interference in normal market mechanisms which has discouraged fresh development.

Building costs have added to the shortages in this sector.

Sectional title flats: These have similar investment potential to that of cluster units.

Leisure property: More often described as holiday homes, this market has enormous investor potential — particularly if the political scenario is sorted out. Already there are distinct signs of new life in this market with South Coast sales picking up well.

Stands: Pure stand purchase is another avenue worth considering, says McRae.

Creative

There are still some excellent stands with sea views available along South Africa's coasts, but these will dwindle and a scarcity factor will begin to influence prices, especially if overseas investors move in.

McRae concludes: "South African property opportunities are opening up to some creative thinking. The market is poised for a resumption of growth.

Cape's sheltered property market 'a good investment'

ST Times (Metro) 26/7/92

THE Cape property market has been sheltered to an extent and enjoys the status of a preferred area of investment, says John Pistorius, manager of the investment property division of Pam Golding Properties, in the company's latest review of the Cape commercial market.

He points out that Cape Town CBD capitalisation rates are lower than other centres, there is an "unrelenting demand" for sectional title properties, flat rentals are escalating by up to 20 percent a year, and inquiries in the hotel and leisure industry are picking up from local and overseas buyers.

(58)

In keeping with other centres, there is an over-supply of office space, particularly in the Cape Town CBD, with current vacancy levels at seven percent.

But, says Mr Pistorius, the northern suburbs have little or no vacant office accommodation and Bellville is Cape Town fastest-growing satellite city, with the lowest vacancy factor in the country. The average new commercial rate in Bellville is R38 a square metre.

MONEY MARKETS by Hilary Gush

Rates ease off as shortage continues steady decline

BDay 27/7/92

MONEY market rates eased last week as the shortage steadily fell from its recent highs. Yields in the capital market continued to decline after hitting 57-month lows at midweek.

By Thursday the shortage was down to July's lowest level at R2,293bn from R2,834bn at the beginning of the week.

Liquidity is not expected to pick up until early August when the month's government spending reaches the market.

Expectations of a further two cuts in the Bank rate this year coupled with keen investor demand for short-term paper saw the 90-day liquid BA rate move down from an earlier 13,8%-14,05% trading range to 13,6%-13,75% on Friday.

Negotiable certificate of deposit rates were also lower towards the weekend with nine-month bills trading in a 13,35%-13,45% band from 13,45%-13,55% at the beginning of the week.

Consumer inflation, which fell to a 13-month low in May, is expected to slow further over the next few months. Nedbank's latest economic profile forecasts a decline in consumer inflation to 12,4% and a corresponding fall in the BA rate to 12% by the end of the year.

Applications for the weekly six-month Treasury bill tender saw the Bank receive R740m in bids for the R150m on offer, at an average rate of 12,68% — 10 points down from the previous week's 12,78%. The average rate on the three-month Treasury bills was little changed at 13,39% from 13,4% the week before.

On the back of steady institutional demand capital market rates fell on Wednesday to lows last seen almost five years ago. A hike in the gold price to a seven-month peak fuelled bullish sentiment.

The yield on Eskom 168 bonds — the bellwether semi-gilt — fell to 14,74% on Friday from 15,14% on Monday. The yield on the benchmark government R150 stock slumped 40 points to 14,89% from 15,30% at the beginning of the week.

Rates on long-dated stock are expected to fall further as institutions readjust their positions and increase their bond exposure at the expense of equities.

Russia plans to treble tax on imports

MOSCOW — Russia would treble a new import tax for most goods in September and levy higher rates on certain luxury items to help pay off its foreign debt of more than $70bn, Foreign Trade Minister Pyotr Aven said last week.

"We have to spend more on debt servicing and less on imports," Aven said.

"We cannot afford to import the things we sometimes import, for example luxury cars and video recorders."

Russia introduced a 5% import tax on virtually all goods on July 1 to curb imports and try to close a yawning gap in the balance of payments. Aven said that from September the tax would be increased to an average of 15%.

"There are some special excise goods, like vodka and Mercedes cars, which will be (taxed) much higher," he said, but did not detail the higher rates.

Aven put the foreign debt at $70bn, excluding debts to ex-Comecon members.

The tax would also help protect Russian industries against foreign competition and could cut an expected surge in unemployment as market reforms begin to bite and unprofitable enterprises are shut down.

Aven said Russia was owed $140bn, mainly by other former socialist countries and Third World states, but not everyone was keen to pay up. He singled out Cuba as one of the worst offenders. — Sapa-Reuter.

'Boycott will hit the homeless'

Sowetan 27/7/92.

58

■ **Prospective homeowners could be left in the cold as a result of the housing bond boycott:**

By Victor Tsuai

THE freezing of bonds by banks and building societies following the call on homeowners not to make payments has resulted in the collapse of some contractors.

And there has been a hostile reponse from some community organisations to the call by the South African National Civic Association (Sanco) for the boycott of bonds from August 1 as part of the mass action campaign.

The feeling is that homeless people will be hard hit.

Banks and building societies have moved ahead by freezing bonds for many black townships before the intended action comes into effect.

Prospective homeowners who obtained bonds in July could be the last if banks and building societies stick to their guns.

According to a weekend newspaper, most major banks, with the exception of the Standard Bank, have announced they were doing away with bond loans because of the violence and the threatened boycott.

The bond boycott is expected to last until business institutions had played "a major role in forcing the government to agree to a constituent assembly", according to Sanco vice-president Moses Mayekiso.

Outdated

A spokesman for the Inkatha Freedom Party (IFP), Suzanne Vos, said that Sanco's policies were outdated.

"These people are actually hurting the very people they profess to help," Vos said. "They need to grow up and look at the needs of the people. It is another pathetic strategy to an unconstructive action.

"We appeal to IFP supporters to pay their bonds because this will benefit other people who need houses."

Dr Nthato Motlana, who spoke on behalf of the New South African Housing Association, said that his organisation was upset that there had been a call for a bond boycott.

"We intend building houses for our homeless members," said Motlana. "There are over 10 million people who need homes. Before we start with our project we will meet Sanco and discuss the issue to see whether we cannot find a solution."

Motlana said the decision was not in the interests of homeless people.

The chairman of the Diepkloof Civic Association, Isaac Mogase, said that as far as his organisation was concerned, residents were free to continue with their bond payments.

"This is clearly a matter beyond our control," Mogase told a meeting, "And we feel that for the moment the choice rests with the residents, most of whom reside in Diepkloof Extension."

Unit trust assets shoot up by 33,5%

BDAY 27/7/92

(58)

ANDREW KRUMM

THE prospect of good long-term returns pushed total assets in the increasingly popular unit trust industry up by a record 33,5% in the year to end-June.

Pretoria University Graduate School of Management's Prof Hugo Lambrechts said yesterday that more than R12,85bn had been invested during the year.

"The industry's popularity with investors has risen vastly over the past seven years as people became aware of the mostly good performances on offer," said Lambrechts. "In the past year alone, the number of unit-holder accounts rose by more than 280 000 to more than a million."

On a short term view, however, the Pretoria University quarterly survey showed that the industry's total assets rose by 5,96% or R723m to R12,86bn in the second quarter 1992. Of that, R600m was the net new investment attracted by the industry, leaving R123m or 1,01% as the organic growth achieved by fund managers. This was less than the 3,0% rise of the JSE's All-Share index during the quarter. And, while ten general trusts beat the index in the quarter to end June, 12 did not, according to the survey's figures.

Responding, Lambrechts cautioned investors not to look to short term quarterly figures for a reflection of investment performance. "Investors in unit trusts would have beaten the index by investing in most general funds over the last one, three or five years to end-June. On a relative basis, investment in unit trusts offers the man in the street the best available return in the longer term."

However, according to survey figures — on a ten-year view — lump sum investors would only have beaten the index by investing in Old Mutual Investors' Fund. On a 15-year view only two funds — Guardbank Growth and Old Mutual Investors' Fund — beat the index.

Lambrechts elaborated by saying "the all-share index calculated for lump sum investments in the survey was loaded against the industry, since its calculation allowed for monthly compounding as opposed to the twice annual compounding used to determine fund performances. The survey of fund performances also included management fees, which detracts from a direct comparison with the all-share index."

In contrast, regular monthly investment in unit trusts would have allowed investors to beat the indices in virtually all trusts

☐ To Page 2

Unit trusts

27/7/92

(58)

☐ From Page 1

and over every period greater than a year.

He advised investors not to be fickle. "The good performances started building in 1977, and, although returns on offer fluctuate cyclically, the long term growth trend in the industry remains good.

"Cyclical fluctuations should not send the serious investor running for cover."

Southern Equity Fund was the top performer for the year, achieving an annual rate of return of 23,82%, followed by the Syfrets Growth Fund (23,18%), ABSA (20,76%) and BOE Growth Trust (20,28%).

"However, over three and five years Syfrets is the undisputed leader with rates of return of 25,34% and 21,43% respectively. In the past 14 quarters Syfrets has headed the list as best annual performer four times. They came second four times, third once, fourth twice and fifth three times. In the same period their assets grew from R102,9m to R626,9m," Lambrechts said.

Absa sees sharp rise in govt deficit

BDAY 27/7/92. (58)

SHARON WOOD

ABSA forecasts a government deficit of 6% of GDP during the 1992/93 financial year, significantly higher than the 4,5% estimated in the Budget earlier this year.

In its latest Economic Monitor, the banking group predicts a 20% surge in expenditure during the year and a 13,8% rise in revenue.

"Should the above estimates be realised, this would leave a deficit before borrowings of R21bn, which is 56% larger than that of the previous year," it says.

This will occur against a background of an economy faring worse than expected, higher inflation and a sharp drop in living standards. Negative growth is expected this year, it says, and the lower turning point in the business cycle may be reached only early next year.

"On the positive side, clearer signs of an international upswing are coming to the fore; the underlying inflation rate is tending lower and the growth in the money supply is taking a relatively favourable course."

In addition, the surplus on the current account could be large enough to finance the expected capital outflow in comfort and still augment reserves. It expects the current account to remain in surplus well into 1993.

Absa differs from those who say the Reserve Bank's restrictive monetary policy has been a failure.

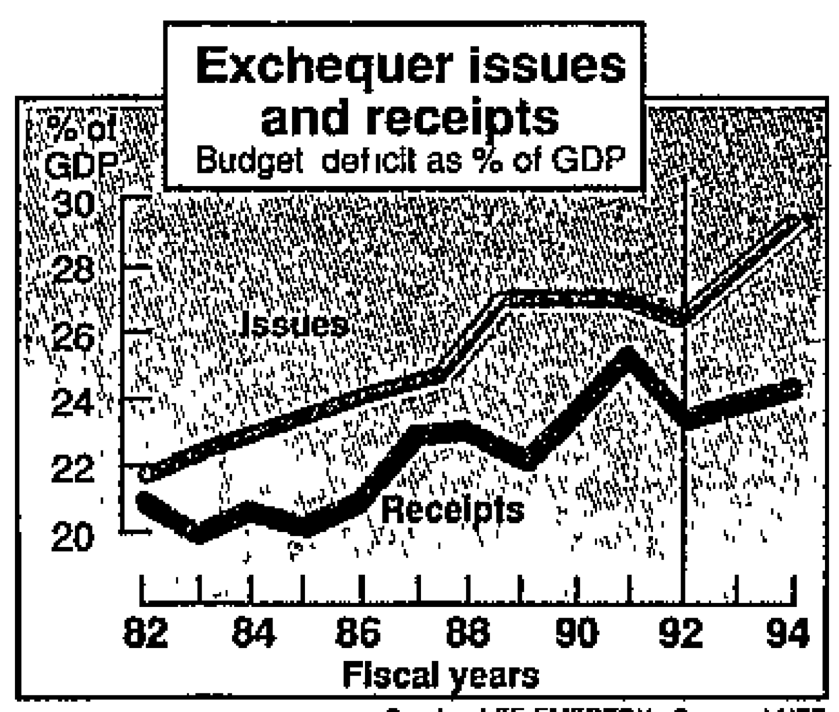
"The policy is indeed working and good progress has already been made in forcing the inflation rate down in many areas," it says.

The current inflation rate contains two factors that cannot be described as inflation. These are the imposition of VAT in October and the sharp rise in food prices, which have rocketed especially as a result of the drought.

If these two factors are excluded the monthly increase in the three-month moving average annual rate (seasonally adjusted) in prices has decreased from 13,5% in the middle of last year to 7,5% in March/May this year.

"We are convinced that this underlying trend will continue," it adds.

The trend of falling money market interest rates will continue and downward pressure on interest rates is building up, says Absa.



Graphic: LEE EMERTON Source I-NET

Move on Masterbond curators ends

LINDA ENSOR 58

CAPE TOWN — The board of directors of Fancourt luxury resort has decided against switching control to the Seeff Trust from Masterbond provisional curators.

A meeting of debenture holders scheduled for August 11, when Fancourt chairman Andre Pieterse was apparently to put the board's case for getting rid of the curators, has been called off. The board said at the weekend it was felt the circular calling for the meeting "should not have been issued, since it was based on an unfortunate misunderstanding".

The board said negotiations with provisional curators over a JSE listing for Fancourt debentures was still under discussion with a consortium of investors.

Provisional curator Frans Malherbe said curators felt they could not continue with negotiations when parties involved were trying to get rid of the curators.

Talks under way with a consortium led by Standard Merchant Bank (SMB) revolve around ways of securing the R100m invested by Masterbond debenture holders, as well as the approximately R20m the consortium is thinking of investing, in addition to an upfront payment of R8m to debenture holders.

Malherbe said curators' objection to the proposal to list Fancourt debentures was that debenture holders would not receive any guaranteed rate of interest or guaran-

□ To Page 2

27/7/92 BDay

Masterbond

Bday 27/7/92. (58)

□ From Page 1

teed rate of repayment, and no guaranteed security.

Furthermore, if the consortium invested R20m, this might do nothing to put Fancourt on the right footing, but would lessen the payment debenture holders would receive on a sale under liquidation, which Malherbe said would probably realise a minimum of R40m, less R10m for a builders' lien, at this stage.

On the other hand, the consortium would want security for its investment and would not be willing to invest if the first bond was to remain with debenture holders, as the latter would get priority treatment if liquidation took place.

Malherbe said the possibility of a first bond of R42m giving each of the parties a share of R20m and R22m respectively on realisation was being investigated. SMB is believed to be busy assessing the value of Fancourt to decide on the likelihood of a return on their investment under such an arrangement.

Sapa reports from Durban that a statement from the Natal Attorney-General's office could lead to a flood of criminal charges against agents who marketed Masterbond investments to the public. Natal Deputy Attorney-General Ross Stewart said a recent decision not to prosecute the SA Perm on a Masterbond-related investment had nothing to do with the principle of this issue.

Stewart said his office's hands were tied, as the investment had been made before the new Deposit-Taking Institutions Act became law. He said his office could only prosecute on charges laid by those whose investments had been made after February 1 last year.

Sharp rise in AIDS assurance claims

BDAY 28/7/92

LINDA ENSOR

CAPE TOWN — The number of new AIDS claims reported by life assurers increased by 61% or 170 claims in the six months to end-June, reassurer Mercantile & General (M & G) noted in its report on AIDS claims.

This brought the total number of reported claims to 451 (281 in January), of which 367 were for life policies, 41 disability and 43 permanent health insurance. In 1991 100 new claims were reported.

The major increase in claims was in the group life category where the number of policies on which claims were based more than trebled. The value of all claims now totalled more than R19m while the total number of claimants increased by 108 to 276. The average duration of a policy before a claim was lodged was five years.

The sharp rise in claims in 1992 follows increased co-operation from claims departments in compiling the statistics.

The report pointed to possible evidence of "anti-selection" — the process whereby people take out a policy knowing they are HIV-infected. For instance, 63% of claims occurred within five years of inception and 82% of the sums assured under individual life policies occurred within five years.

Of reported claimants 146 were single, 87 married, 15 divorced or widowed and the status of 28 unknown. Male claimants at 256 far outnumbered females at 20. The number of married claimants had increased, which could reflect the increasing heterosexual spread of AIDS.

COMPANIES

Syfrets Growth Fund is booming

LINDA ENSOR

CAPE TOWN — A net R72,4m flowed into the Syfrets Growth Fund in the three months to end-June — being 21% of the total cash inflow into all general equity funds during this period, Syfrets unit trusts marketing manager Kevin Hinton said yesterday. BDay 28/7/92

The total market value of the fund at end-June was R627m.

"Quite clearly, the Syfrets Growth Fund is pulling in proportionally more money than ever before. Its solid performance is now paying dividends," Hinton said.

Another reason for the inflow was the launch by Syfrets and UAL last November of unit trust-linked investment products.

Association of Unit Trust figures for the June quarter show the Southern Equity Fund as being the best performer among the general equity trusts over a one-year term, with the Syfrets Growth Fund taking the top slot over three years and five years.

General equity funds, which invest in the broad spectrum of JSE-listed shares, account for more than R10bn of the R13bn market capitalisation of all SA unit trusts, Hinton said. 58

The only other general equity fund to have registered a higher inflow — the Old Mutual Investors' Fund — has a market value of R3,3bn, more than five times that of the Syfrets Growth Fund.

Support for bond boycott diminishes

STAR 28/7/92

(58)

Own Correspondent
Staff Reporter and Sapa

More organisations, including the ANC, have distanced themselves from the call to boycott bond repayments.

The call, made by the South African Civic Organisations, was also given the thumbs down by the Pan Africanist Congress (PAC), especially because there had been no consultation on the issue.

Organisations which have already poured cold water on the idea of the August 1 rent and bond boycott are the Inkatha Freedom Party, the New South African Housing Association under Dr Nthato Motlana and the Diepkloof Civic Association.

ANC spokesman Carl Niehaus said the matter was being dealt with at the highest level. "The ANC did not call for or take a decision on the boycotts," he said.

PAC economic spokesman Mosebyane Malatsi said "affected people should have a participatory right in co-determining the level and modalities of payment of bonds. However, there has been no consultation in this instance and participation of those affected seems an imposition which is not acceptable."

However Mr Malatsi said PAC members were free to deal with the situation as they deemed fit.

Yesterday the Congress of South African Students called for a two-day school boycott to coincide with next week's general strike and the SA Democratic Teachers' Union encouraged members to support the action.

The Johannesburg Chamber of Commerce and Industry yesterday added its voice to threats of "no pay" for strikers.

ANC PWV region spokesman Ronnie Mamoepa denied a claim that the Johannesburg Stock Exchange had been targeted for "occupation" today.

Earlier yesterday, Mr Mamoepa called on supporters of mass action to ignore thousands of pamphlets distributed in Pretoria urging workers to reject the strike. He claimed the pamphlets were distributed by the Pretoria Business Liaison Forum.

In mass action-related protests yesterday:

- Two policemen were slightly injured when they were hit by stones during a demonstration at the Medical University of Southern Africa.
- At least 32 members of the ANC Youth League were arrested in Katlehong on the East Rand after they occupied council offices.
- Police arrested 42 people, including 35 teachers, who staged a sit-in protest at a Soweto school for the handicapped.
- ANC supporters occupied the Ciskei consulate in Port Elizabeth and called for its closure.

Groups against bonds boycott

Sowetan 28/7/92

■ **More groups pour cold water on non-payment of bonds and rent:**

By Victor Tsuai 58

MORE organisations, including the African National Congress (ANC), have distanced themselves from the call to boycott bond repayments.

The call, made by the South African Civic Organisations (Sanco), was also given the thumbs down by the Pan Africanist Congress (PAC) especially because there was no consultation on the issue.

Organisations which have already poured cold water on the idea of the August 1 rent and bond boycott are the Inkatha Freedom Party (IFP), the New South African Housing Association under Dr Nthato Motlana and the Diepkloof Civic Association.

A spokesman for the ANC, Mr Carl Niehaus, said that the matter was being dealt with at the highest level yesterday.

"The ANC did not call for or take a decision on the boycotts," Niehaus said.

Pressed to give the ANC's view on the boycott, Niehaus said to do so would be hypothetical. He said that the ANC would release a statement.

The PAC spokesman for the Department of Economic Affairs, Mr Mosebyane Malatsi, said that housing is a basic need for the people.

"Affected people should have a participatory right in co-determining the level and modalities of payment of the bond. However, there has been no consultation in this instance and participation of those affected seems an imposition which is not acceptable."

Malatsi said that PAC members were free to deal with the situation as they deemed fit.

Johannesburg Civic Association general-secretary, Mr Cas Coovadia, said that his organisation would respond on Thursday on the issue.

Meanwhile, the Civic Association of the Southern Transvaal (Cast) has called for a boycott of traffic fines, television licences, bond and rent payments to help remove State President FW de Klerk "and his cronies" from power.

Cast also called for cultural and economic sanctions to be imposed on Bophuthatswana.

next *Talk***back** topic

THE Government has granted a four-day indemnity for those in possession of arms such as AK-47 rifles. From next week, however, it will impose heavy penalties as a measure to curb firearm crimes . What else do you think must be done to stamp out the increasing use of firearms in South Africa.

Dial the hotline (011) 714-8063

Absa fires new salvo in bond war

BDAY 28/7/92 (58)

PETER GALLI

THE bond war between financial institutions hotted up yesterday when Absa confirmed it would pay estate agents' commissions upfront from August 17 instead of on transfer of the property.

Absa executive director Mike de Blanche said this was designed to keep the company competitive in a difficult market. He claimed other banks were already doing this behind the scenes and Absa needed to retain its 45% market share.

De Blanche said the break from traditional commission payment was expected to give relief to agencies' cash flows.

Other financial institutions canvassed yesterday said they would look at the move and consider following suit.

FNB MD Barry Swart would not confirm whether his bank was already paying commissions once guarantees had been lodged.

"This is clearly a move by Absa to encourage estate agents to direct business their way. We will have to look at this seriously and consider implementing it ourselves as we have a 10% market share to protect," he said.

The move would have little financial implications for the banks as it was designed to facilitate better cash flows for agents and most properties for which bonds were granted were ultimately transferred, he added.

Standard Bank MD Mike Vosloo said yesterday he was unaware of any such activity in the market.

"Standard Bank will have a close look at the move and its implications for the home loan market before taking a decision."

In another move, Absa has taken control of Multi-Listing Services (MLS) — an inter-agent computer listing service of residential properties. The deal is worth about R3m after about 90% of shareholders supported the buyout, Absa general marketing manager Tienie van der Berg said.

The bank already holds a third of the MLS shares and will pay R48 a share for the balance.

De Blanche said the bank had attempted to convince the other minority shareholders to sell their shares and many were considering this.

"The acquisition forms an important part of our strategic planning and rounds off our services to estate agents. It is expected to remove resistance by the larger estate agencies to joining the national listing service," Van den Berg said.

☐ To Page 2

Absa

BDAY 28/7/92 . (58)

☐ From Page 1

De Blanche said the MLS would be restructured to become a highly flexible service company and would not function as an estate agency. The bank would offer listing and multiple-listing services to non-MLS members.

"MLS members will also be allowed to join other similar organisations like Comprehensive Property Services, which is aligned to the SA Institute of Estate Agents and owned by eight financial institutions," he said.

In addition, the MLS restructuring will do away with the contentious 0,25% fee on the selling price of the property payable by the agent using the service. Instead, each member office will pay a flat fee of about R250 a month before VAT, he said.

COMPANIES

BDAY 29/7/92

Insurers take on medical aid societies

ANDREW KRUMM

THE size of SA's R19bn health services sector had lured almost all insurers into direct competition with traditional medical aid societies, Liberty Life deputy GM Herschel Mayers said yesterday.

He said stakes were high in the conflict between health insurers and medical aid societies. Of the estimated R19bn spent on health services in SA in 1991, about R6bn represented medical aid subscriptions.

"Although it is this market for which we are competing, we also recognise that medical aid societies have a role to play. Consequently our product comes in two forms: one designed as a replacement for medical aid, the other planned as a supplement," said Mayers.

Since September 1991 all major players — with the exception of Momentum Life — had entered the new market, he said.

Old Mutual product research department head Trevor Pascoe said the five major players had generated about R500m in premium income from health insurance over the past year.

(58)

He estimated that the health insurance market made up between 10% and 20% of the new business in the industry.

Syfrets fund leads field with R72-m inflow

58

STAR 29/7/92

By Stephen Cranston

The Syfrets Growth Fund registered a net inflow of R72,4 million for the quarter ended June 1992, representing 21 percent of the total inflow into general equity funds.

During the quarter the Syfrets Growth Fund was ahead of 21 other general equity funds.

Syfrets unit trusts marketing manager Kevin Hinton says the inflows are remarkable given the R627 million market value of the Syfrets Growth Fund.

The only other general equity fund to have registered a higher inflow — the Old Mutual Investors Fund — has a market value of R3,3 billion, more than five times that of the Syfrets Growth Fund.

"The Syfrets Growth Fund is pulling in proportionately more money than ever before," says Mr Hinton. "Its solid performance record is now paying dividends."

Mr Hinton also attributes the record inflows into the fund to the success of a range of unit trust-linked investment products launched in conjunction with UAL in November 1991.

The Growth Fund and/or a spread of UAL unit trusts represent, in part, the underlying assets of these products.

Net widens in Geffen dispute

STAR 29/7/92

By Meg Wilson

58

The Institute of Estate Agents (IEASA) has been drawn into the battle between the statutory Estate Agents' Board (EAB) and Lew Geffen Estates.

However, president Trevor Downing obviously hopes the role of the voluntary professional association in the controversy will be shortlived.

He yesterday issued a statement disassociating IEASA from the actions and statements of Alan Sampson, managing director of Balloon Estates, who is independently seeking an interdict against the EAB relating to the Geffen matter.

Although he is taking the action in his personal capacity, Mr Sampson is also chairman of the ethical standards committee of the Southern Transvaal branch of IEASA.

But, he said, he felt so badly about Mr Downing's statement that he would probably "disassociate myself from the institute".

The action of the EAB in the Geffen case was to find a Lew Geffen Estates agent, Wilton Schwartz, guilty of improper conduct and impose a deferred fine.

The matter revolves around a clause of forfeiture of deposit by the buyer in a sale contract concluded by Mr Schwarz, and Mr Downing's statement also said, in part, that had either the agent or the agency involved been a member of the institute, "it is quite conceivable that IEASA would have intervened on the part of the purchaser".

However, neither Mr Schwartz nor Lew Geffen Estates belonged to IEASA, Mr Downing said.

Mr Sampson said it would have been more appropriate, at this point, for the institute to take a stand on behalf of its members — of which he is obviously one — against an onslaught from the EAB.

"It is obvious, though, that IEASA is embarrassed and doesn't want to rock any boats.

"Meanwhile, I feel strongly that estate agents are under attack from the EAB and that they must make a stand now, or be responsible for what is bound to happen to them later.

"I also know that there is a grassroots feeling among members that the institute should be supporting them in such cases, and is not."

Mr Sampson made it clear that he did not wish to discuss, or take to law, the individual merits of the Geffen case.

"What I want to do is obtain clarity, from the courts, on a broader issue — that of the EAB exceeding its powers under the (Estate Agents') Act."

Absa launches corporate division

By Leigh Hassall (58)

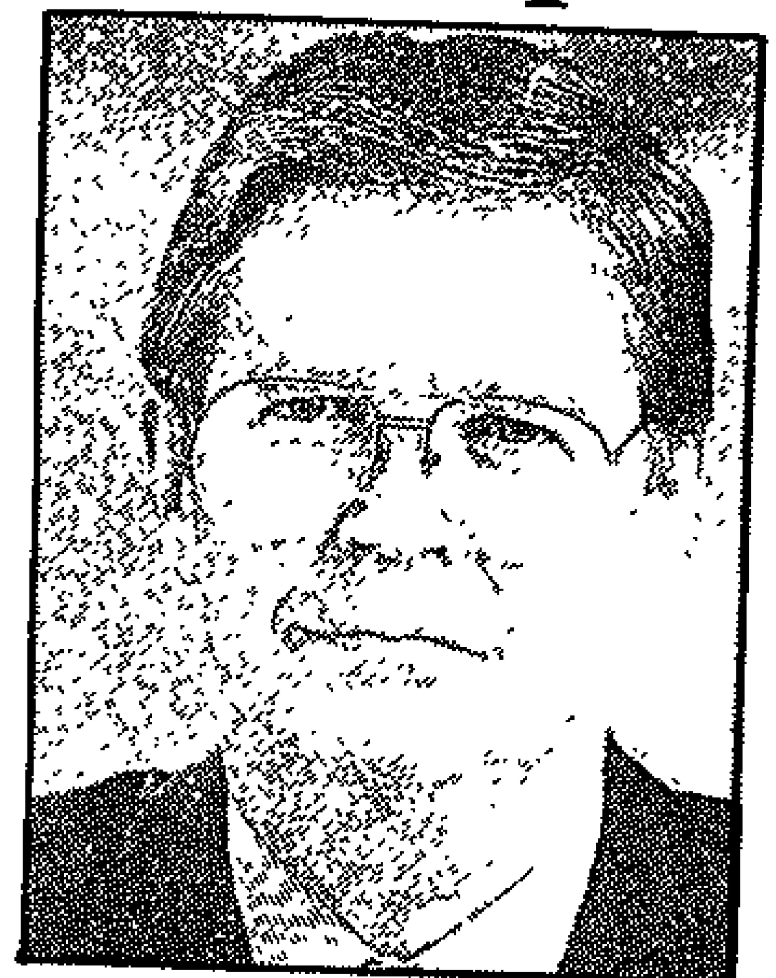
Amalgamated Bank of SA (Absa) has completed another notch in its rationalisation programme with the announcement yesterday of the launch of its corporate division.

The new division will draw the corporate clients from the group's existing retail banks into one integrated unit with an asset base of R20 billion.

The latest reshuffle completes the rationalisation of the original Absa group, (Allied, UBS, Volkskas and part of Sage) with the Bankorp group, (Trust, Bankfin and Senbank).

Deputy chief executive of Absa, Piet Liebenberg, said at a press conference yesterday: "The rationalisation of a relatively large number of banks was a major exercise, but the new corporate division was launched much earlier than expected."

Mr Liebenberg conceded: "We're quite a way from our competition in the corporate sector, but our long-term goal is to increase our market share in this field commensurate with our market share in banking as a whole."



Piet Liebenberg . . . quite a way from our competition

STAR 29/7/92

Absa has an estimated 40 percent share of the banking sector's total assets.

The division will have four operating arms — corporate banking, treasury and international banking, the London branch and Absa merchant bank.

The corporate banking unit, which will be headed by former Barclays chief Bob Aldworth, aims to increase its market share through a "relationship banking" approach.

Each corporate client, defined as accounts of R10 million and above, will be assigned a manager who will offer an integrated service drawing from the specialist services of the division.

The treasury and international unit, headed by Doug Anderson, has already achieved significant savings by merging its three separate dealing rooms.

On the international side, Absa intends to use its Hong Kong office as a springboard into the growing South-east Asia economic area.

Whereas most of the local banks are struggling to obtain a licence to trade in the UK, the merger with Bankorp has left Absa with two London branches, which will be merged in the near future.

Frankfurt is the next target location for a third international branch.

Bankorp's former successful merchant bank, Senbank, which has as its clients 80 percent of the top 100 companies, will focus on traditional merchant banking areas. It will be headed by Jean Brown.

Bid to track claims fraud

GAVIN DU VENAGE 58

THE short-term insurance industry was planning to introduce a central computerised claims register to distinguish between genuine and fraudulent claims, Fringecor CEO Steve Ireton said yesterday. B|DAY

Ireton said the industry was suffering because of false claims and the need to have lengthy investigations which led to delayed payouts. 29|7|92.

Cases of vehicles being sold and then reported stolen — usually after they had already left the country — were common.

One example was the theft of a Porsche which was swopped for cocaine in Zambia and was only reported a week after the gang had been caught in a police raid

In other instances, people took out policies with several companies and claimed from each for the same vehicle.

However, the introduction of a central claims facility similar to that operated by the Life Assurance industry would make this type of fraud more difficult.

Board under fire for racial breakdown of figures

PETER GALLI (58)

THE Estate Agents Board has come under renewed fire from the industry for "making racially inflammatory remarks and failing to keep pace with political changes".

This follows last week's release of board figures differentiating between the number of misappropriations of trust monies by black and white estate agents.

Institute of Estate Agents president Trevor Downing has entered the fray, saying he finds it "most unfortunate" that all estate agents were lumped into the same basket. While this theft is taking place, it involves only a small percentage of agencies, he says.

When the board scrapped its inspectorate department, it became easier for unscrupulous agencies to dip into their trust funds without being detected until far too late. The inspectors must be reinstated as soon as possible, says Downing.

Nankan Real Estate MD Vino Nankan agrees, saying the board is not run efficiently and does not investigate or visit agencies often enough.

"The board should check the trust fund and the number of deals done on a monthly basis. The regulations require the board to check this every three months, but this appears not to be done consistently," she says.

Balloon Estates MD Alan Sampson says he is appalled the board is still keeping statistics based on race or creed. BDAY 29/7/92.

"I am concerned at the board's callous lack of sensitivity or respect for people of colour and its inflammatory remarks during the present political impasse," he says.

Other agents says the main reason for the release of the figures is that it is in the public's best interest to know the incidence of theft among agents is increasing, particularly among black agents.

Nankan says the estate agents' exam is also inadequate as it allows improperly trained agents into the profession.

Absa has big plans for corporate banking arm

BDAY 29/7/92

58

SHARON WOOD

ABSA, in launching its corporate bank yesterday, announced plans to aggressively expand its international interests in Europe and Southeast Asia.

Absa Corporate Bank merges the corporate interests of Senbank and Absa Merchant Bank and has an asset base of R16bn.

Deputy CE Piet Liebenberg said Absa had launched the bank much earlier than expected. The group had expected to be back in the corporate market only early next year. There were plans to expand the market share of the newly formed corporate bank.

Corporate Bank executive director Bob Aldworth said the bank would try to expand its asset base by R5bn to R10bn during the next few years. The bank had a client base of 1 200 at present.

Absa had been doing corporate business for the last five months, but it had been inward-looking. The focus of the corporate bank would now change to being outward anD client-oriented.

The drive to increase local market share would run parallel to an expansion of Absa's corporate business overseas.

"The bank is seriously looking at opening an office in Germany ... there are fairly advanced plans to do so," Absa London branch GM Jan Arne-Farstad said.

Absa also planned to turn its London branch into the bank's European corporate bank, focused on providing corporate banking, trade finance and treasury facilities to SA and SA-owned companies.

In addition, the group intended to change its wholly owned Hong Kong subsidiary into a branch. The subsidiary had an operating base of $12,5m and assets of $6,5m.

DET predicts mass failure

KATHRYN STRACHAN

AS THE third school term began this week, the Department of Education and Training (DET) predicted a further year of high pupil failure rates. BDAY

Johannesburg regional chief director Richard Motau said at a news conference this week black education was in deep crisis, with many black schools in the Johannesburg area having completed only 20% of the year's syllabus. 30/7/92.

Motau said threats made by the National Education Co-ordinating Committee and the SA Democratic Teachers Union to bring schooling to a halt in solidarity with the mass action campaign only contributed to poor results.

A recent department survey of schools with the lowest pass rates indicated that "lessons dodging" by teachers as well as pupils, and a total lack of supervision and control by principals, also played a part.

Many teachers were indifferent to their responsibilities, and parents and the community in general were apathetic about encouraging children to learn.

Mayekiso defies Mandela over call for bond boycott

BDAY 30/7/92.

PATRICK BULGER

THE proposed boycott of bond repayments may go ahead despite criticisms made by ANC president Nelson Mandela.

ANC-aligned SA National Civics Organisation (Sanco) president Moses Mayekiso said yesterday the boycott would begin at the end of next month if financial institutions failed to meet Sanco's political demands.

Mayekiso, while not wanting to be drawn on Mandela's implicit criticism, said Sanco was an independent organisation.

Mandela told reporters on his return to SA on Tuesday the civics were not in a position to call for a bond boycott without consulting the ANC.

"The civics don't take orders from anybody," Mayekiso said. "The policy of the civics is independent and accountable to its membership."

He said Sanco was prepared to discuss the proposed boycott with the ANC or any other organisation.

Sanco is calling on financial institutions to support demands for interim government and a constituent assembly by pressure on government.

RAY HARTLEY reports that the ANC alliance's plans for a two-day stayaway next week suffered a setback yesterday when the PAC reiterated it would not back the general strike next week.

PAC general secretary Benny Alexander told reporters the ANC's mass protests could not be supported because they were not aimed at overthrowing government.

The Azanian Students' Convention lashed out at organisations calling on teachers and pupils to observe a two-day stayaway next week.

But the SA Students' Congress on Wednesday reaffirmed its call on students to boycott classes next week, and sharply criticised organisations which had expressed concern at the effect of the stayaway on studies.

Leading political commentator and ANC expert Tom Lodge said yesterday there were signs that the ANC's mass action campaign had less support than expected.

"It's early days yet, because the ANC hasn't had any major activities which have failed. You can argue the case both ways, but to say mass action has failed is premature," he said.

Lodge said it was clear the campaign would not be the largest civil disobedience campaign in terms of numbers of participants, as the ANC had promised, but mass action was widespread and constant.

"All this suggests the ANC's local organisation is in better shape than its critics have suggested," he said.

In another development, eight East London Cosatu leaders arrested on Tuesday for occupying the Receiver of Revenue's office were released yesterday without paying bail after appearing in a special court, reports DIRK HARTFORD.

The eight, who include Numsa's acting president Mtutuzeli Tom and regional secretary Enoch Godongwana, refused to accept bail in line with a recent Cosatu decision and were kept in jail.

Workers at Mercedes-Benz and other plants threatened to strike for their release and, after meetings betwen Cosatu, employers and the police yesterday, special arrangements were made to have the eight charged and released. The case has been remanded until September.

Meanwhile, Cosatu, responding to Sacob and JCCI guidelines to employers, said it would take action against any company which victimised or dismissed workers during next week's general strike.

These actions include declaring a national dispute with employers, consumer boycotts and an international blacklist of offending companies.

Banking 'has duty to SA's Third World'

(58)

SHARON WOOD

SA's banking industry has an economic and social responsibility to address the banking needs of the Third World population, says Nedcor Bank CE Chris Liebenberg.

In his presidential address to the Institute of Bankers, he says few banks have addressed this issue, and the banks have much to learn before they understood and could service the market effectively.

Another feature lacking in the domestic banking industry was co-operation to lower the cost structure through rationalisation.

"An area where co-operation will become imperative is in the provision of delivery systems for the masses who at present move outside the banking system."

"It is fascinating to consider that to provide the most elementary and user-friendly delivery and payment systems one has to rely on the most sophisticated and state of the art technology."

Liebenberg says the infrastructural costs involved prevent any single financial organisation undertaking it on its own.

"Is it not sad then that all the financial organisations persist in doing their research and development on a highly individual and confidential basis rather than on a co-operative basis?"

Liebenberg also believes SA banks require a much higher capitalisation ratio. SA's required capital to asset ratio is in line with those in the developed countries.

In SA, unlike in the rest of the world, both banking and industry are concentrated, with the bank being significantly smaller than some of the industrial companies, he said. BDAY 30/7/92.

Exposure

"The result is, on the one hand, the Deposit Taking Institutions Act forces banks to spread their exposure risks while, on the other hand, because of the limited lending capacity though the relatively few banks operating in this country, exposures are actually concentrated at levels in excess of internationally accepted standards."

Liebenberg sums up the challenges facing the banking industry as capital adequacy, profitability, delivery systems and capable people.

Banks lose millions on credit fraud

Sowetan 30/7/92

■ With banks losing literally millions of rands in credit fraud, they are forced to take counter action some of which their customers may not necessarily appreciate:

58

CREDIT fraud has spiralled this year, causing loss to banks of some R6 million.

So reports Alistair Graham, AGM of Standard's card division.

He says: "This amount is almost 100 percent higher than the amount lost by banks last year. The economic squeeze has rendered credit cards increasingly susceptible to manipulation."

How does this fraud take place? When does the card-holder bear the risk? And what can be done to reduce it?

Fraud frequently takes place following interception of credit cards mailed to potential card holders. As credit cards have a life span of one to two years before having to be renewed, most banks post the renewed card a few weeks before the old one expires.

"The theft sometimes takes place at post offices or at addresses where the post is sorted at one central point before being distributed to occupants," Graham says. It may often take a week or two following expiry of the old card for the holder to realise that he hasn't received the new one.

The bank's loss

At present, banks are bearing the loss arising from credit cards not received. But First National's deputy GM Mr John Wildman says "if it gets any worse, we may have to consider compromising on customer convenience by insisting that cards be collected in person".

According to Graham, Standard has already adopted the practice of avoiding certain risky addresses, "where, for example, large numbers live in a communal set up" by sending credit cards by certified mail. "We also avoid using one post office consistently," he says.

Credit card fraud is also becoming increasingly prevalent at petrol stations, and, to a lesser extent, at retail stores, notes Graham. Attendants use the card to make two vouchers: one would be legitimate, while the card holder's signature would be forged on the second.

This second voucher is then used to account for a subsequent sale of petrol, paid for by another person in cash, which the attendant then pockets. Meanwhile, the card holder would be debited for that subsequent sale.

This is another instance in which the bank would bear the loss, says Graham, unless it was found that the garage owner had failed to comply with certain standard precautions - crucially, checking the signature - in which event he would be liable.

Card cover

Card-holders are most at risk when a card already in their possession is either lost or stolen. Here, the bank will assume liability only after it has been officially notified of the loss or theft. However, card holders can protect themselves from suffering loss in this situation by buying "card protection cover" for a negligible annual fee of R3.

Ways to reduce the incidence of credit card fraud are dictated by common sense, says Wildman: "Keep your card as securely as you would cash; if possible memorise your "pin" number; and always keep watch when vouchers are processed."

FM 31/7/92

GOLD QUARTERLIES

(58)

	Gold														Profit		
	Produced kg*		Working cost R/kg	$/oz*†		Cost incl Capex R/kg	$/oz*†		Revenue R/kg	$/oz†	Milled 000 t*		Recovery g/t*		Gold R'000	Uranium & other R'000	♣EPS(c) Jun
ANGLO AMERICAN																	
Elandsrand	4 582	(4 104)	23 076	251	(213)	28 424	309	(250)	32 163	352	534	(539)	8,6	(7,6)	42 620	2 127	18,6
Ergo	2 985	(2 941)							32 929	360	9 640	(10 159)	0,3	(0,3)	24 189		11,3
Freegold	▲28 553	▲(28 816)	29 200	318	(243)	30 429	331	(271)	32 863	359	6 738	(6 369)	4,2	(4,5)	99 700	14 800	52,6
Vaal Reefs	18 868	(18 773)	24 537	267	(214)	29 839	325	(244)	32 411	355	3 021	(2 736)	6,3	(6,9)	152 300	2 500	255,3
Western Deep	9 096	(8 996)	27 003	294	(232)	32 531	354	(281)	33 228	363	1 654	(1 527)	5,5	(5,9)	55 600	4 600	28,5
ANGLOVAAL																	
ET Cons	959	(920)	22 916	249	(204)	27 438	299	(219)	30 969	337	94	(92)	10,2	(10,0)	7 723	−1 442	2,6
Hartebeestfontein	7 495	(7 325)	24 651	268	(218)	27 498	299	(226)	30 871	336	1 234	(1 209)	6,1	(6,1)	46 622	9 635	21,2
Loraine	1 765	(1 766)	37 750	411	(293)	37 533	409	(292)	34 296	373	403	(337)	4,4	(5,2)	−6 096	2 655	−18,7
GENGOLD																	
Beatrix	3 072	(3 064)	22 408	244	(196)	§23 041	251	(202)	32 027	347	512	(511)	6,0	(6,0)	29 535	−12 297	n/a
Bracken	500	(449)	◇26 088	284	(221)	◇25 886	282	(224)	31 946	349	40	(55)	12,5	(8,2)	3 061	1 287	14,6
Buffelsfontein	3 198	(3 100)	◇30 174	328	(263)	◇30 672	334	(265)	31 905	348	510	(537)	6,3	(5,8)	5 555	3 431	−21,8
Grootvlei	625	(620)	29 085	317	(249)	31 718	345	(262)	32 159	349	118	(117)	5,3	(5,3)	1 958	1 765	14,5
Kinross	3 090	(3 005)	23 998	261	(211)	26 837	292	(237)	32 287	351	476	(470)	6,5	(6,4)	25 638	3 582	67,1
Leslie	556	(531)	◇30 034	327	(260)	◇31 238	340	(273)	32 012	348	101	(101)	5,5	(5,3)	1 497	734	5,9
St Helena	2 050	(2 102)	◇30 757	335	(266)	◇30 872	336	(274)	32 190	349	319	(350)	6,4	(6,0)	2 937	6 887	69,8
Stilfontein	387	(513)	◇35 783	390	(358)	◇33 863	369	(340)	32 281	346	420	(513)	0,9	(1,0)	−1 342	5 989	41,3
Unisel	1 290	(1 289)	29 652	323	(250)	31 278	341	(275)	32 014	348	209	(195)	6,2	(6,6)	3 031	525	3,7
WR Cons	281	(460)	◇54 214	590	(350)	◇54 064	589	(350)	31 930	344	56	(182)	5,0	(2,5)	−6 281	884	−94,1
Winkelhaak	3 043	(2 904)	◇26 846	292	(237)	§25 704	280	(285)	32 014	348	479	(459)	6,4	(6,3)	16 206	1 914	§158,2
GFSA																	
Deelkraal	2 449,9	(2 443,5)	24 178	263	(204)	39 891	434	(228)	31 297	341	396	(405)	6,2	(6,0)	17 440	4 033	−4,8
Doornfontein	1 534,2	(1 098,2)	34 992	381	(341)	35 115	382	(341)	31 277	340	386	(280)	4,0	(3,9)	−5 699	783	−12,8
Drie Cons	14 964,9	(14 613,6)	17 367	189	(151)	21 710	236	(175)	31 142	339	2 011	(2 005)	7,4	(7,3)	206 151	36 966	47,3
Kloof	8 991,9	(8 823,9)	21 222	231	(177)	30 800	335	(219)	31 063	338	775	(728)	11,6	(12,1)	88 487	−3 394	8,4
Libanon	2 027,1	(1 718,3)	29 668	323	(298)	30 680	334	(306)	31 131	339	350	(375)	5,8	(4,6)	2 965	3 112	10,1
Venterspost	899,2	(1 146,2)	39 356	428	(317)	‡49 881	543	(395)	30 737	335	235	(315)	3,8	(3,6)	−7 750	1 694	‡−76,8
JCI																	
HJ Joel	1 447	(1 560)	29 092	317	(241)	31 594	344	(272)	33 737	367	242	(242)	6,0	(6,5)	6 721	−851	2,3
Randfontein	7 817	(8 014)	25 655	279	(226)	30 365	331	(252)	32 142	350	2 130	(2 227)	3,7	(3,6)	50 707	4 702	30,8
Western Areas	2 972	(2 787)	33 933	369	(306)	36 687	399	(370)	34 167	372	496	(537)	6,0	(5,2)	697	8 663	5,3
RAND MINES																	
Blyvoor	2 022	(2 082)	33 475	364	(276)	34 272	373	(280)	32 523	354	546	(552)	3,7	(3,8)	−1 925	1 651	−7,9
Durban Deep	1 347	(1 283)	31 401	342	(275)	32 301	352	(279)	32 120	350	540	(516)	2,5	(2,5)	968	384	−8,9
ERPM	2 012	(1 984)	29 915	326	(254)	31 862	347	(241)	32 062	349	761	(655)	2,6	(3,0)	4 320	−10 388	−60,0
Harmony	5 862	(6 350)	40 129	437	(283)	40 180	437	(287)	32 100	349	1 864	(1 961)	3,1	(3,2)	−47 068	11 508	−133,4
INDEPENDENT																	
Benoni Gold	377	(362)	25 056	273	(214)	26 223	285	(218)	32 602	355	571	(624)	0,7	(0,7)	2 845	−1 305	0,6
Gazgold	79,25	(62,24)	24 683	269	(310)	27 940	304	(389)	30 860	336	22	(22)	3,7	(2,8)	490	−350	−0,2
Knights	401	(356)	23 879	260	(228)	25 128	274	(249)	31 155	339	858	(845)	0,5	(0,4)	2 917	−354	0,9
Lindum Reefs	116,284	(83,621)	31 973	348	(222)	30 995	337	(222)	30 950	337	143	(75)	0,8	(1,1)	−119	539	2,9
Primrose	202,5	(214,9)	32 864	358	(263)	32 864	358	(265)	35 557	387	43	(41)	4,8	(5,3)	547	−252	2,6
Rand Leases	108,66	(233,67)	39 697	432	(221)	41 773	455	(243)	30 657	334	24	(41)	4,5	(5,7)	−982	275	−0,8
West Wits	745	(740)	27 652	301	(247)	28 834	314	(259)	31 421	342	516	(505)	1,5	(1,5)	2 809	102	2,2

* Figures in parentheses refer to previous quarter. † Calculated at R1=$0,35 when dollar figure not given by mine. ♣ Earnings after tax and capital expenditure § Includes capital appropriation. ‡ Includes expenditure on new mine and interest earned on rights issue funds. ◇ Includes retrenchment costs. ▲ Including Metallurgical Scheme.

MASTERBOND FM 31/7/92

Days of uncertainty

Club Mykonos, the holiday and timeshare resort about 130 km from Cape Town on the west coast and in provisional liquidation, is the subject of urgent negotiations between the curators and insurance company Fedlife. Return date for the curators is August 12, fast approaching and without any agreed rescue plan yet tabled.

Fedlife's involvement comes through loans of R18m against linked equity and debenture investments raised by Fedlife endowment policyholders to make their investment in Mykonos. The amount is included in total creditors' claims of R125m.

Fedlife, which says it is acting to assist its policyholders, has offered to invest an amount of R3m for working capital requirements — as well as to provide an underpin of R15m-R18m to be "paid to creditors should they elect not to participate in future prospects arising out of reconstruction."

Joint curator Jeff Malherbe confirms that

FM 31/7/92 (124)

discussions with Fedlife are proceeding. However, he says: "We cannot conduct these negotiations through the media. The issues are delicate and complex."

Meanwhile, recent statements by the chairman of Club Mykonos's homeowners' association, Colin Hultzer, suggest the association will resolve soon to discontinue levy payments and repudiate responsibility for any repayments due to Spectravest, a finance-providing company within the Masterbond group. These repayments are estimated to be about R60m.

Malherbe says talks are continuing with homeowners and Fedlife to arrive at a permanent solution.

At the heart of the recent spate of activity lies the insecurity felt by homeowners who believe their rights of tenure are under threat. They have been keeping the resort going over the past few months by paying increased levies. Proposals made by the homeowners, in terms of which each party would sacrifice one-third of its rights, are among those under discussion. This may be the only route to follow.

Meanwhile, at Fancourt, negotiations are proceeding between the board of directors, certain financial institutions and the curators. Fancourt has withdrawn its application to have the curators removed and Seeff Trust appointed as trustees of the debenture trust deeds. The board believes the ideal solution would be to source outside finance; obtain a stock exchange listing of the debentures, which would remove the Masterbond link; complete the project and, thereafter, proceed with the repayment of the debenture holders, over some years.

Should such an agreement be reached, it would be subject to the confirmation of the court and the debenture holders. If agreement cannot be reached, one of the options will be to apply for judicial management. No timetable has been set.

On August 12, the court will also have to decide whether to make the appointment of the curators of the Masterbond group permanent — or continue the arrangement on a provisional basis. The curators include Cape Town attorney Arnold Galombik and accountant Willem Wilken. ■

increases. Rates have become volatile in line with underwriters' concern over political instability and the level of violence.

Cavalieri notes the promoters of the Cameroon soccer tour sought cancellation cover and related insurances just days before the tour was due to commence and when risk of cancellation was at its peak. "The time to negotiate insurance rates is during the event planning," he says. "It should be built into the expense budget from the start."

A typical premium for a special event, on which cover is arranged several months before and at a period of low political tension, starts at about 2% of the sum insured. Hastily arranged cover, under pressure of riot or similar risk, will see the premium go up "at least a few percent — and that's if cover can be obtained at all," says Cavalieri.

The local insurance market has a small but growing capacity to underwrite special events. Reinsurance is invariably used, with Munich Re becoming increasingly active. Most major risks find their way to London, where there are Lloyd's underwriters with a century of specialisation in this type of business. There is a growing interest in underwriting special risks from the European markets, particularly Germany.

Special event cover was placed by a handful of specialist brokers, usually through London, until the sanctions era began. After that, sponsorship — with healthy tax breaks — allowed for an element of self-insurance to be budgeted. Now special event insurance is close to being "normalised" again.

However, in the two decades since sports tours were routine, the numbers have changed. A sell-out of all tickets for the day-night match against India at the Wanderers may attract a total gate worth about R1,25m. Traditionally, tickets which are pre-sold are not refunded in the event of a wash-out but sports administrators are reconsidering this policy in the light of today's high admission prices.

A match scheduled for December in Johannesburg attracts a 20% probability of total wash-out. But the seven day-night matches planned for the Indian cricketers also include venues where the possibility of rain is slight so pluvious cover, should the administrators adopt a refund policy, would probably be spread across all venues. In any case, such insurance costs are effectively built into the ticket prices. ■

MONEY SUPPLY FM 31/7/92

June effect

(58)

A surge in money supply growth in June pushed the growth rate of the broad aggregate M3, over 12 months, to 8,36% (compared with 6,93% recorded in May). According to preliminary figures supplied by the Reserve Bank, M3 grew 1,9% in June (after

FM 31/7/92 (58)

a 1,59% decline in May) to R190,98bn, or 1,7% to a seasonally adjusted R190,59bn.

Growth, as measured from the base of the current target year, remains within the guideline range of 7%-10% — an annualised, seasonally adjusted 9,05%. But it is up on May's revised increase of 7,12%.

The acceleration in June, after the slowing in May, brings the absolute level of M3 back to its level at the end of April.

M0 growth, which is not published by the Bank, grew 4,3% over 12 months to R13bn. M0 represents the liquid liabilities of the Bank, in the form of notes and coins in circulation and deposits of deposit-taking institutions with the Bank.

Revised figures for the 12 months to May show:

- ☐ M1A up 8,11% to R32,9bn;
- ☐ M1 6,87% to R60,9bn; and
- ☐ M2 11,37% to R163,3bn.

May's weaker monetary growth is reflected in credit extension figures for that month. Claims on the domestic private sector rose 0,3% in the month (9,27% over 12 months) to R196,95bn. Growth in leasing finance (1,57%) and in mortgage advances (1,32%) was offset in the month by falls in bills discounted (-0,51%), hire-purchase credit (-0,98%) and other loans and advances (-1,14%). Because of a drop in net claims on the government sector (-73,5%), total domestic credit extension declined 1% (rising 7,9% over 12 months) to R197,88bn ■

Shill outlines proposals for insurance industry

BDay 31/7/92.

GAVIN DU VENAGE

158

THE insurance industry would continue to develop a regulatory and operating framework to reinforce its role as the major repository for the nation's savings, Sage Life executive chairman Louis Shill said in the company's annual report.

Shill said this included a wide range of regulatory issues being negotiated with government.

One result already visible was the commitment to the trustee principle and broad agreement on a taxation basis which would ensure equitable life assurance taxation treatment.

Shill said he anticipated that provisions of the sixth schedule to the Income Tax Act — the complex regulation of tax payment when a policy was cashed in before maturity — would be abolished soon, although it was too early to speculate as to what would replace it.

Shill said other important developments would include progress in the process of deregulation, possible changes in the requirements for accounting and other disclosures of information particularly relevant to policy holders.

He expected the creation of an umbrella financial services Act which would encompass the activities of everyone involved in the financial services sector.

He saw participation in the formalisation of more appropriate and sophisticated investment instruments and markets.

Finally, further discussions would be needed to establish the so-called level playing fields between various financial services activities.

MARVOL

Marvol Holdings S.A.

(Incorporated in Luxembourg)
("Marvol")

Concorde Travel Holdings Limited

(Incorporated in the Republic of South Africa)
(Registration number 87/02975/06)
("Concorde")

Result of offer by Marvol to acquire 51% of the entire issued share capital of Concorde

1. **Acceptance of offer**

Curle Securities Limited is authorised to announce that, in response to the above offer, 63 Concorde shareholders accepted in respect of 7 144 635 shares, constituting 44,65% of the issued share capital of Concorde for the group's mail order products dropped.

return to the previous excellent compounded growth."

Funds to air asset stripping fears

BDAY 31/7/92

LINDA ENSOR

CAPE TOWN — Greater obstacles were likely to be raised against asset stripping of pension funds by those companies involved in mergers and takeovers when the Financial Institutions Amendment Act was implemented later this year or early next year, Southern Life employee benefits GM Roy Lennox said yesterday. (58)

Any transfer of retirement funds' business would have to satisfy the Registrar that it was reasonable and equitable and that it recognised the rights and reasonable benefit expectations of beneficiaries.

However "reasonable benefit expectations" needed further clarification, said Lennox.

Other changes included heavier penalties of as much as R2 000 for late payment of contributions and a fine of R2 000 multiplied by the number of members of funds in cases of failure to pay over contributions to the fund.

Lennox said in a statement Southern Life welcomed the principle of protecting fund members in the legislation. 31/7/92.

However, he expressed concern over the power given to the authorities to make arbitrary decisions on matters such as the waiving of statutory reporting requirements for exempt funds.

The Act has passed through Parliament but the effective date has not been announced and regulations still have to be finalised.

Southern Life was concerned the changes would probably result in higher costs to the industry and to fund members.

The Act would also have a major impact on underwritten retirement funds which enjoyed exemptions from several provisions of the Pension Funds Act.

The administration of these funds was likely to become more costly as a result of the more detailed reporting requirements, the need for the insurer to comply with the Registrar's requirements for administrators, the need to revise existing standard rules and the possible increased costs of fund registration where non-standard rules were used.

Lennox said discussions between the industry and the Financial Services Board indicated that the regulations to the Pension Fund Act would incorporate details of "model rules". The board was promoting standard rules in an attempt to reduce the burden on its own staff.

Medi-Clinic outlook bright

LINDA ENSOR

CAPE TOWN — Rembrandt's hospital group Medi-Clinic was on track for a good financial year to end-March 1993 and would see a further improvement in earnings, chairman Prof Jan de Villiers said after the AGM yesterday. BDAY 31/7/92.

The group was quite happy with its performance and while there had been a slight drop in occupancy levels, this had only been in the order of 1%, he said.

Depending on geographic area, occupancies were running at between 60%-75%.

De Villiers said all the group's projects were on schedule. The latest hospital built, the Stellenbosch Medi-Clinic, had accepted its first patients in April and its performance had exceeded expectations.

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Banking shares set to outperform industrials

58

SHARON WOOD

BANKING sector shares will probably outperform industrial sector shares during the next few months, banking analysts say. BIDAY 31/7/92.

This may happen despite an 11,7% fall in the banking index since the beginning of July, in sympathy with the overall index's 7,8% slide during the same period.

Banking analysts expect poor June year-end results from industrial companies.

Ed Hern Rudolph analyst Alan McConnachie says banking sector earnings will significantly outperform industrials. But banking shares will still fall if industrial company shares drop.

The relative value of banking sector shares is good but investors should be selective, another analyst says.

Absa shares have taken a hammering recently, falling more sharply than the other major banks during the last month, down 16% to R8,15.

The analyst attributes this to expectations that earnings will underperform compared to the rest of the sector during the next few years because of the rationalisation process.

Analysts differ on when they expect SA's biggest bank to settle down to routine business, giving earnings one to three years to match the sector.

Absa offers fundamental value, while FNB offers very good value. Standard Bank remains overpriced despite a R5,50 drop to R62 during the past month.

Nedcor Bank, through the Perm, has interest margin problems as a result of the two drops in the prime overdraft rate recently and its large exposure to the mortgage market, he says.

The group has been caught in the crossfire between Absa and the other two major banks, he says.

He says the group's fundamentals offer value but its short-term earnings will probably underperform.

Martin & Co analyst Richard Jesse says the traditional building societies will do worse than the traditional banks because of the nature of their deposit books and the downtrend in interest rates.

This is already reflected in Nedbank's and Absa's lower price to earnings ratios of about eight, compared to Standard Bank's price to earnings ratio of 12,23 and FNB's of 9,95.

High :tandards set to meet client needs

HAS the empyee benefit industry lost sint of its raison d'etre? Many blieve it is more geared to axlodging than to looking aftr te people it must pay claims to.

With thi inmind, Roxburgh Trust has builtp a solid base of clients wh ca for more than products. The want service and an efective interface with fund adninistators.

Roxbugh 'rust employee benefits livisio director Geoff Ditchfied says "We take pride in the quality o service that we offer our dliens."

The trust set specific objectives to ensur new accounts are optinally maintained. These incude:

☐ Quality of service. Every schedule, invesment statement and set of rules must pass quality control standards. Life assurers dealing with Roxburgh are aware of these standards and are used to unsatisfactory items being returned;

BDM 31/7/92.

Correct

☐ Timeous and correct payment of all benefits. After all, funds exist to pay claims, says Ditchfield. "The recent Revenue Department practice of allowing tax to be deducted at source in certain circumstances enables us to settle claims faster.";

☐ Fund claimants or their dependents must, if possible, be interviewed to ascertain their needs and to explain options;

☐ The risk benefits must be rebroked from time to time to ensure value for money. Clients must be aware that switching life assurers to save a few rand may not be in their interests;

☐ The client must be kept informed of all industry or market changes; (58)

☐ Fund investment options must be discussed with the client and relative performance versus risk relationships outlined;

☐ The client must be aware of the legal and taxation obligations associated with their fund;

☐ Close contact must be maintained with the client.

Meeting these ob:ectives requires the co-operation of clients and life assurers. "We believe that our success is a reflection of that co-operation."

HCI GROUP FM 31/7/92

Legacy of Abacus (58)

Last year's R22m loss at Abacus Holdings affected heavily Hosken Consolidated Investments (HCI)'s 1992 results, despite improved earnings from HCI's insurance operations.

HCI has interests in short-term insurer IGI Insurance (which holds 80% of Abacus), life assurer Safrican Life and investment holding company Crendell.

IGI increased EPS (before deduction for discontinued operations relating to Abacus) by 19% to 213c and Safrican Life reported 17% growth in EPS, to 54,4c.

Michael Lewis, chairman of all the companies, must regret becoming involved in the then Interboard, now Abacus, as IGI had to

FM 31/7/92 (58) FOX

increase its holding from below 50% after it agreed to underwrite last year's rights offer. This explains the consolidation of Abacus into IGI's and HCI's accounts.

However, IGI's insurance activities posted an impressive R9,5m underwriting profit against 1991's loss of R9,1m. Higher claims were more than offset by the R58m jump in net premium income, to R505m. *William Gilfillan*

CIB

FM 31/7/92

Following the paper chase

(58)

Usually central banks frown, to say the least, on the use of accommodation paper — bills not based on legitimate trade transactions — to raise funds in the money market. Yet that is precisely the scheme devised by a Reserve Bank official to give temporary financial help to the ailing Cape Investment Bank (CIB) at the time of its forced takeover by Prima Bank in December 1990.

If these bills represent legally enforceable claims (ie, are capable of being discounted), the SA Rail Commutor Corporation, which is CIB's largest creditor, may recover at least some of the R249m it lost when the bank collapsed.

At a meeting with the late Prima Bank MD Johan Bellingan and the then CIB MD Allan Greyling to restructure CIB, the official proposed that existing CIB debtors be asked to draw bills against fictitious trade transactions. Once the bills were endorsed by Prima Bank, they could serve as collateral should CIB need to borrow from the Reserve Bank. Though the banks had already merged, they were still separately registered.

According to a sworn statement by former CIB general manager Freddie Marais, bills totalling R75m were created "on the instructions" of Bellingan. In one such case 21 "fictitious bills" worth R20,3m, involving the Transvaal Distillers Ltd (TDL) group of companies, were drawn on various subsidiaries and associated companies in the group. It is known that these bills are still in the possession of the company's attorneys.

In this case the name of a property company — one of the subsidiaries — had been used to draw a bill reflecting a fictitious transaction. To justify the letter of credit, the bill was drawn against the company, Elgin Propco, for the "purchase of canning materials."

Registrar of Deposit-Taking Institutions Hennie van Greuning and CIB agreed that the identity of the Bank official would be kept secret. This was at the official's own request made when he proposed the scheme on December 15 1990. A letter, dated March 12 1991, which dealt with the matter had been drafted by attorneys Mallinick Ress Richman & Closenberg who, during a secret section 417 investigation into the liquidation of CIB, acted for CIB and Reserve Bank-appointed liquidator Tjaart du Plessis. It stated: "The only condition imposed by Mr ... was that Prima endorse the bill as a guarantor."

Van Greuning in a sworn statement admitted that a bank official had been present during this meeting. Greyling, asked by the *FM* whether Van Greuning himself had been present during the deliberations and whether he personally proposed that bills be drawn on CIB's debtors, said: "I would rather not comment on that."

Van Greuning, in his sworn statement, refuted claims that any financial loss would emanate from this scheme to fund the now liquidated CIB. However, in his affidavit, Greyling warned that Prima Bank could be liable for as much as R20,3m as a result of one of the fictitious transactions. He made this statement after TDL chairman Riaan van Rensburg refused to hand over the bills to attorney Hilton Gischen of the Mallinicks firm.

In the case of Elgin Propco, Greyling attested that "I verily believe that the bills are all in negotiable form and may be discounted at any bank or financial institution by Mr Van Rensburg."

The bills were drawn by various debtors and endorsed by Bellingan and another Prima director. Referring to a Supreme Court action in the liquidation of TDL which had been heard earlier, the March 12 letter continued: "We place on record ... we were specifically requested to merely deal with the bills and not to reveal the presence of Mr ... at the meeting as it was felt that this information should not be available for public consumption."

After TDL's Van Rensburg was requested to sign bills totalling R20,3m, drawn against his group of companies, he wrote to Prima Bank on January 9 1991 after obtaining legal advice. In his letter, marked for Marais' attention, Van Rensburg referred to a telephone conversation he had with a Prima Bank official during which he had been asked to sign the bills.

Van Rensburg, however, said that he would only sign the bills on condition that he be informed in writing for what purpose the bills would be used. He also requested Prima to confirm that "there is nothing irregular, in respect of bank practices or the law, involved

BOLAND BANK FM 31/7/92

Finding a voice (58)

It is tempting to see the refusal by Absa and associated parties to support Boland Bank's proposal to increase its capital base as simply a prelude to a takeover attempt. Absa is not commenting, as court action may still be pending, but the bank has stated it is not interested in acquiring Boland.

Control may or may not be the real issue. But it is not altogether surprising if shareholders decline to support the board's proposals in circumstances where the performance of the company has been poor and shareholders have no real influence over management.

Boland MD Gert Liebenberg is no rookie when it comes to a fight over the bank's independence. In 1985, through the Supreme Court and then in the Appeal Court, he fended off a bid for control orchestrated by Volkskas.

Boland's memorandum and articles of association do not permit any one shareholder, irrespective of how many shares are held, to vote for more than 1% of the issued capital. This is to avoid any party gaining control.

In 1985, an attempt was made through Volkskas to gain control by buying Boland shares in the name of nominee companies. Boland's directors, in terms of the then Banks Act, refused to register the shares until the beneficial owner had been declared. It was the only way they could ensure the Act was not being transgressed, but it also protected the control position.

This year, Boland told shareholders it intended creating additional authorised share capital in the form of 200m redeemable cumulative non-participating preference shares, so it could expand the capital base to comply with the DTI Act. Preference shares were chosen because voting rights of the

Cont

FOX FM 31/7/92 (58)

ordinaries would not be tampered with unless dividends on the prefs fall into arrears, an unlikely event.

The intention, says Liebenberg, was to issue only as many prefs as needed to comply with the Act. He adds it would not affect distributable profits or dilute earnings. Cash raised from issue of the prefs at the yield on the ruling price would be invested in a similar instrument which renders an identical return. It seems an ingenious way — for which, he says, there is a precedent — of complying with the Act without affecting shareholders' rights or returns.

Absa took the opportunity to highlight concerns about the voting rights. It claimed injustice in that it (through Volkskas), as well as Rembrandt, Sanlam and Momentum Life, each holding about 10% of issued shares, and the Mine Pension Fund, with 5%, have no board representation. It cited poor performance from Boland and inadequate disclosure.

It, therefore, interdicted the Bank's attempt to create the new capital. The interdict was postponed on the grounds that the matter was not urgent. But, at the AGM, the directors withdrew the special resolution, as the action could still be brought.

Of course, if shareholders are dissatisfied, they have the ultimate sanction of selling their shares. But they may feel, understandably, that they should try to protect or improve their investment by shaking the directors' cage.

Boland still needs to increase its capital base. It complies with the present capital ratio requirement of 5%, but the Act requires 6% next year and 8% by 1995. With the present capital structure, it won't be able to comply. How Liebenberg and his team are going to get out of this jam may be an unfolding saga for some time. He and his management team effectively control the bank, and are unlikely to surrender the privilege easily.

Gerald Hirshon

FM 31/7/92 (58)

BANKING DISCLOSURE

Bare details

FM 31/7/92 (58)

Within 18 months, SA banks will be faced with more demanding disclosure requirements. Yet many banks and their auditors have not taken advantage of the opportunity offered, by the SA Institute of Chartered Accountants (Saica), to help formulate new ground rules.

An accounting guideline will be issued early next year and will eventually become an accounting statement — part of Generally Accepted Accounting Practices — when Part Five of Schedule Four to the Companies Act is scrapped in January 1994. This presently protects banks from many of the requirements imposed on other companies,

Five hundred copies of a special exposure draft were distributed in September 1991 at a cost to Saica of R4 000 (excluding translation expenses), and only seven responses were received by November, the cut-off date. Saica's Monica Singer says further input has come from some auditing firms, the major banking groups and the Clearing Bankers' Assocation, all of whom are represented on Saica's Banking Interest Group.

However, she is reluctant to continue without more input from the industry, so a subcommittee of the Banking Interest Group is approaching banks individually.

The new requirements are intended to bring SA into line with international accounting standards. SA is one of 78 signatories to the International Accounting Standards Committee which issued a statement (IAS30) in 1990. This came into effect on January 1 1991.

Though SA banks generally lag international standards, two figured in a recent survey of annual reports (in English) of 100 banks, co-authored by Michael Lafferty and KPMG. FNB's latest annual report was ranked with those of seven other world banks in the top grade (80-100 marks), while SBIC appeared among 33 banks ranked in Grade B (60-79) marks. And all SA banks have improved reporting standards over the past few years.

Though most either support or accept fuller disclosure, points of disagreement remain to be thrashed out. Comments already received by Saica include criticisms that the proposals:

- ☐ Are "too specific and excessive";
- ☐ Will provide competitors with "sensitive" information;
- ☐ Request information that is "superfluous and adds nothing to the information disclosed by banks"; and
- ☐ Are inadequate. "In some instances insufficient disclosure is required particularly relating to undisclosed reserves."

Another disincentive to fuller disclosure is the cost of presenting the additional information.

Civic boss' rent is paid

Sowetan 31/7/92 58

■ RENT ROW Moses Mayekiso's annual R33 000

rent subsidy adds fuel to row over bond boycott:

THE bond boycott row took a new turn yesterday when it was revealed that its key proponent, civic and trade union leader Moses Mayekiso, receives R33 000 annually as a rent subsidy from an overseas donor agency. This will add to the criticism of the South African National Civic Organisation, of which Mayekiso is vice-president, which has called for a rent and bond boycott from tomorrow. The call has been slammed by a range of organisations including the ANC and its leader, Mr Nelson Mandela. It has also led to building societies and banks slapping restrictive measures on bond applications from township residents.

See story page 2

LOA keeps tabs on agents' commissions

BDAY 31/7/92 (58/2)

THE principle that brokers and agents should receive equivalent remuneration for the same level of production is important to the life assurance industry and the Life Offices' Association (LOA) says it goes to great lengths to maintain "equivalence of reward".

LOA deputy director Jurie Wessels says: "The maximum commission a life assurer may pay a broker is stipulated in the Insurance Act. The law says nothing about agents' commissions."

This is because agents can receive remuneration in a number of ways, such as company cars and housing subsidies, which would be complex to regulate.

"Because of the types of benefits mentioned, and also because agents get offices, secretarial services and equipment that brokers have to buy or rent, the cash component of agents' commission is much lower."

Anomalies

All of this makes it impossible to ensure equivalent commission levels through legislation, but the LOA monitors equivalence of reward, says Wessels.

"We point out any anomalies to the assurers and get them to bring their agents' remuneration in line with the regulations for brokers. We also report on these surveys to the Registrar of Insurance."

A small variation in favour of agents is allowed, mainly because agents do not have the options that brokers have in structuring their taxable income. For example, an agent has to use the offices provided by his employer, while a broker may have expensive offices (and a large tax deduction for expenses) or may decide to have cheaper offices and a bigger taxable income.

Wessels says: "We are aware that there are brokers who believe agents' commissions are too high. However, we do not believe that this is the case. One of our indicators is that many life assurance agents become brokers while few brokers become agents."

Life assurance going back to basics

BDAY 31/7/92 (58)

THE future of the life assurance industry, with particular reference to the role of intermediaries, was the focus of a paper presented recently at the prestigeous Multirand Forum.

Guest speakers representing the Institute of Life and Pensions Advisers (ILPA) were Nigel Scott, assistant GM of legal and tax services at Southern Life and Roxburgh Trust technical director Peter Nieuwoudt. The two said that the aggressive tax planning climate of the '80s had given rise to a wide range of financial packages and syndicated investment opportunities whose primary purpose was avoidance or postponement of liability to tax.

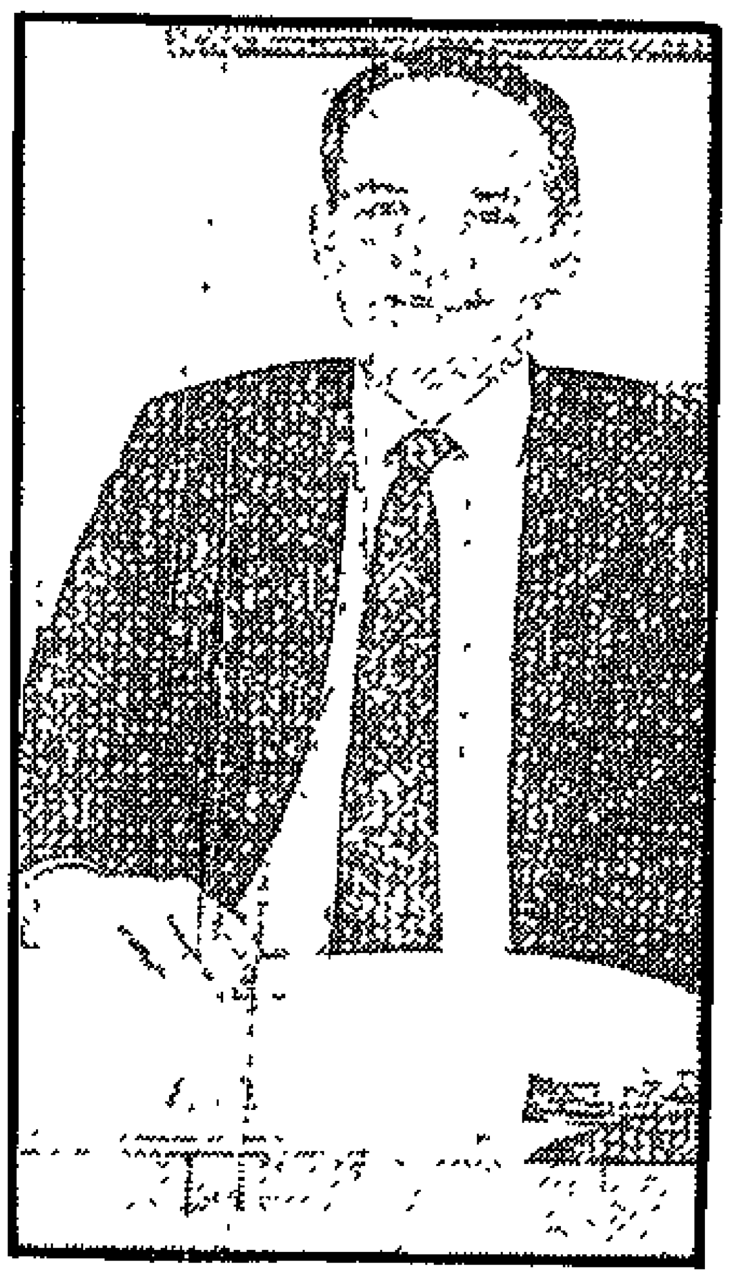
Given an inflationary climate, comparatively little regulation and a flair for product innovation, it was not surprising that the life assurance industry had pioneered a number of highly successful schemes.

Retrospective

But relationships between tax practitioners and the revenue authorities recently reached an all time low, and the situation was exacerbated by the enactment of retrospective legislation and a hardening of attitudes by the courts.

The industry recently imposed strict self-regulation in an effort to curb aggressive products.

Nieuwoudt said: "It's now back to basics, with sales being much more focused on the satisfaction of individual customer needs. Life assurance must stand on its own merits and cannot be afforded a special status in the light of tax or other considerations."



PETER NIEUWOUDT

He noted that this trend was little different from the general trend in the tax environment. "Forward tax planning consists of ordering strategic affairs correctly, and not of exploiting tactical opportunities or transitional loopholes."

The past decade had been "the technocratic era", which had seen the development of sophisticated software and computer systems.

These had given rise to inflation linked investments and universal life policies and placed SA at the forefront of product technology when it came to flexibility and the sheer range of available options.

Nieuwoudt said: "The pros of having a massive range of different options are easily outweighed by the cons of consumer confusion. This has been evidenced by the recent spate of healthcare products which are unnecessarily complex and extremely difficult for advisors to comprehend, let alone to draw comparisons."

Scott said there was a strong move back to less confusing products and a streamlining of product ranges.

Turning to intermediary liability, and the fact that the Masterbond saga was still fresh in many minds, Scott said financial consultants should take heed of some warning bells.

"It is essential to use special caution when dealing with tax aggressive, financially risky or highly entrepreneurial schemes.

"Intermediaries must apply greater standards of care when selling such schemes or professing skills which fall outside their area of general competence," he advised.

In particular, intermediaries should realise that taking an equity stake in what they were selling, gave rise to a potential conflict of interests.

If the approach of overseas jurisdictions was to be followed, the potential liability of the intermediary was severe.

Scott said there was definitely a growing consumer awareness being felt in the financial services arena.

He said that as consumers became more critical of the players and products in the life assurance industry, so ombudsman Justice G P J Kotze had seen a growing number of complaints.

"One of the most common problems experienced seems to be a perception of misrepresentation by agents or brokers.

"The next most common is disappointment about the surrender values of policies."

This was not to say that such complaints were always substantiated or even justified, but the existence of the ombudsman's office was indicative of the recognition of a need for an impartial arbiter in the interests of consumer protection.

With the enactment of a Long Term Insurance Act next year, there would certainly be some consumer protection clauses, such as allowing for "cooling-off" periods when policies were bought.

Debate

"There has also been hot debate about deregulating the industry. The broker commissions charged are only one of three instances of price fixing still existing in SA. However, when commissions were deregulated in London, for example, it was found that they increased rather than decreased, so this may not be the answer for SA," Scott said.

Rather, disclosure should focus not only on commissions but on all costs involved in policy sales.

Key components of the proposed Financial Services Act were the accreditation of intermediaries and the self-regulation of SA's financial markets.

Brokers and agents could form a regulatory body providing some entry-level exams, as well as codes of ethics and other necessary mechanisms to ensure that only qualified people could sell insurance.

"As things stand, the barriers to entry are low, and this harms the industry's image," he said.

Businesses told to forget size and spread risks

BDAY 31/7/92. (58)

WITH the economy in its present state, certain fundamental trends have begun emerging with growing intensity.

Roxburgh Trust marketing director Konrad Taeuber says that financial interdependency has become more acute, and the propensity for fewer, larger groups to dominate the economy is intensifying.

The formation of financially inter-related entities progressively constricts smaller businesses, resulting in crowding-out.

"The financial institutions exacerbate the situation as they retract from positions of over-zealous generosity during expansionary phases to utter paranoia with their credit extensions during recessionary phases like that which is being experienced now," he says.

KONRAD TAEUBER

Notion

Business must stop being obsessed with size, and the notion that it will trade itself out of its financially restrictive quagmire. This stereotyped approach will have its sequel in deteriorating profitability and increased exposure, culminating in impaired financial clarity, he says.

Taeuber says the corporate financial planner is the architect of an enterprise's future. It is his duty to formulate a sound, flexible financial policy based on operational and capital budgeting, linked to the business cycles.

The manager of a business enterprise is mandated to use company resources to maximise net returns.He should be equipped with appropriate skills and/or support to optimally engineer a package of financial instruments to ensure the business's ongoing viability.

It is necessary for business to realise that a wider spectrum of options is available for inclusion in a financial instrument portfolio, Taeuber says.

Businesses need to spread their exposure between financial institutions in order to optimise risk, maintain suitable liquidity ratios and maximise their returns to enhance sustainability. A link to one particular institution will lead to financial impotence.

Taeuber says that as a brokerage, Roxburgh Trust believes it is ideally positioned to provide an unbiased view of available tax and cost efficient financial alternatives. Roxburgh also maintains close ties with a wide variety of authoritative institutions whose services it may use to ensure the successful adoption of suitable financial instruments.

He says that every obligation has a potential chance of a default and in terms of the financial institutions, the chances of this occurring are greatly enhanced during recession.

This conclusion is endorsed by the number of liquidations being experienced; they are expected to exceed 2 000 in the Transvaal alone this year.

"With the multiplicity of financial institutions offering alternative degrees of service quality and product superiority, it's imperative that businesses shop around to establish the most suitable composite financial package — irrespective of the size of the business."

Restructuring

Roxburgh Trust is able to facilitate matters relating to the restructuring of assets which may incorporate the re-financing of property, current assets, loan accounts and tax and cost efficiency.

Taeuber says cash flow management is an essential component in financial planning, and entails maintenance of liquidity ratios to enhance sustainability.

"Fixed obligations to pay must be staggered to achieve serial redemptions to correspondingly ensure a smoothing of cash outflow. Satisfactory provisions and reserves must be created to satisfy impromptu calls and obligations."

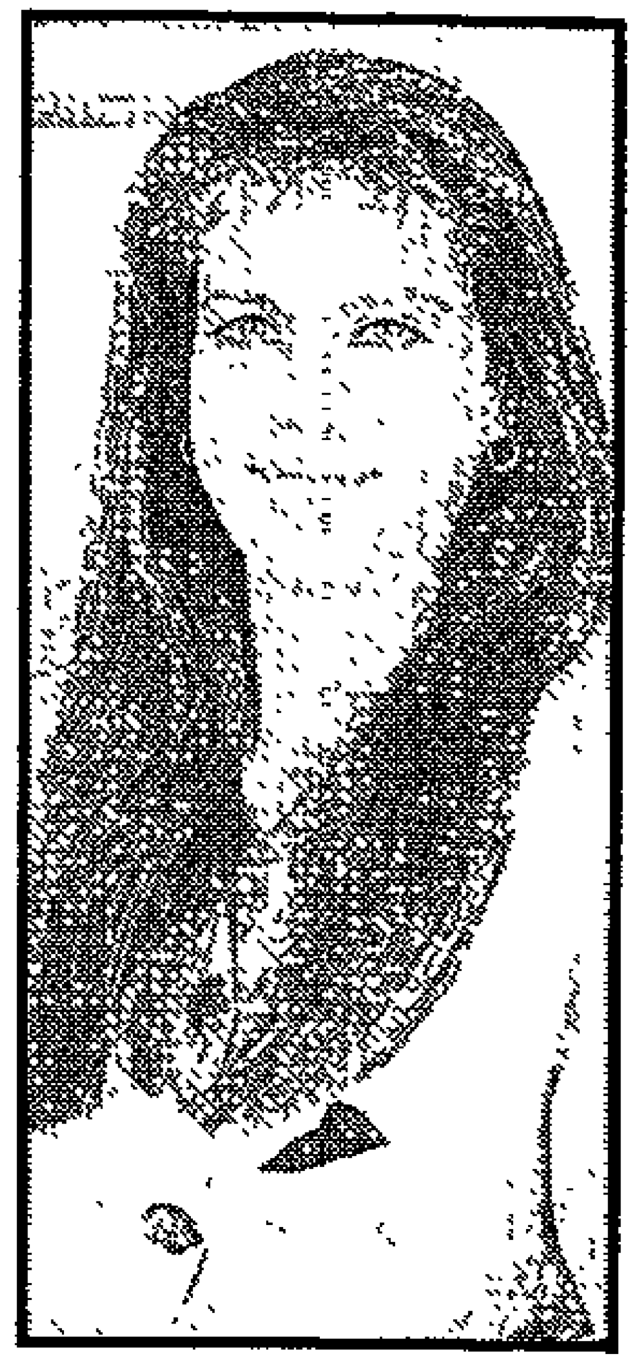
Roxburgh Trust is capable of assisting businesses to realign their focus within the context of financial planning to ensure ongoing viability.

This may entail contingency funding proposals which will take into account the company's assets, its cash flow and tax position, employer/employee relationships, current legislation, guarantees and contingent liabilities.

Business Day SURVEY

Financial planning consultants Roxburgh Trust says businesses must realise that a wider spectrum of options is available for inclusion in a financial instrument portfolio. Businesses need to spread their exposure between financial institutions in order to optimise risk, maintain suitable liquidity ratios and maximise their returns. ***MELANIE SERGEANT*** *reports.*

Innovation and efficiency keys to success



MARGARET GROVE

STRICT client selection and efficient procedures pervade the Roxburgh system and contribute to the success of Roxburgh Insurance Brokers, the subsidiary operating in the short-term insurance field.

The company specialises in personal lines group schemes.

It arranges liquidation bonding facilities, as well as commercial short-term insurance and credit guarantee facilities.

MD Margaret Grove says: "Through innovation it is possible to surmount many of the problems which persist in the short-term insurance field.

With SA going through so many dramatic structural changes, the company is putting emphasis on "flexibility, efficiency, innovation and cost effectiveness".

58

This will ensure a culture that will be adequately armed to address any future requirements, says Grove.

She says one major area requiring a new outlook is the duplication which persists between insurance companies and brokers.

BDM 31/7/92

Selective

"Duplication means extra costs and is often unnecessary," she says.

To keep group schemes competitively priced, Roxburgh Insurance Brokers is very selective when it comes to client choice, says Grove.

Clients understand that lower claims mean lower premiums, so they tend to be conservative in their claims in order to benefit in the long term.

"Benefits are obvious. Premiums are kept low and many organisations are now using Roxburgh's short-term group insurance package as a fringe benefit for employees and senior executives."

Grove says the key to future profitability and growth is creativity and the constant pruning of unnecessary paperwork.

Keeping control over claims is also vital to ensure that minimal premium rates are maintained.

Efficient control is made possible by the use of a sophisticated computer system.

Costs are contained by eliminating duplication where possible.

INSURANCE FM 31/7/92

Upping the ante (58)

Special events can involve "megarisks." This is why cancellation cover for the next World Soccer Cup has already been arranged, two years before the competition takes place. The sum insured is in excess of US$250m, according to one source.

The risks relating to special events are varied and unpredictable. For instance, when Madonna performed in Japan, a deluge of rain swept the open stage, putting the star at risk of an electrical shock. The performance was cancelled and her fans rioted. Paolo Cavalieri, GM of Standard General Insurance — whose London office of StanGen's parent, Generali, arranged the cover — recalls: "It was an expensive lesson."

Brokers who specialise in placing special events risks, sports and cultural visits, for example, warn that SA promoters who had not made their arrangements before the collapse of Codesa may face stiff premium

Continued

increases. Rates have become volatile in line with underwriters' concern over political instability and the level of violence.

Cavalieri notes the promoters of the Cameroon soccer tour sought cancellation cover and related insurances just days before the tour was due to commence and when risk of cancellation was at its peak. "The time to negotiate insurance rates is during the event planning," he says. "It should be built into the expense budget from the start."

A typical premium for a special event, on which cover is arranged several months before and at a period of low political tension, starts at about 2% of the sum insured. Hastily arranged cover, under pressure of riot or similar risk, will see the premium go up "at least a few percent — and that's if cover can be obtained at all," says Cavalieri.

The local insurance market has a small but growing capacity to underwrite special events. Reinsurance is invariably used, with Munich Re becoming increasingly active. Most major risks find their way to London, where there are Lloyd's underwriters with a century of specialisation in this type of business. There is a growing interest in underwriting special risks from the European markets, particularly Germany.

Special event cover was placed by a handful of specialist brokers, usually through London, until the sanctions era began. After that, sponsorship — with healthy tax breaks — allowed for an element of self-insurance to be budgeted. Now special event insurance is close to being "normalised" again.

However, in the two decades since sports tours were routine, the numbers have changed. A sell-out of all tickets for the day-night match against India at the Wanderers may attract a total gate worth about R1,25m. Traditionally, tickets which are pre-sold are not refunded in the event of a wash-out but sports administrators are reconsidering this policy in the light of today's high admission prices.

A match scheduled for December in Johannesburg attracts a 20% probability of total wash-out. But the seven day-night matches planned for the Indian cricketers also include venues where the possibility of rain is slight so pluvious cover, should the administrators adopt a refund policy, would probably be spread across all venues. In any case, such insurance costs are effectively built into the ticket prices. ■

BUSINESS BAROMETER

Reshape economy (58)

STANDARD BANK'S *Economic Review* calls for an immediate start to a homegrown structural adjustment programme, arguing the present weakness of the economy makes this imperative.

Standard's economists also contend the expiry of the Third Interim Arrangement on South Africa's standstill in August next year gives the opportunity to normalise relationships with foreign financial markets.

According to the *Review*, only full access to International Monetary Fund facilities would allow this normalisation to happen. This in turn would mean an economic strategy, with broad-based domestic support, acceptable to the IMF.

W/mail 31/7-6/8/92

Banks take a big interest in taxis

W/Mail 31/7-6/8/92 (58)

Minibus taxi owners, hit by high and rising costs, pay high finance charges to buy their vehicles —despite special arrangements with the banks.

REG RUMNEY *reports*

PITY the poor minibus taxi owner looking for vehicle finance. He is likely to pay a high (though not the highest) rate of interest available — despite having to deposit large "fail-safe" funds upfront to get vehicle finance.

Two special financing schemes operate in the taxi industry, one in conjunction the South African Black Taxi Association (Sabta), the other with the National African Federation of Taxi Owners (Nafto).

The Sabta scheme was taken over from Wesbank by the Federation of African Business and Consumer Service Organisations-linked Futurebank.

It is estimated that only about one-fifth of taxi owners actually use bank finance. Those who do now pay interest charges at a rate of around 25,25 to 26,25 percent a year.

That is only a few percentage points less than the highest rates allowed in terms of the Usury Act for amounts over R6 000, effectively 28 percent (plus a "VAT" charge of 0,25 percent).

To put these interest rates into perspective, a client who is a good banking risk (for example, with property and a record of being able to handle credit) can negotiate a rate of 19,25 to 20,25 percent.

Banks use the "prime rate" as a benchmark — the rate that banks are supposed to charge their best customers, usually big corporations.

Prime rate now 18,25 percent rises or falls depending on demand for credit and the monetary policy of the Reserve Bank. These days the level of inflation determines the level of interest rates.

One should also look at deposit rates — the cost to the bank of raising money to lend out. Most banks pay depositors 12,5 to 14 percent for deposits of six months or longer. The difference between those rates and the rates charged borrowers, minus costs, is how banks make their money.

Economics keeps the taxis moving so fast to pack in the maximum number of fares

Nafto's scheme uses Standard Bank's leasing arm Stannic to finance the purchase of taxis.

Stannic assistant general manager Brian Hardie says the going rate in terms of the Nafto scheme is prime plus seven percent. This works out at 25 percent, a similar rate to that paid by members of the Sabta Foundation.

Buyers must stump up a 15 percent deposit, and repayments are made over 42 months. In addition, 15 percent of the price of the vehicle is paid into a special fund, refundable when the vehicle is paid off.

This compares with the normal hire purchase terms of a 10 percent deposit and 54 months to pay. Businesses or individuals using vehicles for business can lease them over 60 months with no deposit at all.

Hardie agrees that lower rates can be obtained by private customers with a good track record, but cites the high cost of administration in dealing with taxi buyers.

Also, in theory the special fund system encourages greater participation by taxi buyers in ensuring accounts are paid. In practice that hasn't happened, and there has been intimidation of members not to pay. Hardie says the scheme has only be running for two years, so its hard to gauge the bad debt ratio, "but one-third of our accounts are in some kind of arrears".

Futurebank managing director Neville Watchurst says his bank charges those who participate in the Sabta Foundation scheme prime plus eight percent.

Again, the repayment period is 42 months. The Sabta scheme requires a payment into a pool of 15, 20 or 30 percent of the price of the vehicle. This is repaid at the end of the 42 months, the amount depending on the rate of default. For first-time buyers there is an extra R3 000 actual deposit.

The pool system is supposed to encourage collective responsibility. However, Watchurst says the default rate is quite high now because of the recession.

He won't quantify the rate of default, but says: "If you put in a rand you won't get a rand back." Since the pool money must have been earning interest, which could be used to cover losses through defaults, the rate of default must be substantial.

Watchurst echoes Hardie when he says the interest rate is high because of both the high risk and the high cost of collecting repayments. "We don't have the luxury of putting through a debit order on the buyer's account to collect the monthly repayments." In most cases the collection is physical.

Sabta public relations manager Mike Ntlatleng explains that eight years ago no banks would give minibus taxi buyers finance. Hence the setting up of the Sabta Foundation scheme. He says the interest rate is reasonable in the light of a high rate of default, repossessions and abscondment of buyers. Around 40 vehicles a month are repossessed, he notes.

Most members of the scheme are first-time buyers, he says, and often have less than three years experience in running taxis.

The rising price of vehicles also adds to taxi owners costs. A Nissan 16-seater now costs R62 000, a Toyota R72 000.

The cost of insurance, because of theft and a high accident rate, is another burden. Hardie says insurance rates vary between 14 and 18 percent of the cost of the vehicle.

On the other hand, pressure from communities not to raise taxi fees, especially in recessionary times, puts a lid on how much the taxi owner can recover from customers.

THE WEEK AHEAD by Simon Willson

Better gold valuations should bolster reserves

BIDAY 3/8/92

NOW THAT the end of the second quarter is past, gold and foreign exchange reserves should look a little healthier when the July level is released at the end of the week.

Reserves took a knock in June, when they dropped R200m, but the total stayed above the psychological R10bn mark at R10,2bn against May's R10,4bn. End-quarter interest and dividend remittances were probably responsible for the dip, extending a pattern that also saw matching falls in total reserves at the end of the December and March quarters.

July reserves could also be supported by a rise in the rand gold price valuation, which has fallen consistently for the past four months.

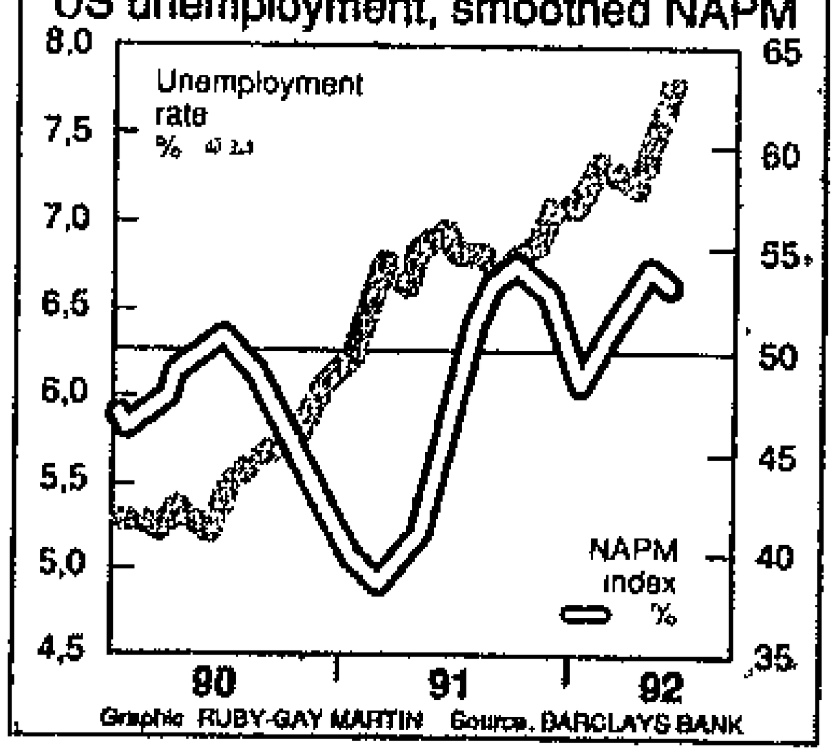
Concerted central bank dollar-buying in the third week of July dragged the commercial rand back from fresh 1992 dollar highs around R2,72 to its current R2,75-R2,77 range.

But, at the same time, bullion continued to test $360, and this combination of a weaker rand and steady bullion should haul the Reserve Bank's gold price valuation for July back from the R856 low in June.

Internationally, Western central

Dips: make mine a triple

US unemployment, smoothed NAPM



Graphic RUBY-GAY MARTIN Source: BARCLAYS BANK

banks' itchy trigger fingers could be tested again this week with the next spate of US economic indicators.

There are several that could still depict weak US growth, increasing downward pressure on the dollar and probing the central banks' resolve to defend the DM1,45 level again.

As the chart shows, the fear now is that US economic activity — represented here by the National Association of Purchasing Management (NAPM) survey — is about to make a third dip.

The July NAPM is out later today, and is poised to trace a third dip to follow in sequence after the 1990-91 and 1991-92 slides on the chart.

The NAPM survey, which mea sures activities such as orders, em ployment, production and deliverie in the manufacturing sector, is one several US indicators that has begu to etch a triple dip recession.

The NAPM line's "U" on the char has become a "W" and threatens t become an "UM" as each rally stall The index ducked to 52,8% in Jun from 56,3% in May.

Tomorrow, the index of US leadin indicators for June is released. It 0,6% uptick in May was a fifth con secutive monthly rise, but the index i thought to lead the real economy b about nine months.

On Friday the July US employ ment report is published. US discoun rate was cut after the poor June re port showed the jump in unemploy ment, shown on the chart, to 7,8% While the overall rate may be stead for July, there may be a turnaround in the 117 000 drop in non-farm re cruitment for the month.

The Bundesbank council meets again on Thursday after its summer break, but bank spokesmen have al ready ruled out any easing in credit conditions despite the fall in German inflation announced last week.

MONEY MARKETS by Hilary Gush

Equities slump helps ease rates

BIDAY 3/8/92

ALTHOUGH the capital market has been the main beneficiary of the recent slump in equities, it has not been the sole heir to institutional funds looking for rosier returns. Money market instruments have also found favour with organisations — resulting in a gradual decline in rates.

The 90-day liquid BA rate continued to ease last week falling slightly to trade at 13,5% from 13,6% and 13,8% respectively at the end of the previous two weeks.

A softening of rates usually indicates an expected improvement in market liquidity.

The money market shortage see-sawed to reach R4,319bn on Wednesday, prompting the Reserve Bank's Corporation for Public Deposits to offer twice to buy back R500m worth of gilts and semi-gilts.

Liquidity should pick up this week as the month's government spending reaches the market.

The Treasury's decision not to roll over R3,5bn in RSA loans maturing at mid-month should also ease tight liquidity.

Profit-taking by institutions and foreign gilt-selling saw rates on the capital market edge up over the week.

On Friday the yield on the bellwether Eskom 168 bond was up slightly at 14,70% from 14,59% at the of the week.

The yield on government R150 stock followed a similar pattern, hardening to 14,83% towards the weekend after trading 10 points lower at 14,73% on Monday.

Medium-dated gilts remained strong and rates stable, however, as few sellers came into the market.

The move out of equities and into gilts which started in the first quarter has maintained its momentum despite a small recovery in the stock market last week.

Planned mass action this week is likely to boost the capital market further.

An expected easing of consumer inflation also bodes well for gilts, but yields on capital market instruments should stay around their current levels this week before resuming a downward trend.

Ban on gold exports lifted

BIDAY 3/8/92

TAIPEI — Taiwan has lifted a 44-year-old ban on the export of gold in line with the end of the period of communist rebellion or state of emergency.

Deputy Finance Minister Lee Chung-ying said the legal force of the period of communist rebellion ended on Friday. During the period, Taiwan allowed the import of gold but forbade its export.

Under the long-awaited liberalisation move, Taiwan banks could be allowed to operate private gold accounts for individuals seeking gold investment. The move is expected to help the island become one of financial hubs in the Asian Pacific region, boost the gold market and pave the way for the futures market. — Sapa-AFP.

Acquisition pays off for Hortors

GAVIN DU VENAGE

PAPER and packaging group Hortors' strong sales growth of 68% for the year ended March 1992 was mainly due to the group's acquisition of RT-Sparhams last year, chairman Edwin Jankelowitz said in the company's annual report.

One of SA's oldest typesetting and reproduction houses, RT-Sparhams had a solid customer base of major advertising agencies, graphic design houses, consumer product manufacturers and magazine publishers, he said.

Hortors made good use of the technology employed by Sparhams to win the Sappi Printer of the Year Award, and the best calendar and annual report categories.

Jankelowitz said the winning of the Sappi awards was especially pleasing as the company had only been operating in its present format since April last year.

Another significant development was the upgrading of Artone Press, targeted at the home entertainment industry, to take advantage of the growing market for compact discs.

Artone would stop printing record covers with the expected demise of vinyl, and focus on the demand for inlay cards and booklets for compact discs.

Focusing on niche markets had largely contributed to the group's success, he said.

However, the group had felt the recession's squeeze as smaller orders and tighter margins affected subsidiaries. But asset management programmes and cost savings managed to increase earnings by 72% from 8,3c a share in 1991 to 14,2c a share.

The budget for the new financial year reflected a continuing commitment to growth, and the balance sheet remained strong, said Jankelowitz.

Morkels bucks turmoil plaguing retail industry

5IDA7 3/8/92

LINDA ENSOR

CAPE TOWN — Political turmoil, labour unrest and the large number of public holidays in the first quarter of furniture retailer Morkels' current financial year had played havoc with trading conditions in the retail sector, Morkels MD Carl Jansen said after the group's AGM at the weekend.

He said retailers had experienced the brunt of the political power play which took place following the breakdown of negotiations and they were having to face pressures on all fronts — from consumers, unions, staff and suppliers — while government was not making life any easier.

However, Jansen was reasonably satisfied that steps taken to curtail the increase in costs and the growth in assets were effectively in operation. Morkels had performed well under difficult conditions, he said.

Achieving the group's targets and maintaining interim earnings in the period to end-September would depend greatly on the impact on trading of the rolling mass action which gets under way today.

Management has targeted a 7% increase in turnover and a 40% increase in earnings a share to 14,3c in the year to end-March 1993.

Jansen said the stayaway could be "very painful" for Morkels and could have a massive impact on its turnover as sales lost on one day tended to be lost permanently. Unstable conditions heightened the reticence of consumers to spend money.

"Our entry into a difficult year has been positively achieved to date," Jansen said. Turnover was slightly ahead of last year despite having lost 10 to 12 key trading days due to public holidays and political events in the first quarter.

The first quarter had also seen a 70% increase in labour unrest which had a marked impact on the ability of retailers to sell their goods. Jansen expected the recession to continue for the rest of the year.

Some slippage in bad debt had occurred but generally credit controls were working well. The group had tried to accommodate customers who found it difficult to pay rather than repossess goods. Jansen said people were taking longer to pay and it had been necessary to extend contractual periods.

Margins, however, were holding up well as Morkels had not cut prices to chase turnover.

New stores were being opened at a much slower rate this year following the overexpenditure last year which had hurt the group. Only prime sites were being taken up and the group was focusing on the rural areas.

Financial director Terry Simon said Morkels would benefit slightly from the increase in margins arising from the drop in interest rates compared with the fixed hire-purchase rates.

While the effect would not be significant, the differential would facilitate the achievement of the annual objectives, he said.

THE banking industry is in good health after the excesses of the '80s, and leading shares have top performers on the JS 18 months.

But investors should b the short term about the doubtful debt provisio emerge at the tail-end o recession, says Davis Bor lyst Graham Baillie.

While having a negativ profitability of the sector, pensation will be found margin to allow banks t increase in earnings, whic tainable in 1993 as asset vo in line with the expected i economic activity.

Baillie gives these view hensive review of the ba which will appear in the tion of The Investors' exchange working manu investors, professionals an

Looking further ahead, major challenge facing t gain access to the high consumer market. Banks d have an infrastructure to c manage a multitude of i transactions at an accept

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Nedcor's market rating ha perceptions of the quality o mortgage loan book and leve in areas of social unrest an

Recent investments (38)

DIAGONAL STREET

Bad debts a concern in the banking sector

THE banking industry is in good health after the excesses of the '80s, and leading shares have been among the top performers on the JSE over the past 18 months.

But investors should be concerned in the short term about the level of bad and doubtful debt provisions starting to emerge at the tail-end of the prolonged recession, says Davis Borkum Hare analyst Graham Baillie.

While having a negative impact on the profitability of the sector, adequate compensation will be found in the interest margin to allow banks to report a real increase in earnings, which should be sustainable in 1993 as asset volumes increase in line with the expected improvement in economic activity.

Baillie gives these views in a comprehensive review of the banking industry which will appear in the September edition of The Investors' Guide, a stock exchange working manual for private investors, professionals and businessmen.

Looking further ahead, Baillie says the major challenge facing the sector is to gain access to the high margin mass consumer market. Banks do not currently have an infrastructure to cost-effectively manage a multitude of individual loan transactions at an acceptable risk.

"As a result, we are likely to see closer relationships emerge between the retail sector and the banking sector to gain access to this market," he says.

"The banking sector is a core component in the future economic development of SA. As with many developing nations, banks have a dualistic role to play in servicing both the sophisticated and emerging markets for financial and related services.

In an analysis of individual banks, he notes that the Absa group has a strong presence in each of the major markets it serves and currently holds sufficient capital to enable operating divisions to improve market penetration.

Rationalisation of support structures and improvements in operational efficiencies will take time to emerge in the income statements. Absa is nevertheless set to play a major role in the continuing development of the financial system and share investment will be well rewarded.

Firstbank, in the wake of management objectives of becoming the most profitable major bank, currently tops the rankings in return of both assets and equity and is third regarding net income.

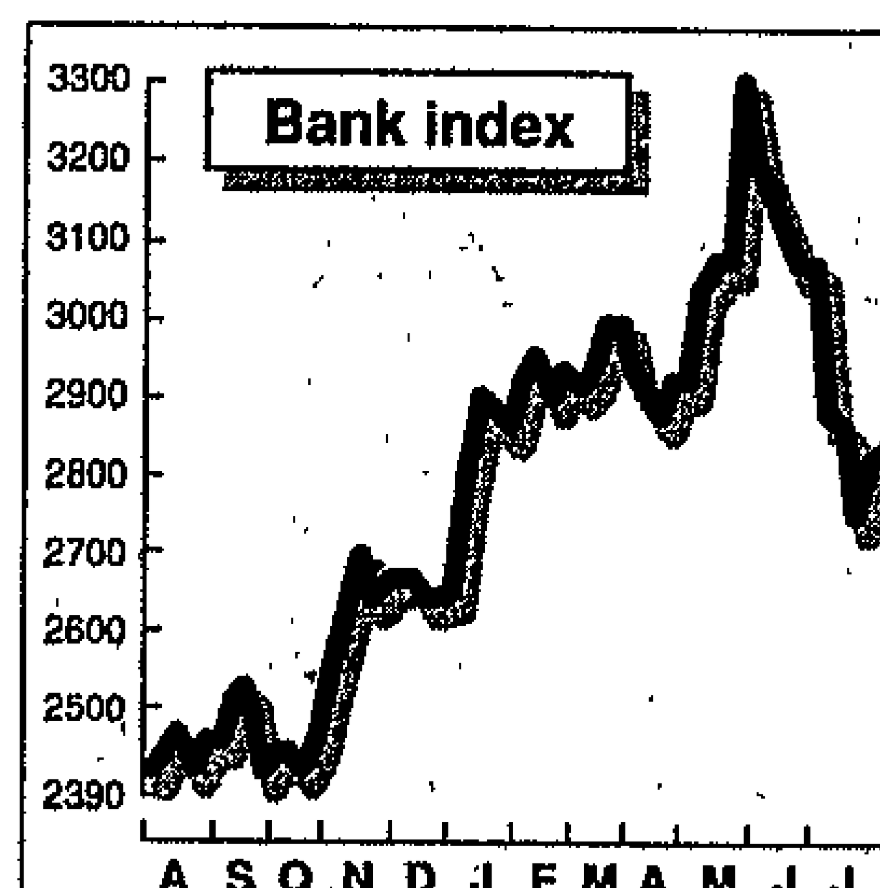
Baillie says the strategic positioning of the group with its involvement with FutureBank, places it in good stead to participate in the emerging mass market, enabling it to further penetrate the high-margin consumer finance market. The influence of Wesbank in the vehicle financing market continues to grow.

Nedcor's market rating has been hit by perceptions of the quality of the Perm's mortgage loan book and level of exposure in areas of social unrest and high unemployment. Conservative provisioning has already accounted for possible loan losses, and future profits are unlikely to be much affected.

"Nedcor's earnings growth over the past four years has been similar to that of the other major bank groups, and recent steps to refocus the group suggest a re-rating of the share is around the corner," Baillie says.

Stanbic is the second largest banking group and has held a competitive advantage in electronic delivery and transaction processing systems. These systems are being revamped to offer specialist attention in all market segments.

The group has recently built up its international network and is exceptionally well placed to continue its excellent track record of earnings growth.



Graphic RUBY-GAY MARTIN Source: I-NET

On the JSE last week, leading bank shares joined blue chip industrials in a rebound from recent lows as the market discounted this week's general strike. Overseas investors were more worried and boosted the platinum price by $10 to $485.

However, the recent price rise came too late to help RUSPLAT results for the year to June. Lower earnings and the total dividend cut by a third pushed the shares down almost 2% or 150c to R76 on Friday.

The star performer on Friday was CADSWEP which climbed 6,6% or 225c to R36, within a whisker of the June peak of R37. The rise was in response to fine interim results and lifted investment trust TEMPORA which increased its stake in Cadswep several months ago. Tempora rose 6,4% or 100c to R16,50.

MERVYN HARRIS

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R LEVIN

Recent investments boost Forim results

58

PETER GALLI

PROPERTY investment company Forim Holdings has posted earnings and dividends 32% higher at 3,3c and 2c a share respectively in the year to end-February, compared with the 14-month period to end-February 1991.

"The improvement is directly related to our investment last year in cosmetic and pharmaceutical distribution and the manufacture of generic drugs and nutrition," chairman Hymie Levin said at the weekend.

These investments added R19,17m or 805% in turnover, which rose to R21,82m in the period under review from R2,4m previously, while operating profit rose 47% to R2,08m. BIDAY 3/8/92.

Income from investments was sharply down at R74 000 from R293 000, with attributable profit after extraordinary items rising 37% to R1,24m. After deductions of R711 000 for dividends, the accumulated loss for the year eased to R3,7m from R4,24m at the start of the year.

Forim also announced at the weekend its acquisition of Group Administration Services and the 35% holding in Tyre Import Agencies (TIA) not already held by it. TIA is the vehicle through which Forim controls its trading interests and the deal gives it 100% control.

The R2,5m deal will be settled by the issue of 6,35-million shares at 40c a share. "I am confident that the group will again increase earnings a share in the current financial year," Levin said.

Forim's property portfolio was 98% occupied and contributed 59,3% of taxed profits despite a "modestly improved turnover", he said.

CMS expects a good year

DUMA GQUBULE

COMPUTER group Corporate Management Services (CMS) expects to achieve satisfactory earnings in the year to end-April 1993.

In financial 1992 the Premier subsidiary, which distributes information storage products, reported a 15% decline in earnings to 7,3c (8,6c) a share. Turnover declined by 23% partly due to the disposal of a software business. BIDAY 3/8/92

In the 1992 annual review chairman and CE Alan Baxter said although customers' overall expenditure on hardware was expected to decline, the proportion spent on information storage products, already just more than half of this expenditure, would grow and reach 70% of computer hardware costs.

GDM to widen income base

58

DUMA GQUBULE

TRADE finance group GDM Finance was planning to broaden the base of its income sources and achieve another satisfactory performance in the year ahead, chairman Michael Waring said in the group's 1992 annual review.

Despite the many obstacles to a political settlement, there would be significant opportunities for companies active in international trade and finance, he said. BIDAY

In the year to end-April GDM earnings climbed 12,8% to 38c a share and dividends by 14,8% to 15,5c a share. 3/8/92.

Waring said the group would broaden its income base but continue to concentrate on international trade and finance, the movement of goods and the provision of services.

MD John Cowper said the deterioration of the domestic economy and the general slowdown in the economies of the country's main trading partners had increased pressure on many clients.

The group had not sought asset growth for its own sake and had been increasingly selective in accepting clients. No single client represented more than 7% of GDM's total receivables. No business sector represented more than 25% of turnover, he said.

BDay 3/8/92

Sales at a snail's pace as buyers hunt bargains

B/DAY 3/8/92.

UNCERTAINTY about short-term political and economic prospects in SA is deterring people from buying homes in certain areas.

Branches of the Institute of Estate Agents say the market is much more depressed than expected, a result of prevailing economic and political conditions.

Comprehensive Property Services MD Stefan Swanepoel says recent contacts with more than 300 estate agents suggest there are more sellers than buyers on the market.

Standard Bank Home Loans (SBHL) GM Duncan Reekie says people in this political climate tend to be generally slow in committing themselves to homes or increasing their bond obligations.

Clearer

"However, I believe that when the future is clearer, the property market will take off."

Reekie says although homes are being sold in the current climate of unrest, they are taking longer to sell.

He attributes this to most home hunters being discerning and in no hurry to buy, while, to some extent, bargain-hunting is a feature of the market at the moment.

The 1%-point reduction in the home-loan rate, which came into effect on July 1, will not have a major impact on immediate prospects in the residential market.

DUNCAN REEKIE

"While the interest-rate drop is welcome, I feel it is too early to see any meaningful impression on property sales," says Reekie.

Nedbank assistant GM Tom Bangert says a current trend is that there is much transferring of existing bonds from one institution to another.

False

"This situation creates a false impression of high economic activity, but most of the business out there right now is not new business.

Bangert says the average life of a bond held by an institution has shortened from seven to five years.

While some banks report a tapering off in demand for home loans, this has not been the case for Nedbank, where demand continues to be fairly steady.

Similarly, the Natal Building Society (NBS) reports a 26% increase in new bonds for the year ending March 31, comprising 38 000 new home loans totalling R2,7bn.

NBS loans and savings assistant GM Trevor Olivier describes the buying trend for sectional title flats, properties and cluster homes as "tremendous" over the past 18 months.

Of interest in this general scenario is the trend in house prices.

Increased

As published by Absa in its latest quarterly review, houses have claimed almost 40% of the home mortgage-lending market.

It says the average price of medium-sized houses has increased appreciably in some regions, marginally in others in first-quarter 1992, but was down on the Reef.

Prices of those in Johannesburg, the West Rand and Vaal Triangle declined by 3%, while in Pretoria the figure remained static.

House prices can be expected to increase about 2% in real terms in the year ahead, providing there is no further destablisation of the political environment, says the Absa report.

Supporting future demand is a steady decline in houses completed (16,1% in 1991) and building plans approved (9,7% that year), falling to a five-year low in last-quarter 1991 and first-quarter 1992, says Absa.

EXISTING HOUSES A BETTER BUY ... OW

BUYING an existing house could still be a better proposition than having one built, but much will depend on economic conditions arising in a new SA.

The price of a home in a middle-class suburb is currently 25% to 35% below replacement cost, depending on geographical location, says Board of Executors Merchant Bank assistant GM Richard Harman.

The discount is due to current socio-political turmoil and the resulting poor economic climate. B/DAY 3/8/92.

Whether SA can use similar political developments to those which occured earlier in other independent African countries as a guide to what may unfold here is a moot point, but a similar pattern may unfold, as the pattern has its roots in the economics of supply and demand.

In Zimbabwe, Harman says, house prices initially softened from previous highs by up to 30%. But through development of a new middle class, demand began to rise.

"Within two years prices were above previous highs, and during the following five years they grew at an average rate of about 75% a year."

Hopefully SA will not experience quite the same rate of increase, as the accompanying inflationary implications would be disastrous for the purchasing power of the rand, he says.

However, it is realistically expected that the current discount should become a premium of 10% to 20% in the face of increasing demand.

"We can also assume building costs will rise and an escalation factor of, say, 10% would not be unreasonable."

Looking at likely investment implications, assuming an average three-bedroomed house in a middle-class SA suburb ... costs R175 000, this represents a 25% discount on replacement (R220 000).

Taking into account rising building costs, the same house would cost about R355 000 in five years time.

"If demand in five years is such that existing homes are trading at a 20% premium due to the scarcity of suitable ... and the time delay of building then our house will be worth R425 000 — or a 240% increase."

Harman says whether this will represent an after-tax return will depend on whether capital-gains tax is introduced during the period.

It's vital to seek advice before buying a house

B/DAY 3/8/92

AS buying a house represents a milestone in one's life, potential buyers should know what to look for and get the best advice before going ahead.

First National Bank chief home loans and property development manager Andre Latre says: "Buying a property is one of the most important investments, so take time in deciding what you want to buy and ask for professional advice."

He says a potential buyer's prime source of advice should be bank managers in those areas where the home purchase is being considered.

"The manager at the First National Bank nearest to your new home can offer sound advice on property values there and will structure a home-loan package to suit you."

Realistic

Buyers should then conduct their own evaluation, including learning what may be a realistic price — before negotiating with any seller.

Once a rough market value for a property has been determined, it should be remembered that prices often vary considerably in any suburb.

Should any asking price be above average for similar houses, then look at the improvements made to justify the higher price, bearing in mind the property may be over-capitalised.

He says area and neighbourhood are important criteria: is the area in decay or does it have potential for growth and improvement? Also, talk to community figures such as the local school principal and shopkeepers about the area.

A brief look around will indicate if the area is more densely populated than another parts of the town or city.

Unless people in a high-density area spend money on the upkeep of buildings, the area will quickly deteriorate and property prices may then fall.

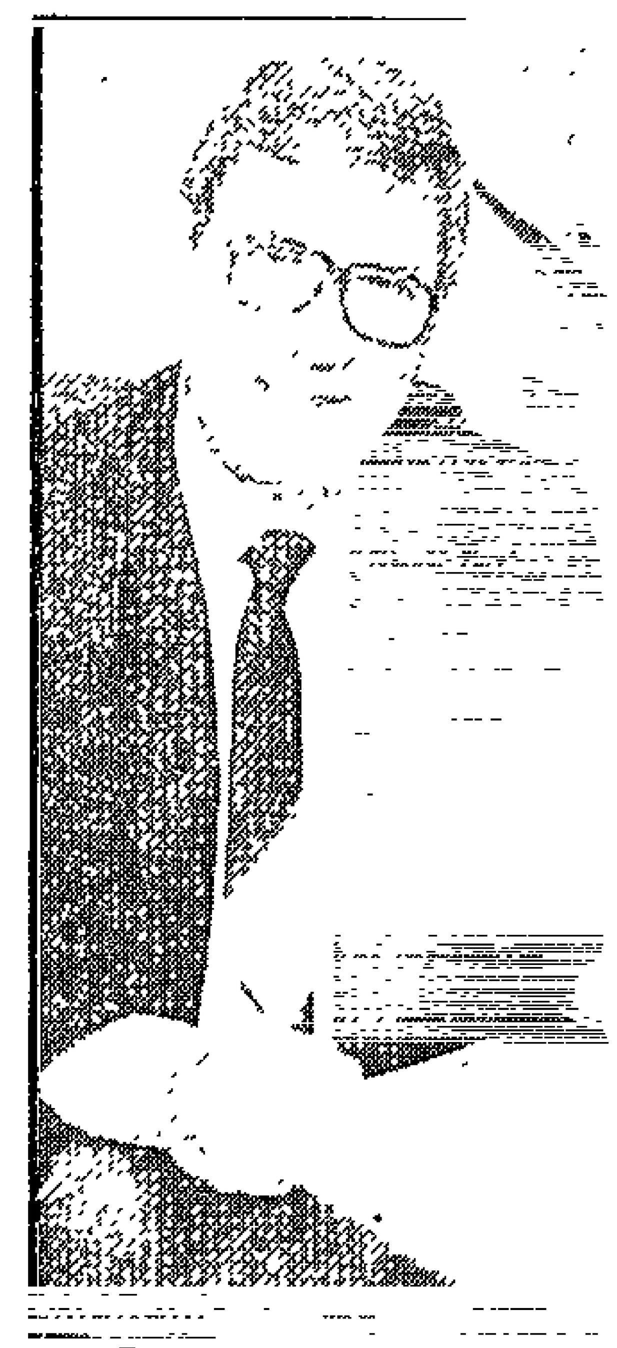
Latre advises the buyer to take a checklist along when house inspecting, and to carry out a thorough inspection of the property, ticking off items that pass the test or can be easily rectified.

When considering the house itself, stand outside and look carefully at it and decide whether the home looks attractive from the street.

Then have a look if it has been well maintained in terms of painting, garden upkeep, garage doors, driveways, gates and wall.

If it looks neglected with dirty windows, uncut lawns and other easy-to-repair things, this could suggest deeper neglect, like plumbing or electrical cabling, which is expensive to repair.

Inside the home one should consider it in terms of user-friendliness: will its layout and number of rooms suit you? Does it have potential for expansion or alterations that will be financially viable?



ANDRE LATRE

Look for rising damp, cracked walls, sagging roofs, blocked drains, poorly maintained electrical systems and so on.

"If a property you like has obvious fault, get an estimate for its repair and take that amount into account when making an offer," says Latre.

High-speed action with new computer system

A NEW computer system which took five years to develop has been launched to enable estate agents to offer home buyers a more efficient and cost-saving service.

The AOCS system will speed up selection and administration procedures involved in buying and selling residential properties, says Absa marketing and planning GM Tienie van der Berg.

Now an integral part of the Absa group's mainframe software, its many benefits for the customer include shared or multiple-property listings that shorten buying and selling time.

It also provides access to comparative market information to help establish a realistic, market-related price of a home.

Extended

Van der Berg says electronically facilitated bond applications which expedite the application process will, in time to come, be extended to attorneys and deeds offices to speed up the entire bond-registration process.

"The emphasis is on convenience, which should make the prospect of buying and selling a home less daunting," he says.

Healthy niche market is ticking over nicely

B/DAY 3/8/92.

A HEALTHY niche market has been established by specialist lenders offering home loans exclusively to high earners.

Organisations such as Board of Executors and Investec. Bank have become leaders in this field.

Investec Bank assistant GM Marius Khoury says his company, with its focused banking philosophy, provides home loans with a difference when compared with commercial banks and building societies.

Firstly, it uses senior staff to service selected clients such as doctors, chartered accountants, lawyers and architects.

They are offered a rounded product and service that includes financial packages, expertise on property, and tax advice, he says.

Because the bank confines its business to a low-risk market, bonds may be granted on a quick turnaround basis, particularly when a client makes an application over the telephone for a specific amount.

In such an instance, he says, the home-loan amount may be approved in principle there and then, and confirmed within 24 hours, should the high-worth applicant's credentials be in order.

Moreover, Investec claims it is also able to process and register a mortgage bond much sooner than commercial financial institutions can.

"While we do not compete with the rates set by building societies and commercial banks, our's are competitive."

Repossessions soar as unrest scares lenders

BDAY 3/8/92 (58)

INCREASED repossession of homes is of growing concern to lending institutions, in view of SA's uncertain political and economic climate.

Several banks and building societies, which do not wish to be named, are worried about the growing "abnormal" risk of lending to blacks seeking home ownership in townships.

They are also concerned about traditional borrowers and those whites who cannot repay bond premiums due to financial plight caused by the long economic recession.

Problem

While currently small in financial terms compared with the suburbs, home loans to blacks in some townships have become a problem.

The situation will be exacerbated by future threats of politically inspired nationwide boycotts of home-loan repayments, they say.

Already, resale after repossession of township homes from defaulting borrowers has become increasingly difficult.

Some institutions say this is due to growing criminal and political lawlessness.

Many such vacated homes are either heavily vandalised or labelled "no-go" properties to prospective buyers or rent-paying tenants who are deterred by threats of violence. A common warning is a tyre placed on the roof of the house.

While the black market may have shot itself in the foot, institutions are still willing to continue granting loans to black borrowers, but only on a more selective basis, particularly for homes in more stable townships and white suburbs.

Although Standard Bank Home Loans has a strong commitment to the traditional home-loan market, it is also becoming more involved in the emerging market.

Says SBHL GM Duncan Reekie: "The traditional market is sophisticated and well established, but we also have an important role to play in assisting and educating all participants in the emerging market."

Natal Building Society assistant loans and savings administration GM Trevor Olivier says repossession is not exclusive to any income group.

Unemployment and failing businesses have been generally the largest contributing factors.

"Reductions in interest rates have done little to counter the repossession trend. Unfortunately, when the going gets tough, it inevitably takes its toll on borrowers who have overextended themselves."

Olivier says also adversely affected are those who have not addressed possible repayment problems until they hit home, at which point it is too late.

Priority

He suggests borrowers give priority to repaying a home loan before other debts, as the cost of acquiring and then losing a home is very high.

"Other moveable assets are not inflation-linked over the long-term, such as a home.

"Default can make it extremely difficult to get any form of future credit, particularly if judgment has been obtained against the home owner."

If economic recovery commences next year, with inflation and interest rates declining further, this will ease the heavy burden on borrowers.

Consequently, the rate of arrears and repossession should drop, he says.

Business Day SURVEY

Political and economic uncertainty has depressed the residential property market more than expected and the recent reduction in the home-loan rate is unlikely to have a major impact on immediate prospects. **LYNN CARLISE** *reports.*

Seldom-used deal for investors

BDAY 3/8/92.

TAX-FREE savings are still on offer to potential home owners, despite many such concessions being phased out on many other investments.

However, one of these on offer only by building societies is an attractive option which is not being taken full advantage of, primarily because developers are offering attractive financial packages.

EP Building Society operations GM Koos Seibrits says the offer, available only from building societies, encourages people who do not own their own home to save sufficient equity to purchase.

With a tax benefit on investments of up to R20 000, this option is aimed at people saving for a deposit on a house.

Investors could realise a return that is unmatched by any other low-risk, interest-bearing savings instrument — depending on one's marginal tax rate, says Seibrits.

EPBS marketing services manager Cliff Hall explains that because this product offers the saver 12% tax-free, it thus compares favourably with one offering a 20% taxable return to an individual who is taxed at the top marginal rate of 43%. 58

In order to qualify, the saver must sign a declaration with the building society guaranteeing such savings will be used only as a deposit on a home.

A copy of the agreement is then sent to the Receiver.

The big question is where to invest those surplus funds

58

BDAY 3/8/92.

SHOULD surplus funds be invested into accelerated home-bond repayment rather than some form of savings account in order to obtain maximum return?

Several sources were asked to look at the options.

Options are subject to many market variables, notably interest rates, monetary and fiscal policy, foreign investment, economic growth rates, changes in tax legislation and political-stability issues that can seriously affect property values.

Ernst & Young senior tax consultant Brendan Dardis says at present, excess redemption results in an attractive after-tax return of 18% a year, which exceeds after-tax returns on conventional investments.

"If, however, one has an investment opportunity which is to realise an after-tax return in excess of 18% a year, then surplus funds should obviously be placed in such investment."

But take note of whether one is, by doing this, not simply paying out today's "better" valued surplus money compared with the future's more inflation-ravaged money.

One should remember that bond repayments, although they may fluctuate marginally, decrease in real terms as time goes by.

Property economist Neville Berkowitz cites an Absa Bank reason why buying a house using a bond has proved a good investment over the longer term.

In 1980, an average house was bought for R35 000 by paying a 20% deposit and using an 80% bond. The house was sold for R133 000 by end-1991. After the agent's expenses, the profit was R90 000.

"In actual terms, this is equivalent to a 117% annual return on the original equity investment," says Absa.

In real terms, Absa says the original R7 000 deposit, when inflation-adjusted, is the equivalent of R31 800 today. The "R90 000 profit" earned in 1991 was still 16,6% a year in real terms — after inflation.

Berkowitz says the moral of this story is to purchase a home with as high a bond as possible.

Looking at another option, Standard Bank Home Loans GM Duncan Reekie supports paying surplus money into the outstanding bond, whether in lump-sum amounts or by exceeding monthly repayments.

Using a R100 000 bond and assuming interest rates were to remain constant at 18% over the 20-year repayment period, the average monthly bond repayment would be R1 543 and the interest component R270 394.

Should the borrower pay an extra R50 a month for 20 years, the savings on interest would be R66 072.

An extra R200 a month would result in interest savings of R140 277 and the bond paid off in 11 years.

Innovation's the name of the mortgage-based loans game

58

BDAY 3/8/92.

FINANCIAL institutions are still trying to boost their market shares with new and more innovative mortgage-based financial-planning products.

As a result, borrowers have seen a flurry of new-generation home-loan packages from banks and building societies.

First to make headlines was Standard Bank Home Loan's (SBHL) AccessBond in 1988. The latest is Natal Building Society's "re-advance" version called Actionbond.

NBS's new Actionbond allows a qualifying home owner to tailor a credit line based on the increasing value of his/her property.

This means the client has access to extra credit and not just the portion which has been repaid — as some banks offer.

NBS loans and savings administration assistant GM Trevor Olivier says while Actionbond can provide funds for education, a new car or home improvements, it is important to address the product realistically and according to individual needs.

"Conventional mortgage-access products give attention to the bond amount and outstanding balance, but when establishing a credit line using Actionbond, consideration is given to the equity which accrues to a home owner as a result of rising property values."

Access

It gives home owners access to more than their normal re-advance limit, and is designed to allow them to manage their total financial situation through their home loan.

"Real monthly cash savings can be realised by consolidating various repayments into a mortgage loan at lower rates."

Meanwhile, SBHL's Accessbond permits borrowers easy access to their bond accounts and they can use one as a special-savings vehicle for investing their surplus money.

SBHL GM Duncan Reekie says the savings benefit is a reduction in the monthly interest commitment to the bond.

"Because interest is calculated on daily balance, home owners benefit from their surplus funds on the same day deposits are made. With an after-tax investment rate of 10%, it provides one of the highest investment rates."

AccessBond also allows surplus money to be withdrawn in multiples of R1 000 up to three times a month using either Mastercard at ATMs, cheque books or savings account.

When a home owner seeks a bond less than he qualifies for, NBS will register a higher bond based on the client's future financial potential and needs.

Hence, home owners can access up to 90% of the valuation as a handy line of credit, and the balance becomes available as his/her earnings increase and property value appreciates, says Olivier.

Traditional methods have changed

BDAY 3/8/92.

SINCE banks entered the home-loans market in the 1980s, traditional methods of obtaining and repaying a bond have changed considerably.

First National Bank (FNB) is among those banks providing several repayment options.

FNB home loans and property development chief manager Andre Latre says the bank's scheme differs from those provided by building societies as the latter tend to provide for regular bond repayments on a fixed monthly date.

"This can have the effect of applying later payments only on the next fixed payment date, so incurring extra interest costs, which can be substantial over the life of the bond if late payments are regular.

"However, we operate strictly on a daily-interest basis, thus ensuring our borrowers receive immediate benefits."

Noting that all applicants who use an FNB cheque account and two other bank services receive an additional 0,25% rebate on the prevailing home-loan rate, Latre cites other options.

58

The up-front bond provides an agreed amount, which is approved in principle before house-hunting commences, through a certificate which is valid for eight weeks.

Where a 90% bond is granted, the loan may not exceed R250 000 of the valuation of the property, while those exceeding this amount are calculated on 80% of the valuation.

"But if a new home needs renovating or extending, the bank will provide an extra 10% of the loan."

On early bond settlement, he says, extra capital is paid monthly into some form of investment scheme where this capital amount is projected to grow at a rate higher than the mortgage interest rates.

These schemes are either endowment assurance investments or equity-linked investments (unit trusts).

An endowment scheme provides a tax-free return after a minimum investment period of 10 years, while unit trust investments project higher returns with the capital gains being tax-free. Interest earned is taxable.

However, a major tax-free investment at the home-loan rate is available for borrowers who make lump-sum deposits into their loan accounts.

"Agreement can be reached with the branch manager whereby surplus funds paid into the bond account can be withdrawn in need.

"This means the borrower receives an excellent rate of interest while still having the surplus money on call," he says.

RONNIE RAPPOPORT

The right way to pay a bond off in advance

BDAY 3/8/92.

PAYING off a bond early has advantages, and buyers should look at certain conditions before taking this route.

According to legal firm Fluxman Rabinowitz Raphaely Weiner partner Ronnie Rappoport, it should be noted that additional finance charges, equivalent to 1% of the capital amount paid in advance of the due date, usually have to be paid to the lending bank or building society.

It is also usual for a borrower seeking to repay the outstanding capital and interest in one amount prior to the due date to give at least 90 days notice.

58

Notice

Another usual condition is that such notice may not be given in the first 90 days from the date the loan is paid after registration of the bond.

Home owners who are likely to make earlier repayments, or who may wish to have access to money on a frequent basis, should consider applying for equity-access bonds.

Rappoport says this enables them to register a bond over the property for a higher amount than the loan required.

While interest earned on money invested is taxable, interest paid on a home loan is not tax deductible in any way.

"It's advantageous, and probably the best form of saving, for the home owner to repay his bond as soon as possible."

Global trade insurance 'a risky business'

81DA1 4/8/92

(58) ANDREW KRUMM (IR)

SA companies unaware of international trade insurance could sail into high risk weather as the world opens up to SA.

Risk Broking Services (RBS) director Gerald Ryan said yesterday: "Nothing is more designed to sour an international association between two companies than an insurance claim on an export deal not adequately risk covered."

Ryan said the first rule for new entrants to international markets was to abide by the International Chamber of Commerce's guidelines, which clearly defined the risks and obligations of buyers and sellers.

"Another ground rule is to deal with brokers, and through them, underwriters, who are fully *au fait* with the international insurance market."

BER sees upswing in demand for industrial space as exports pick up

STAR 5/8/92

COMMERCIAL & INDUSTRIAL PROPERTY

Compiled and written by Frank Jeans and Meg Wilson

Industrial space is expected to lead the way when non-residential property investment picks up, but this may not show a significant upswing until 1994.

In its latest building and construction survey, the Bureau for Economic Research (BER) says economic recovery, expected to begin towards the end of the year, is likely to be driven mainly by manufactured exports — which will increase demand for industrial space.

However, says the BER, investment in non-residential buildings lagged the business cycle during the downswing, creating substantial overcapacity. This means building activity in the sector is likely to lag behind any overall economic upturn.

Investment in the retail space component is also likely to be affected by the fact that the upswing will not be consumer driven, while investment in office buildings may even drop off, given the oversupply resulting from the present poor demand and completion of buildings now under construction.

Public sector

Thirty-four percent of offices completed in 1991, and 47 percent of those to be completed this year, were unlet at the end of the second quarter.

There may be some benefit to the non-residential sector next year from increased public sector spending on community and other amenities, reversing a trend which has been the major cause of disappointing growth since 1985.

This is illustrated by the fact that investment by the private sector in non-residential building grew an average of 1,6 percent between 1985 and 1991 and 6 percent between 1989 and 1991 — while that by the authorities declined by an average of 5,6 percent and 11,6 percent respectively.

Nevertheless, the sector has performed much better than the residential market, where investment declined 9,2 percent in 1990 and 5,2 percent last year, and prospects are bleak.

Two of the most important determinants of residential investment are real disposable income and the real prime lending rate.

But no "noteworthy" growth is expected in real disposable income until the second quarter of 1993, and no softening of the prime lending rate before then.

The effect that a slowdown in building cost increases (from 12 percent in the second quarter of 1991 to 11,7 percent in 1992) might have had will be offset by a decline in the price of existing houses.

The only hope for the residential sector would seem to be more political and social stability, which might unleash demand for investment, especially to provide housing for blacks.

Sun Life new premium income goes up 39%

BDay 5/8/92. (58)

LONDON — TransAtlantic Holdings said total new premium income at its 50%-held Sun Life insurance unit rose 39% in the first half, to £886,1m from £636,4m in the same half of 1991.

Total single premium business increased 43% to £844m from £588,2m, while life single premiums grew by 90% to £606,8m from £319,4m.

Union des Assurances de Paris holds the remaining 50% of Sun Life as well as 17,1% of TransAtlantic, of which SA's Liberty Life owns 54%.

Sun Life MD John Reeve said performance in the second half would be hit by the withdrawal of with-profits bonds.

Of the £606,8m life single premium total, about £331m was represented by with-profits bonds. The bonds are being capped in the second half to maintain financial strength.

"I must again express caution for the second half of 1992. New business results will be affected by the withdrawal of the with-profits bond for the balance of the year, such that the gains made in the first half are likely to be eroded as the year progresses," he said.

"Our new business results have continued to develop strongly notwithstanding the severity of the current recession and the caution that I expressed at the start of the year," Reeve said. — Reuter.

Low credit demand benefits Standard

BIDAY 5/8/92

58

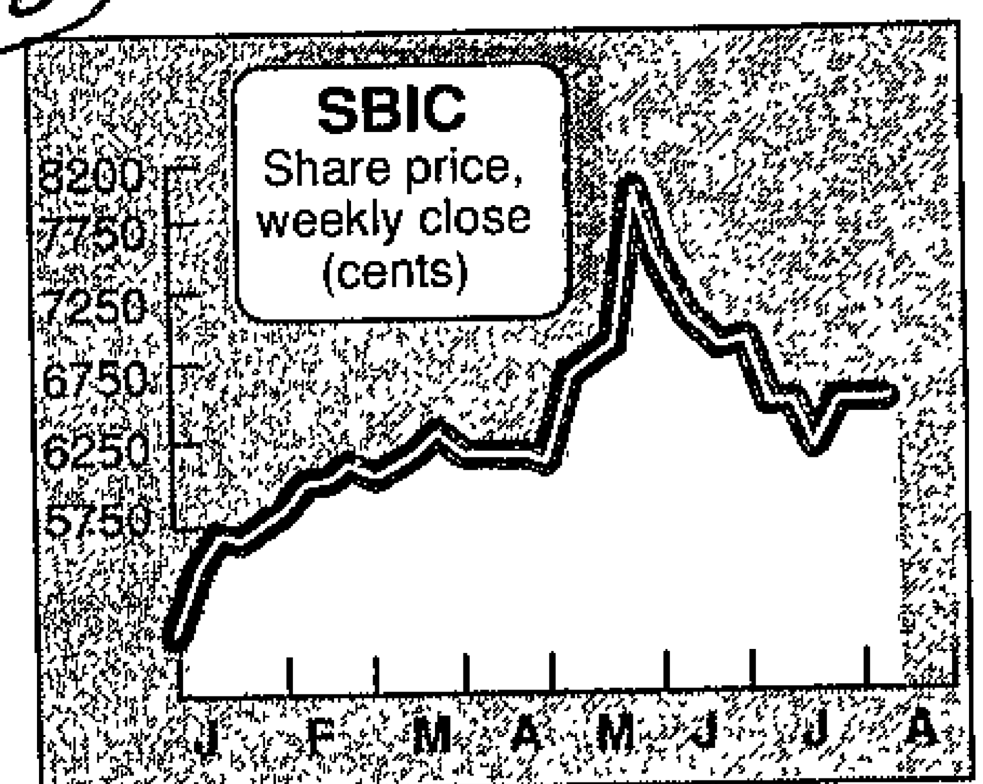
SHARON WOOD

A PROLONGED recession and low demand for credit led to a real decline in loans, advances and acceptances by Standard Bank Investment Corporation (SBIC) in the six months to June. Paradoxically, that contributed to the group's improved profit as stodgy demand for credit allowed the bank to reduce the bad debt provisions charge.

The group's total loans, advances and acceptances grew by only 3,2% to R43,40bn from R41,97bn at the end of December. That increase was mostly due to a R1,3bn rise in mortgage bond lending — an increase which raised the banking group's share of the mortgage bond market.

The effect of a fractional increase in lending was more than offset by the wider interest margin. Net interest income increased to R1,16bn, 24,6% higher than in the first half of 1991.

While the first half's bad debt provision was cut by 10% to R173m from R192,7m, staff costs and other operating expenses together increased by more than 20%. The



Graphic LEE EMERTON Source I-NET

interim pre-tax profit was R420,4m against R288,0m in the first half of 1991 and a total of R794,2m for 1991 as a whole.

The interim taxed profit attributable to ordinary shareholders was R253,1m or 245c a share against R202,9m or 204c a share in the first half of 1991. Last year as a whole generated an attributable profit of R510,7m or 507c a share. The interim divi-

□ To Page 2

Standard

BIDAY 5/8/92 58

□ From Page 1

dend has been raised to 53c from 44c and compared with last year's 160c total.

Chairman Conrad Strauss was far from optimistic about immediate prospects. He expected demand for credit to remain weak into 1993 and warned that economic recovery was a remote prospect. He made special mention of the negative effects of rising unemployment, civil unrest and the drought. Nonetheless, he believed the consequent liquidity in the money market would favour banks' net interest margins and profitability.

"Against this background and provided bad debts can be contained, the group is expecting real growth in earnings during the second half of the year."

Sechold earnings up for seventh year

BDAY 5/8/92. (58)

SHARON WOOD

THE Sechold banking group yesterday reported a 21,3% growth in earnings to 74c (61c) a share in the year ended June — the seventh successive year in which the group has reported an increase.

This translated into attributable income increasing to R17,4m from R14,4m during the period under review.

Group MD Arthur Kelly said 70% of earnings had emanated from recurring sources, such as capital and structured transactions, while trading activities had contributed only 30% to income.

The group announced a dividend of 30c a share, 17,6% higher than last year's 25,5c share.

This lifted dividend cover to 2,5 from 2,4, in line with Sechold's five-year phasing-in period of a dividend cover of 3,0.

Secfin Bank contributed 23,4% to the group's net income, with NDH Bank accounting for 22,3%, District Securities Bank 7,4% and Securities Investment Bank 25,1%.

During the year a separate division was established within Secfin Bank (formerly Interbank) to enter the highly competitive home loans market, he said.

"An extremely conservative approach is being adopted and, while the division is not expected to make an immediate impact on profits, it will ultimately contribute significantly to them," Kelly said.

Security Portfolio Managers substantially increased funds under administration to R810m, with managed portfolios performing extremely well, he said.

The group would continue with its limited disclosure because it felt it would give its competitors an unfair advantage by disclosing sources of revenue, he said.

Sechold was investigating the option of expanding its international ties but had not yet found the right venture.

The group had no desire to go into partnership with anyone because it wanted to maintain control of its business, Kelly said.

"It is going to happen, we just don't know when."

Sechold lifts earnings and dividend

(58) STAR 5/8/92

By Stephen Cranston

Sechold lifted earnings per share 21,3 percent to 74c in the year to June. The dividend has been raised 17,6 percent to 30c.

Group CE Arthur Kelly says Sechold intends increasing its dividend cover to three times from 2,5 over the next five years.

The return on average shareholders' funds was 31 percent for the second year running, which Mr Kelly says is among the highest in the sector.

He says there is a widespread misconception that group earnings are totally reliant on profits derived from trading activities. In fact, 70 percent of earnings are made from recurring sources.

Sechold held its costs, although expenditure on technology and risk management systems exceeded budget.

The best improvement in operating performance was provided by District Securities Bank, which was set up with Boland Bank to tap into the Western Cape market. Its income increased by 73,4 percent to R1,75 million.

The core Securities Investment Bank increased income 20,6 percent to R4,35 million. Secfin Bank's profits rose 14,9 percent to R4,11 million.

NDH Bank increased earnings 20,2 percent to R3,85 million.

Securities Portfolio Managers enjoyed investment performances consistently in the upper quartile of actuarial performance comparisons.

Sechold's total assets rose 6,3 percent to R7,86 billion, but Mr Kelly says this figure is not as significant in a banking group such as Sechold as it would be in a retail bank.

The enactment of the Deposit-taking Institutions Act places greater emphasis on risk management than had been required by the previous Act.

All four banks in the group have well over the five percent capital requirement laid down by the DTI Act.

SBIC surprises with outstanding results

STAR 5/8/92.

(58)

By Derek Tommey

Bankers have been expecting to report good profits this year — an expectation reflected in bank shares, which have performed strongly on the JSE.

The reason, say bankers, is that in a recession banks pay less for deposits — their raw material.

But most bankers will still be surprised by the excellent figures produced by Standard Bank in the six months to June.

Gilding the lily, Standard says that while difficult conditions should persist, it expects real growth in profits in the second half of the year.

Standard Bank Investment Corporation (SBIC), the bank's parent company, reports that despite writing off R173,0 million in bad debts it was able to lift pre-tax profit by 46 percent from R288 million to R420,4 million.

However, a jump in SBIC's tax rate from 35,8 percent to 45,6 percent, partly as a result of the introduction of the five percent levy in place of VAT, limited growth in taxed profit to 23,9 percent — from R184,8 million to R228,9 million.

Dr Conrad Strauss . . . real growth in earnings expected

After including profits of associated companies, net income attributable to ordinary shareholders was 24,7 percent higher at R253,1 million (R202,9 million) — equal to 245c (204c) a share.

The interim dividend has been raised 20,4 percent from 44c to 53c — equal to a third of last year's total dividend.

Shareholders will again have the choice of taking the dividend in cash or in additional shares.

After writing off R378,5 million in bad debt in the financial year to December 1991, the provision for a further R173 million in bad debt for the first half of this year comes as an unpleasant surprise.

A spokesman said yesterday that this year's heavy bad debt experiences had been the result of the sharp increase in the number of small businesses going bust.

Last year's bad debts had been caused mainly by the nonpayment of loans by individuals, many of whom had been retrenched.

The improved interest margins followed an increase in interest received of 12,3 percent, while interest paid rose 8,1 percent. This resulted in a 24,6 percent rise in net interest income. Other income grew by 18,4 percent and total income by 22,2 percent.

Although staff costs rose 19,9 percent and other operating costs rose 23,5 percent, the almost R20 million drop in the bad-debt provision helped limit the increase in operating expenses to 16,6 percent, enabling the bank to report a 46 percent rise in pre-tax profit.

Lending money, the bank's main activity, showed little growth. Advances and other accounts for the six months rose 3,4 percent to R43,4 billion. Deposits with the bank rose 4,2 percent to R47,7 billion.

Chairman Dr Conrad Strauss said yesterday that loans and advances had declined in real terms. The nominal rise of 3,2 percent in advances reflected the result of the prolonged recession and low demand for credit.

The only growth was in mortgages, which rose by R1,3 billion.

Dr Strauss said prospects for an improvement in the economy in the forseeable future were remote. Business conditions had worsened, unemployment was rising, the level of social unrest caused concern and the reform process had lost its momentum.

The agricultural sector was in severe difficulties as a result of the worst drought of this century.

But the favourable interest margins in the latter half of 1991 and the first half of 1992 should continue.

Provided bad debts could be contained, the group was expecting real growth in earnings in the second half.

whole page.

Syfrets unit trusts

The lure for investors has been high returns

SYFRETS Managed Assets (SMA) manages funds of more than R5bn — R1,3bn represents assets of its five unit trusts and about R3,7bn the investments of about 50 institutions.

Investing institutions include six universities, a technikon and 32 pension and provident funds. The unit trusts are the Syfrets Growth Fund, Syfrets Income Fund, Syfrets Trustee Fund, Syfrets Gilt Fund and Community Growth Fund.

The lure for investors has been the high investment returns achieved by SMA's portfolio managers. And SMA MD Leon Campher will not accept anything but the best — he insists on an excellent performance in what is an extremely competitive industry.

A highly regarded survey of investment returns conducted by Alexander Forbes has found that for a

LEON CAMPHER

one-year investment to end-December 1991, SMA has come first with a return of 34,7% compared with the average figure for all life assurers of 26,7%.

On a three-year term, SMA's average return has been 31,3% a year compared with the life office average of 21,2%. And over seven years, SMA has produced an average return of 29,6% compared with the average life office return of 21,8%.

Unit trusts in the SMA stable have also outperformed most of their rivals in the unit trust industry.

But while SMA may have been top performer in a single year, this is not necessarily its aim. Instead, it has set itself the goal of being in the top 25% of performers consistently.

"Our objective is to be number one over three or five years and to achieve this, one has to be consistently above average over five years, rather than a top performer every year," says Syfrets portfolio manager Tony Gibson says.

He says success has come from closely and steadfastly following a well thought-out long-term strategy which has focused on selecting the right shares. An overall game plan, patience and a focused view of the portfolio are vital.

"We avoid knee-jerk reactions to the market and instead look for quality earnings growth and outstanding market performance." He feels this approach produces far superior results for an actively traded portfolio.

Agility

SMA has become known for the agility and dynamism of its investment team, and Gibson says one of the reasons for this is willingness to take risks.

"If we like a company, we are not afraid to take a reasonable position and are prepared to take risks," he says.

Each portfolio has about 25 companies, as it is felt that where more are held, there will inevitably be some counters that will yield poor returns.

(58)

Use of derivatives can cut the costs

FUTURE use by unit trusts of derivative instruments will enhance returns and the safety of investments considerably, says Syfrets Managed Assets portfolio manager Rob Nichol.

Nichol is a member of a Unit Trust Association committee which is drawing up guidelines for the use of futures and options. Legislation permitting the use of these instruments was passed this year.

He anticipates that from 1993, the framework will be in place for the industry to begin using futures and options.

While some in the industry have argued in favour of strict regulation, Nichol says he prefers the philosophical approach adopted in the UK, which stipulates that derivatives should only be used when appropriate to the economic management of a portfolio — that is, to reduce risk and costs.

UK authorities have had to abolish a regulation limiting the use of derivatives of up to 10% of a portfolio, as it was found to be impractical.

Nichol says use of derivatives can cut costs of managing a portfolio substantially.

"To buy equities is expensive, as there are brokerage and MST charges. There is also the impact cost of going into the market — this is the effect which heavy buying or selling has on share prices.

Question

"If there is a difference in price between equities and derivatives on equities, it may be better to invest in derivatives rather than equities. The question will be: what is the best and cheapest way of getting exposure to the shares you want?"

Another way derivatives can be used is in the reduction of equity exposure in an unliquid market without incurring all the costs, and while retaining the option to retain shares which may be difficult and more expensive to get back later.

ROB NICHOL

"What will be preferable to selling will be to reduce exposure by derivatives, and then to unwind that exposure by derivatives when the equity market is lower."

SMA portfolio manager Tony Gibson says one benefit of derivatives will be that portfolio managers will not have to spend so much time buying and selling the big capitalisation stocks just to manage liquidity. Furthermore, they will be able to be more aggressive in their portfolio management.

After only five years.

Seven trade unions set for a slice of the action

A PIONEERING development in the unit trust industry, the Community Growth Fund, is educating a whole new market about unit trusts while providing an abundance of spin-offs for Syfrets Managed Assets.

SMA is iointly administering the fund, which was launched in June by seven trade unions with the investments of about 500 000 workers.

Fund manager Ian Hamilton says the appointment of Syfrets as co-administrator of the fund has "opened incredible doors for us". Syfrets indirectly benefits from the promotion of the Community Growth Fund, which received high media exposure when it was launched.

Educated

Provident funds not interested in investing in the fund have nevertheless decided to give the administration of their assets to Syfrets, and thousands of workers have been educated about the value of unit trust investments, Hamilton says.

The fund was launched by seven trade unions, including the giant National Union of Mineworkers. It is owned by a management company called Community Growth Management, which is jointly controlled by Syfrets and trade-union controlled company Unity.

The aim of the general equity fund is to provide pension and provident funds using a socially responsible investment vehicle which invests only in approved companies that meet certain criteria such as job creation, union recognition, equal opportunity, fair wages, plus a good health and safety record.

"There has been considerable concern among trade unions in recent years about stagnation of the economy. It seems investments, including their own members' savings in provident funds and elsewhere, have not been succeeding in creating jobs or improving social conditions.

"A number of these unions have joined forces to establish an investment fund whereby unions can influence the direction of members' investments."

The fund is open to the public and requires a minimum lump sum of R500 or a monthly investment of R30 a month.

Hamilton says at mid-July, the fund had assets of R5m plus commitments and pledges to the value of R50m by the end of the year from pension and provident funds, mining houses, banks, retailers and industrial conglomerates. Syfrets has invested R2m of its own funds and smaller investors have contributed R2m.

He says response has far exceeded expectations. "If this level of interest continues, we will not be surprised if the fund reaches R100m within the first year." The fund could become the largest unit trust in the country.

He says the Community Growth Fund is asking pension and provident funds to invest 20% to 30% of their cash flow in the fund.

Comic book approach to marketing

SYFRETS Managed Assets and The Old Mutual are working together on an innovative project with The Storyteller Group to market unit trusts in the black community.

Storyteller has been commissioned to develop appropriate educational literature on unit trusts.

Syfrets unit trusts marketing manager Kevin Hinton says it is important that the black community becomes aware of the way corporate growth fosters economic progress.

"Unit trust management companies have a major responsibility to ensure that previously disadvantaged communities are active participants in the process of wealth creation," Hinton says.

Unit trusts will be explained in story format and in comic book style.

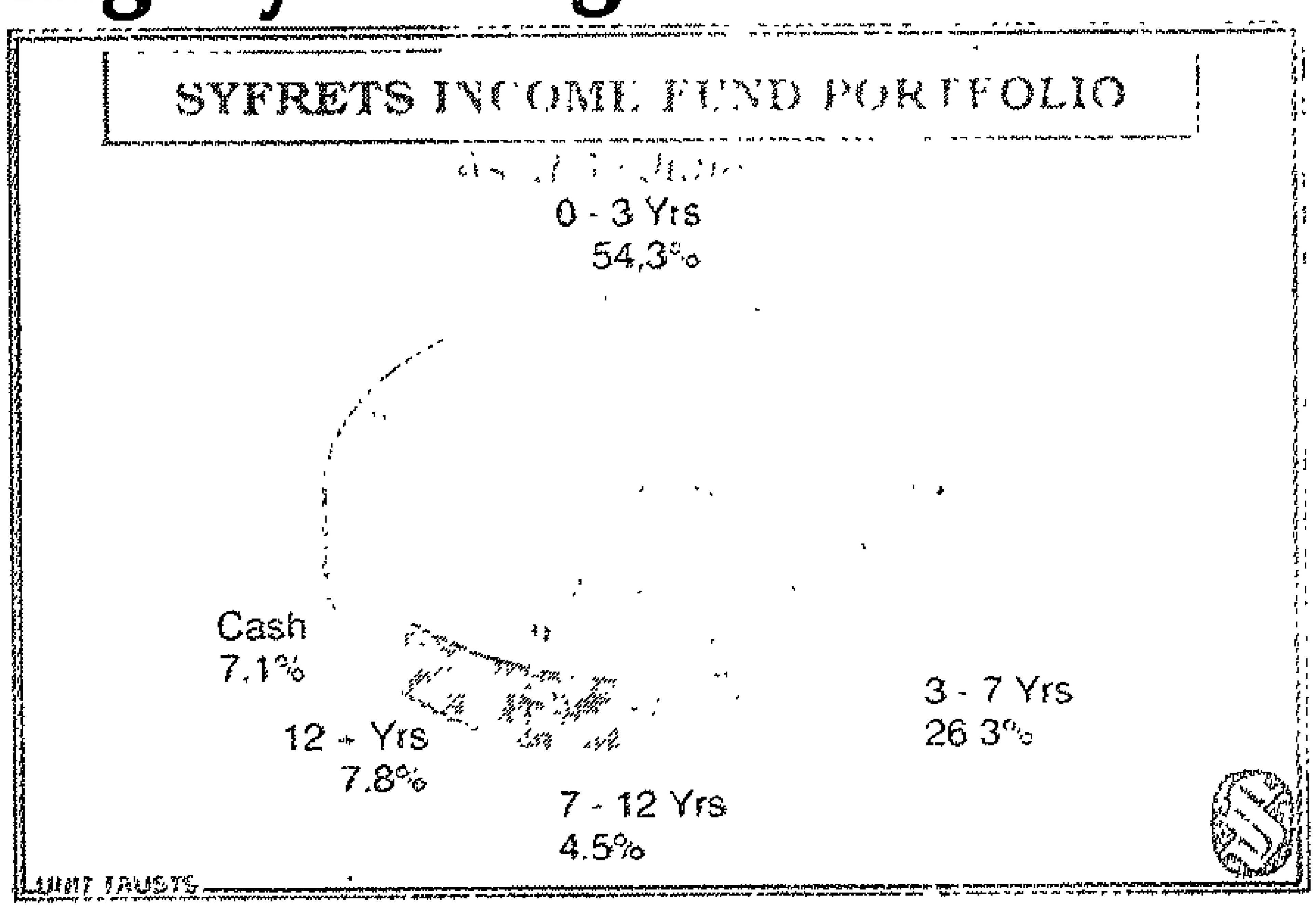
Hinton says the material may possibly be sold to other unit trust management companies.

Business Day SURVEY

Unit trusts are ideal for investors who do not have the expertise to manage their own portfolios but want a hedge against inflation. There are about one million investors in unit trusts in SA. As at end-June, market value of this industry amounted to R12,9bn, having grown 33,5% this year. Syfrets has 57 737 unit holders in its five unit trusts. **LINDA ENSOR** *reports.*

TONY GIBSON

Switch to high-yielding income funds



THE recent weakness in the local equity market has seen a number of unit trust investors switch to high-yielding income funds such as the Syfrets Income Fund, which provides for capital stability.

Assets of income funds are expected to show strong growth this year. When market sentiment and fundamentals improve, investors will switch back to equity funds, says Syfrets unit trusts marketing manager Kevin Hinton.

Haven

The Syfrets Income Fund invests mainly in high interest-bearing investments and is ideal as a safe haven for investment during periods when the stock market is volatile.

The fund was established in 1988 to cater for investors who wanted high income returns while having a high degree of security for their investments.

Portfolio manager Rob Nichol says the fund aims to achieve a high income yield. Capital is protected from declines in short-term interest rates.

Risks are minimised because of the nature of the investor who may, for example, be a retired person who wants a reasonably high level of income each month to live off.

"They cannot afford to have that income drop off dramatically and cannot afford to have their capital eroded," Nichol says.

Investors in the fund are required to invest a minimum lump sum of R1 000 or a minimum monthly investment of R500.

As at the end of June, the market value of the Syfrets Income Fund totalled R370m. It has achieved a three-year return of 17,45%, and in the year to end-June, generated a return of 19%.

Cash represented 7,1% of the fund at the end of June, while 55% of the portfolio was invested in gilts and 25% in negotiable certificates of deposit. Part of the fund was also invested in debentures.

Nichol says that over the last quarter, the fund has adopted a strategy of switching from six to 12-month assets into 18 to 24-month assets as yields on short-term deposits have declined sharply. High yielding bonds are purchased to enhance the capital performance and improve current yield.

In the present market, emphasis is given to short-dated instruments which will be held to maturity in the event of disaster, in this way protecting the capital and deriving most of the capital gain.

Nichol has a degree in business science and has spent four years as a stockbroker.

whole page.

Syfrets unit trusts

58

Liquidity levels up in response to a vulnerable JSE

LIQUIDITY levels of Syfrets unit trust funds have been raised significantly, says portfolio manager Tony Gibson.

He believes that until the end of the year at minimum, the downside of the SA market will be far greater than the upside.

Apart from political and economic factors inside SA, the stock market is vulnerable to a slump in the Dow Jones, Gibson says.

Risk

He feels strongly that the Dow Jones will take a knock before the end of the year, bringing SA share prices down with it. He also feels there is a risk of being too heavily exposed to equities in the present uncertain local and international climate.

"We have held the view for some time that the Dow Jones is very shaky and is overpriced. US investors have switched out of cash into equities because of falling returns from cash. This has pushed up equity prices, but for the wrong reasons, as the fundamentals look pretty sick.

"Although positive growth in the world's major economies will translate into price appreciation for commodities (including gold) — and our equity market has already displayed signs of greater optimism in mining counters in recent weeks — this will not be sufficient to offset the negative impact of a correction in international equity prices.

"The only two things which will give the local market a boost will be a massive run on the international market, which is extremely unlikely, and, secondly, a very favourable political solution — basically a solution which will involve the installation of an interim government by end-December.

"On the other hand, there are a number of downside factors such as mass strikes and mass action, a fall in the Dow Jones and the absence of any sign of upturn in the economy."

Gibson says the correction experienced in July expresses the belated realisation by the market that the political and economic situation is not as hopeful as expected. The market has discounted the good news and attached very little weight to the bad, he says.

Limited

But he warns investors against selling out of unit trusts because of short-term economic and political gloom. He says the downside of the local stock market is limited, not the least because of continued large institutional cash flows.

"Unit trusts are long-term instruments and investors should look beyond short-term market corrections," Gibson says, adding that switching in and out of unit trusts is costly because of re-entry fees and compulsory charges.

Gibson was born in Cape Town, educated at Bishops and the University of Cape Town, and started his career as an investment trainee at UAL.

A computer system above the rest

DEVELOPMENT of sophisticated computer technology has allowed Syfrets Managed Assets (SMA) to improve on client service, and at the same time it will benefit financially from the sale of its system.

The system, developed jointly with Andersen Consulting, gives the client direct computer access on an ongoing daily basis to his own portfolio, information on general market trends and a whole range of national and international financial data.

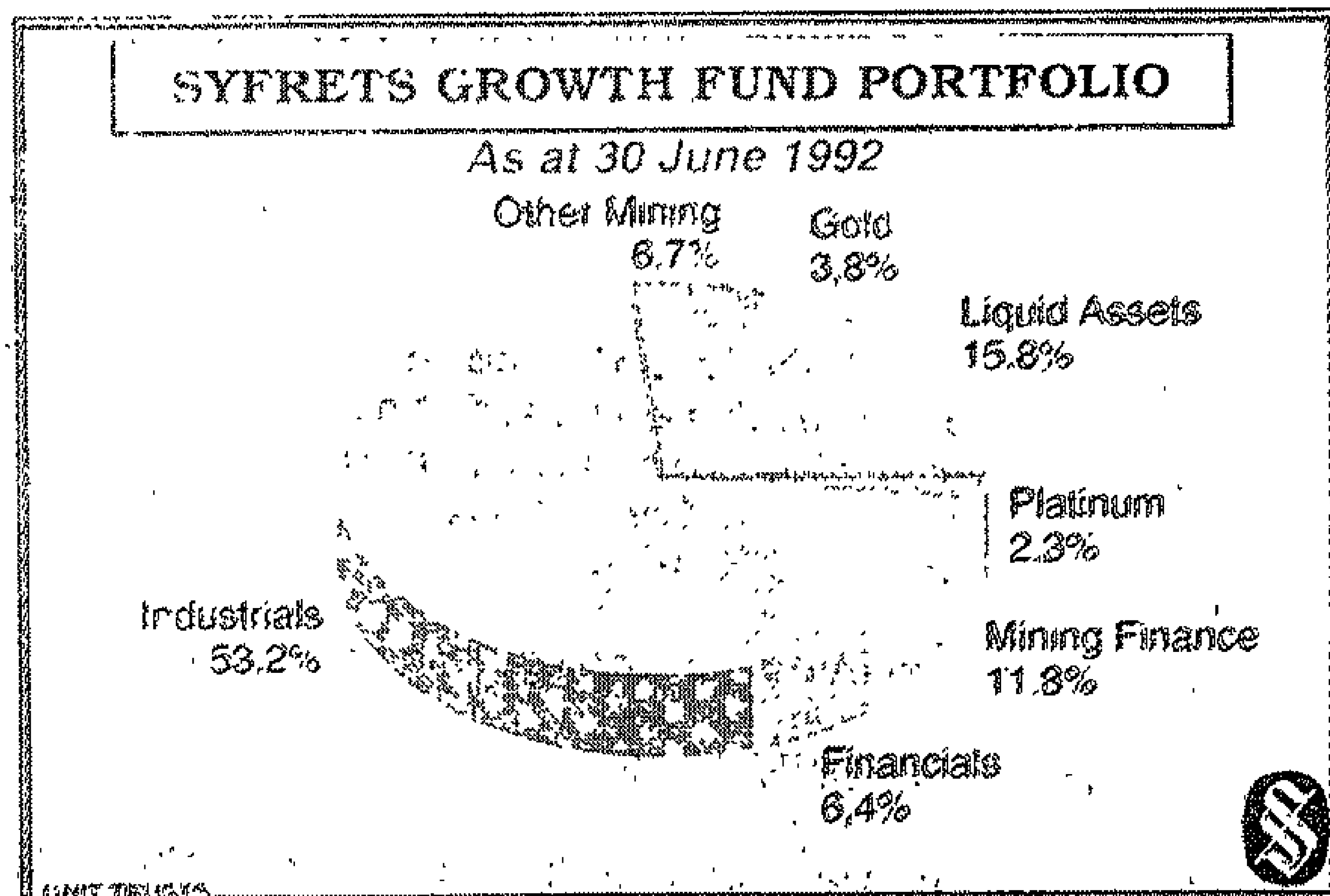
The system has been sold to a number of overseas and offshore institutions, with inquiries coming in from seven other SA institutions, three from the US, two from the UK and one each from Japan and Taiwan.

Re-energise

"The potential of this system is unbelievable. It offers you enormous opportunities to re-energise your programmes and structures," says SMA MD Leon Campher.

"There are some good systems in SA, but they are all specialised. The beauty of this one is that it is simple to operate and caters for all facets of investment management markets."

Key features of the system include that it is real-time; screen-based; flexible and not main-frame driven; capable of portfolio modelling; capable of derivative accounting and administration support; and it has the facility to print all statements and reports at the on-site terminal.



Ideal for those seeking a real inflation beater

UNIT trusts are ideal for investors who don't have the expertise to manage their own portfolios but want a hedge against inflation, says Syfrets unit trust marketing manager Kevin Hinton.

There are already about one million investors in unit trusts in SA. As at end-June, market value of the unit trust industry amounted to R12,9bn, having grown 33,5% this year.

KEVIN HINTON

Spread

About 280 000 new account holders have entered the industry in the last 12 months and gross sales have amounted to more than R1bn. Syfrets has 57 737 unit holders in its four unit trusts.

Hinton says a unit trust — which pools investments to buy a spread of quality shares on the JSE — offers professional investment management and administration plus economies of scale through the pooling of funds.

"A unit trust is ideal for any investor who wants to build a savings programme with the objective of generating income and/or accummulating capital.

"It offers advantages in giving a balanced spread of quality investments; reduced risk through diversification; proven professional management expertise; flexibility and assured liquidity; a simple and convenient method of investment; is tax-efficient; and provides protection against inflation."

General equity funds offer long-term capital plus income growth and are suited to investors willing to take some risk, while income funds offer income rather than capital growth and are best for risk-averse, income-sensitive investors, Hinton says.

Regarding tax, Hinton says capital gains on unit trusts are currently tax-free, while the dividend portion of the income is tax-free and the interest portion taxable as normal income.

A unit trust fund is legally limited to holding only 5% of one share where the market capitalisation of the company is R1bn or less, and not more than 10% of a share with a market capitalisation of more than R2bn. Funds are also restricted in not having more than 5% of their total portfolios invested in one share.

The initial maximum charge is 5% of the value of the investment plus an annual management fee. There are other statutory charges of 0,75% for brokerage and 1% for marketable securities tax.

page 58 ·

Research unit provides vital market input

A KEY element of Syfrets Managed Assets' (SMA) investment performance is quality of, and importance attached to, its research unit, which provides vital input for the investment team's strategies.

SMA has one economist and six research analysts who are divided into two sub-groups — gilt research, specialising in fields such as the money market and fixed-interest investments, plus equity researchers.

SMA investment research co-ordinator Hugh Broadhurst says his aim is for Syfrets to have the best research unit in the country in terms of setting up model portfolios and in terms of services offered to portfolio managers.

"The encouragement of broad strategic thinking is as important as forecasting earnings a share. On the other hand, we are probably more involved in investment decision-making than most other research units. In fact, three of our analysts manage portfolios themselves.

"We work as a team and there is an incentive to help each other, but members are recognised for their individual contributions. Performance is measured by comparing an analyst's own recommendations with how the relevant shares actually perform."

The research team meets on a daily basis to update strategies worked out at the quarterly strategy meeting, which involves the whole investment team, analysts, portfolio managers and dealers.

At the quarterly meeting, world economic trends and developments in the commodity plus equity markets are discussed. The implications of international developments and the local political situation for the local economy are also debated.

Debated

Trends in interest rates, company earnings, market ratings, money supply, gold price, balance of payments and currencies are also debated.

From these discussions a view is formed of the likely future course that local markets will follow. The overall market forecast is then fed into a two-year computer model used to rank shares.

Shares are also ranked in terms of their projected two-year return and this data is also fed into SMA's model portfolio Projected returns are obtained from a computer analysis of brokers' forecasts and their individual share recommendations, as well as from the forecasts made by SMA researchers.

The model portfolio adjusts for marketability and risk so that shares with the highest returns are not always those recommended by the research team. Team members keep closely attuned to markets and companies through personal contact and studying trends.

Broadhurst says qualities required to join the research team include sound experience in various financial disciplines and a broad exposure to business.

"Ideally, they should have specialist experience as a broker, accountant or actuary. It is important that they fully understand business management, cash flows and the nature of various operations such as mining or industry.

"Other important attributes are a feel for the markets, computer literacy, and curiosity — wanting to know how things work and why."

Growth fund top performer over 3 and 5 years

THE Syfrets Growth Fund, in its five-year existence, has become the best performing general equity unit trust in the industry over a three and five-year term.

The fund, established by financial services company Syfrets, in the Nedcor group, has achieved an average annual return of 21,7% on a purchase-to-repurchase basis until June 1992, 25,38% in the last three years and 23,57% over the last 12 months.

University of Pretoria Graduate School of Business Prof Hugo Lamprechts' praise of Syfrets Growth Fund is high. "This fund, in my opinion, can be regarded as by far the most successful unit trust established since 1987."

Value of an investment in the Syfrets Growth Fund is shown when compared with growth in the All Share Index and the inflation rate over this period.

As investors became aware of returns possible from an investment in unit trusts in general and Syfrets Growth Fund in particular, assets of the fund climbed dramatically. The market value of the fund's assets is R627m at end-June.

This growth is all the more remarkable as, unlike the large life assurers against which Syfrets is pitted in the unit trust field, it does not have a large field of agents to market its products. Syfrets unit trust marketing manager Kevin Hinton says most of the marketing is done through its nine metropolitan-based branches and an intermediary business-introducer network.

Investors are required to make a minimum lump sum investment of R1 000 or a minimum monthly investment of R50.

High

The Syfrets Growth Fund is a fund offering high capital growth with moderate risk. As a general unit trust, its portfolio of shares consists of carefully selected, high-quality shares.

Hinton says the fund is directed at the wider investment community, with its main advantages being long-term sustainable income and capital growth; inflation-beating investment returns over the long term and an acceptable balance between risk and return.

As at end-June, the portfolio is broken down as follows: Financial and industrial shares 60%; total mining 25% with mining financials at 12%; gold 4%; other mining at 9% and liquid assets of 15%.

Exposure in mining shares has been increased to 29,2% from 25,8% over the previous quarter, while existing holdings in De Beers, Rusplats, Anglo American, Gencor, Absa, Richemont and Rembrandt have been strengthened. New holdings were opened in Malbak and Lefic.

LIZ803

whole

Haven for trusts' capital-growth requirements

MATT BRENZEL

SYFRETS Trustee Fund, with assets at end-June of R362m, was launched last year to cater for specific capital-growth requirements of trusts.

It is well-suited to trustees such as attorneys, accountants or personnel managers who administer trust funds.

The trustee fund is a general equity fund geared to capital growth and which invests in minimum-risk blue-chip shares plus interest-bearing deposits.

Investments in large, stable, well-established and well-managed institutions makes it ideal for beneficiaries of trusts such as widows and orphans.

Portfolio manager Matt Brenzel says that while budgeted expectations have been met, the fund has been slow to take off and will require an established track record to attract greater interest.

Syfrets unit trust marketing manager Kevin Hinton says the fund is particularly suited to trustees who wish to balance interests of present and future beneficiaries of their trusts.

Growth

For example, high income may be important for present beneficiaries, but it is also important for there to be growth for future beneficiaries.

"The fund's main attractions are that it relieves trustees of the administrative burden of handling numerous trusts, while assuring them of prudent and professional investment management.

"Trustees and beneficiaries can monitor their capital values and income returns on a daily basis, and there is no interference with the trustee-client relationship," Hinton says

Another advantage is that, on termination of the trust, units in the fund can be transferred to the beneficiaries.

Income is paid out quarterly, directly to the trustees A minimum lump sum of R1 000 or a minimum monthly investment of R50 is required.

Brenzel concentrates on blue-chip shares and manages the portfolio by the weightings given to the different sectors. For instance, if mining is seen as outperforming industrials in the next 18 months, the weighting of this sector in the fund is increased with blue-chip mining shares.

Industrials represent 56,8% of the fund, financials 13,4%, mining finance 18%, platinum 5,7% and diamonds 6,1%.

Brenzel says major buying activity in the last quarter has focused on De Beers, Gencor, Malbak and Sasol. Cash constitutes only 2,3% of the portfolio, with the balance of the non-equity portion being invested in negotiable certificates of deposit and gilts.

"We concentrate on companies with a market capitalisation of more than R1bn, and which offer genuine security. The portfolio is fairly tight, with only about 19 to 20 shares."

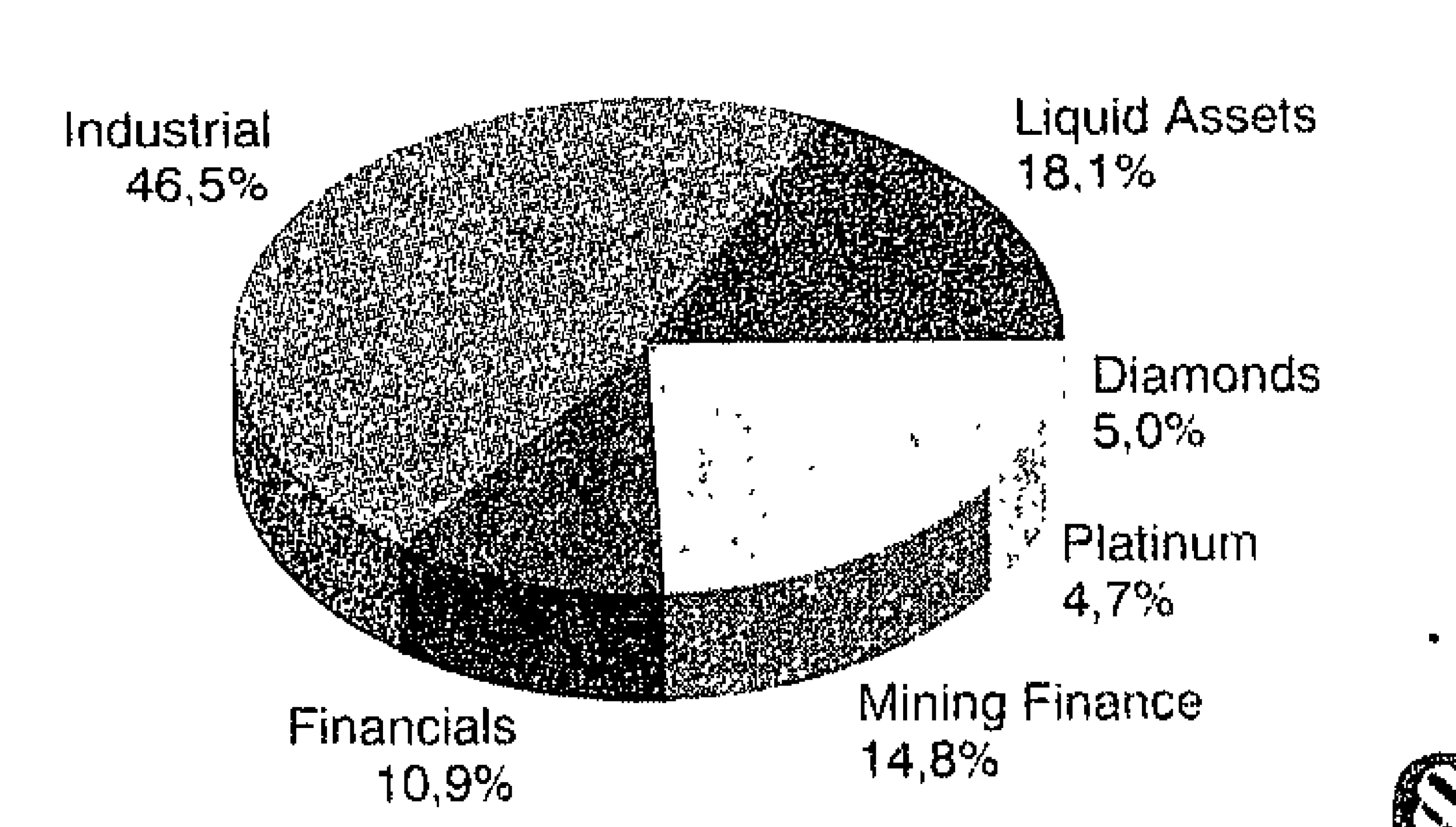
He says the trustee fund also tends to be more conservative than other fund in terms of liquidity, an will tend to hold higher le els of cash.

"Our view of the currer market is that high levels c liquidity are required, an this will give us the mean to go into the market whe we feel there are opportu nities."

The aim of the fund is t outperform the All Shar Index and the inflation rate but Brenzel believes th trustee fund will outper form other unit trusts in a bull market, as well a blue-chip shares that hav traditionally outperforme the rest of the market dur ing bull phases.

SYFRETS TRUSTEE FUND PORTFOLIO

As at 30 June 1992



UNIT TRUSTS

Pair of funds created for offshore investors

SYFRETS has established two funds for the needs of offshore investors — the SG International Fund and the Disa Income Fund.

The SG International Fund is a US-dollar denominated fund investing in a spread of leading or specialised offshore funds.

It provides potential for above-average capital growth and reasonable income return Minimum investment is $10 000. There is no initial charge, which means the fund's units only have one dealing price for buying and selling.

A management fee of 1% a year is calculated on th net asset value.

Managed

The Disa Income Fund i for non-residents who wisl to invest in a manage portfolio of SA gilt and oth er fixed-interest bond through the financial rand with the aim of achieving a high income return in com mercial rands.

The fund's preferre minimum investment i R100 000 in financial rands or $25 000.

whole page.

Syfrets unit trusts

58

SMA watches for potential pitfalls in the 'new SA'

SYFRETS Managed Assets (SMA) may have established a good investment track record, but the road leading to the new SA is strewn with pitfalls which will require astute investment skills if this reputation is to be maintained.

SMA investment research manager Hugh Broadhurst says a completely different investment strategy may soon be required. If so, any attachment to the investment style which produced good results in the past could present dangers.

Counters preferred in the past could be sidelined in the new investment environment.

But Broadhurst stresses that the difficulty presents a challenge and will put the skills of the investment team to the test.

SMA portfolio manager Tony Gibson believes a further difficulty in the next five years will be the relative unavailability of exceptional new shares.

Adjust

"As times change, so we will have to adjust accordingly and find better methods of operation and better tools. One example is derivative instruments. These are likely to play an increasingly bigger role if we can't find shares that meet our criteria. In fact, I believe that, in general, they will be traded far more actively in the years to come."

He considers it likely that the market will become a lot more volatile as it opens up to international investors.

On the positive side, more business will probably be on offer, especially with the growth of pension and provident funds, and the privatisation of government pension funds.

Sectors likely to perform well are healthcare and those catering for basic commodities such as food, clothing, and beer and tobacco.

The building industry will also benefit from investment in infrastructures, but here again, Gibson says, SMA would rather invest in companies supplying building materials or adding value, than companies engaged in building, as these will be vulnerable to crime and unrest in townships.

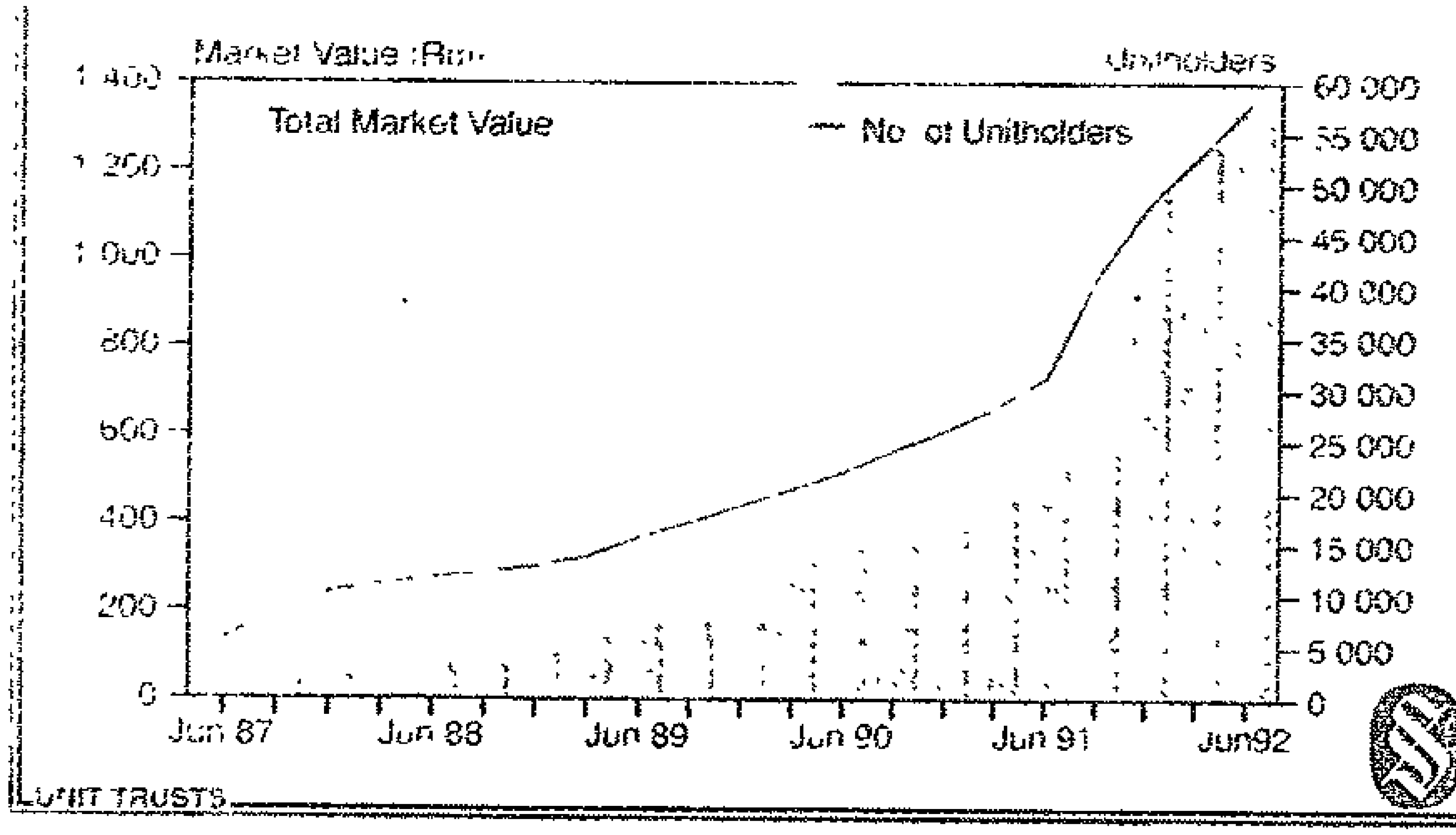
The new SA will hold dangers for the capital market, says SMA's capital market specialist Rob Nichol says.

If government spending lacks discipline and paper is printed in excess of demand, interest rates will rise strongly, enhancing the advantages of short-term investments. Yields on long-term bonds could be as high as 20%, and many investors could face severe capital losses on investments.

SMA MD Leon Campher believes investors will have to pay an independence dividend. The most critical issue will not be nationalisation, but the question of land distribution. He also considers it necessary for there to be a national strategy to come to terms with the "lost generation".

Among issues confronting investment managers will be legislation to restrict the market economy; rampant inflation, if not hyper-inflation; and AIDS, expected to erode the asset base of many companies.

GROWTH IN ASSETS AND UNITHOLDERS



Accessing the more sophisticated market

ONE of the fastest growing unit trust funds in the Syfrets stable is the Gilt Fund.

It was launched in April this year as a fixed-interest fund investing in government stocks, semi-government stocks and municipal stocks.

Assets of the fund climbed to R27m at end-June and to more than R50m since then.

The Gilt Fund aims to provide access to the more sophisticated areas of the capital market, which are usually the exclusive preserve of the large institutional investors.

It offers a high total return with reasonable income and moderate capital growth. The minimum investment is R10 000.

"The fund is for someone who wants a reasonable level of income, but wants some capital growth as well.

Favour

"The investor will sacrifice a little bit of income in favour of some capital growth," portfolio manager Rob Nichol says.

Many Syfrets' clients who want a broad spread of investments have invested in the Gilt Fund.

Also, small pension funds which need exposure in gilts to fulfil the requirements of prudent investment guidelines have invested in the fund, as well as foreign investors.

Nichol says returns have been derived by predicting interest-rate cycles and yield curves. For example, if interest rates are coming down, the fund will be very heavily exposed to the capital market to pick up capital growth.

On the other hand, a sharp capital loss will be suffered if the fund is heavily exposed to bonds when interest rates increase.

"We would like to have more exposure to the longer end of the market in a falling interest rate environment, and when interest rates bottom out at the end of the cycle, we like to shorten the duration of the portfolio.

Exposed

"At the moment, the fund is exposed to medium and long-dated stock, which have given excellent performances.

"It will switch to shorter-term bonds when we feel the market has bottomed out."

Having a clear idea of the 'right shares'

A WELL thought-out strategy for share selection is the key to achieving high investment returns.

Syfrets Managed Assets portfolio managers ensure they have a clear idea of what they believe are the "right shares".

Included in this category of the right shares are those of high-growth companies which are overlooked by other investors, portfolio manager Tony Gibson says.

"We try to seek out undiscovered companies, particularly those with management which is motivated through an equity stake in the company.

"We also look for companies with strong cash flows and which offer recession-resistant products or services.

"Companies with high barriers to entry which have under-utilised production capacity, assets and management are also attractive."

Balance-sheet strength and good cash-flow management are fundamental, and if the company has international exposure, it has to be the dominant player in its market.

While it is important to be conscious of value, it is equally true that a highly priced growth share is preferable to a cheap, bad company, Gibson says.

A keen eye is also kept on undervalued shares.

These include shares in companies which have changed in a way which can alter their poor profit trend and are vulnerable to takeover, or have good management despite being in a bad industry.

Gibson says SMA tends to take a sectorial approach before examining specific shares, but also looks at well-managed companies which may offer value, even if the sector is not favoured.

If investment guidelines point the way to share selection, they also delineate the shares to be avoided, namely companies which are bureaucratic and unfocused, new issues where there is no established track record and companies which are too dependent on one individual.

Use is made of derivative instruments — in portfolios other than unit trusts — as hedging devices, only to counteract restricted marketability of SA shares.

No speculation in the instruments is engaged in .

Gibson says fixed-interest portfolios are actively managed on account of the volatility of the SA political and economic situation.

CU nets 80% improvement

6l DAY 7/8/92. (58)

ANDREW KRUMM

COMMERCIAL Union (CU) has reported an 80% rise in earnings to 304,9c a share for the six months ended June, compared with 169,8c for the same period last year.

Results reflect for the first time the consolidation of its short- and long-term insurance businesses, CU Insurance and CU Life, which were transferred into two wholly owned subsidiaries in January.

An interim dividend of 50c a share was declared, up from 43c in 1991.

Chairman Drury Gnodde said "all areas of business contributed to the sound result".

The group's total net premium income in the half year was up 9,8% at R433,8m, against R395,1m in 1991. Pre-tax profits rose nearly 108% to R40,86m from R19,65m.

Despite a four times higher tax bill of R10m, net profit increased 79,7% to R30,85m from R17,17m in 1991.

Similarly, net attributable income increased 80% to R30,5m from R16,9m.

Reporting an underwriting surplus of R10,9m against a deficit of R3,6m for the same period in 1991, Gnodde said underwriting results, which had improved in the second half of 1991, had been maintained in a market that remained difficult.

However, a rise in criminal activity — responsible for poor underwriting results in the recent past — appeared to have stabilised, albeit at a higher level.

The low incidence of natural catastrophes and an improved out-turn of the motor account also contributed to the surplus, he said.

Volatile

In addition to the surplus, results were buoyed by an increased after-tax contribution of R4,9m from CU Life and R1;6m from CU Trade Finance.

Gnodde warned that "the short-term insurance market is a volatile one and the results for the half year should not be taken as indicative of the whole financial year.

"Indications are that year-end results will be in line with projections, although life, employee benefit and investment markets are looking more difficult," he said.

Capital boosts PFM portfolio

GAVIN DU VENAGE SS

CAPITAL Property Fund produced a net distributable income of R20m for the half-year ended June, up from the previous year's R15m, management company Property Fund Managers (PFM) reported yesterday.

A dividend of 15,93c was paid to shareholders, compared to 15,41c last year, taking earnings a unit up 4%. 8/09

Turnrose Investment shares were sold in May for R2m and the R1m profit will be transferred to capital reserves.

Capital totalling R35m will be available for further investment, allowing for investments under negotiation, and PFM predicted in its report that earnings a unit for the year would be the same as those for 1991. 7/8/92

The other fund in the PFM stable, Centrecity Property Fund, remained static at the previous year's R21m, and a dividend of 12,89c was declared for the half-year ended June.

Poor market conditions and the lack of tenants resulted in the sale of Corporation- and JBS-owned buildings in Johannesburg's CBD, and the loss of R750 000 written off against capital reserves.

Once current committments were completed, Cenprop will be fully invested, and earnings a unit for the full year are expected to mirror those of the previous year.

Fedsure half-year income up 42%

BDAY 7/8/92.

58

GAVIN DU VENAGE

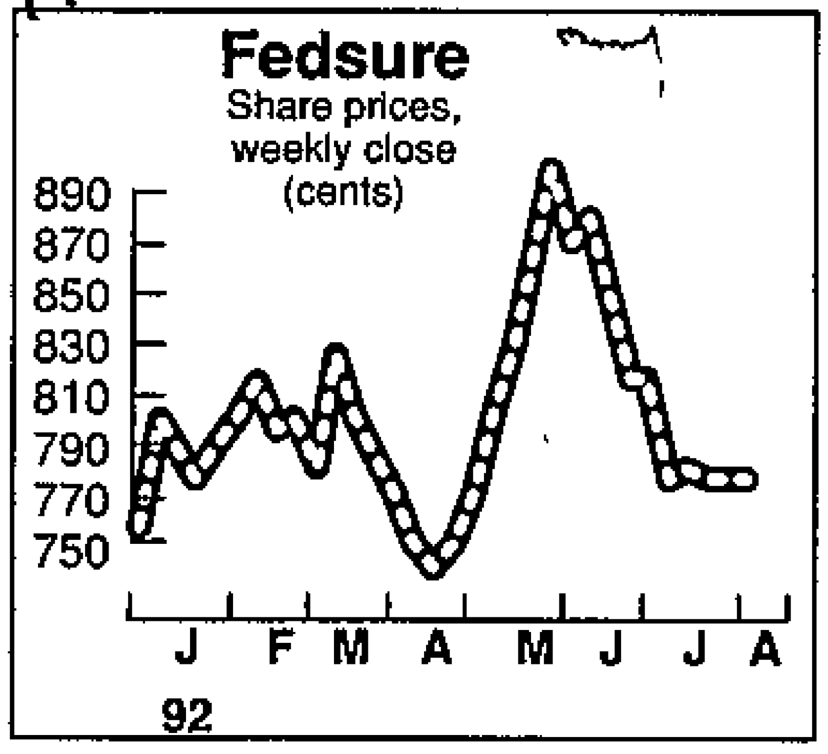
INSURANCE group Fedsure Holdings increased its net attributable income 42% for the half year to end-June, chief executive Arnold Basserabie said yesterday.

Basserabie said the increase from R13,6m to R19,3m was off a much larger capital base arising from the additional R222m capital raised through the issue of new preference and ordinary shares during the half-year.

Earnings were up 22% to 24,6c a share, maintaining the average over the past eight years of about 22% per annum compound growth.

An interim dividend of 15,25c was declared, set at 50% of last year's total of 30,5c.

Basserabie said performance had been supported through advances in all key operating areas, including a



Graphic LEE EMERTON Source I-NET

55% hike in Fedlife's gross premium income, and a strong investment performance.

Assets jumped almost R1bn to pass the R6bn mark for the first time, an increase of nearly 35% ahead of last year's R4,5bn.

Underpinning the group's strength was long-term insurance arm Fedlife, which had increased gross premium income to R600m in the half-year.

Recurring premiums grew by 22% to R361m, and single premium business went up by 157% to R239m.

Fedsure's investment performance helped secure additional retirement benefit business, and the group's property portfolio, worth around R1bn, also outperformed the market, said Basserabie.

The portfolio is 98% let and is expected to generate a total return of 23% this year.

Short-term insurance company Fedgen, in which Fedlife has a 70% stake, achieved a R8m turnaround in the half-year to show a profit of R3m.

Basserabie said although the current uncertainty in the country was starting to affect business growth, he believed the future would be positive once negotiations resumed.

LIFE ASSURERS

New tax deal struck

FM 7/8/92

(58)

An agreement that would benefit millions of life policyholders is close to finality. It would see the end of the sixth schedule of the Income Tax Act, the introduction of a new tax dispensation for life offices and might also end the dispute between life offices and banks over whether the tax system is applied fairly to both.

Southern Life tax and legal services deputy GM Tony Davey this week outlined points of consensus. The sixth schedule will be replaced by regulations. Life policies will be required to conform with new product definitions contained in a revised Insurance Act.

That eliminates the current formula under which policies are "standard, deemed standard or nonstandard."

Nonstandard policies attract tax on the difference between the gross benefit payable by the life office and the premiums paid by the policyholder.

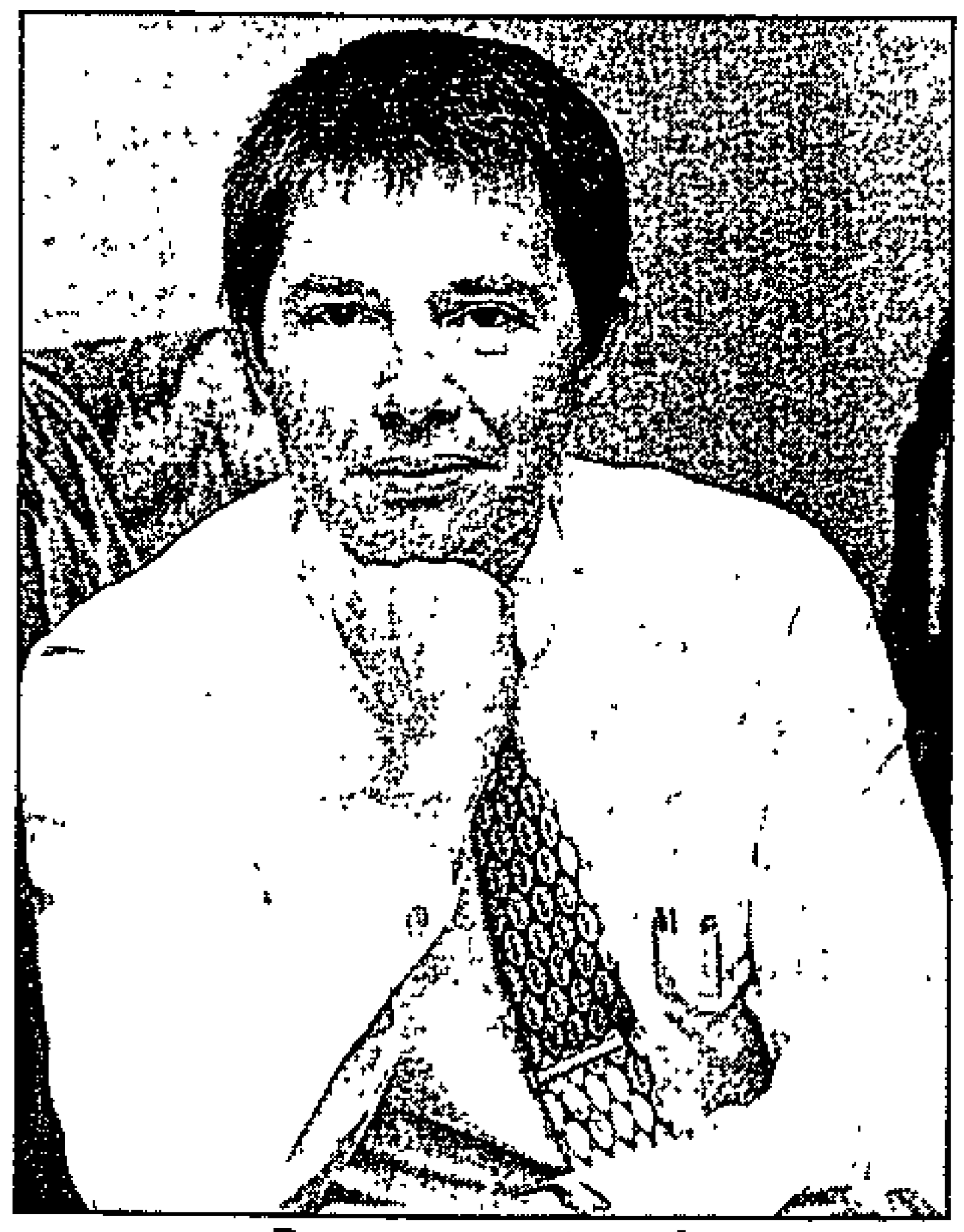
The schedule, originally intended to prevent the wealthy from seeking tax shelters through life offices, has been applied inconsistently, says Davey, and it has proved a costly administrative burden to the life assurers. Also, because a policy needs a minimum element of life cover to be standard or deemed standard, the schedule creates some absurdities. For example, Davey points out, if an assurer excludes payment of the death benefit — which might happen through an Aids exclusion clause — what was intended to be a standard policy becomes nonstandard.

In line with the principle that policyholders' funds are in trust with the life offices, which should pay the tax on their behalf and, therefore, to allow policyholders the same tax treatment as if they were individuals, a new regulatory system is necessary before the sixth schedule can be erased.

In his March Budget, then Finance Minister Barend du Plessis thought this could be managed by creating three funds for every life office: one for shareholders' funds, to be taxed in the same way as any company's profits; a nontaxable fund for retirement savings entrusted to the life assurers; and a taxable fund for life policyholders.

The tax on policyholders' funds highlighted a potential tax shelter for corporate policyholders. If the tax on the fund were reduced from the current top marginal rate for individuals of 43% to about 32% — which is considered to be more in line with the average tax rate for policyholders were they treated as individuals — corporations would quickly exploit the gap between 32% and the company tax rate of 48%.

Old Mutual legal services manager Abri Meiring proposed that a fourth fund should be created, separating life policies owned by corporations from those of individuals.



Davey ... *point of consensus*

The four fund approach now has general approval from the Financial Services Board (FSB), the Receiver and the Life Offices Association (LOA). The banking sector has also been consulted. So the fiscus will impose tax according to defined categories, the board will regulate the marketing of policies, the life offices will have more freedom to design products and the deposit-taking institutions will remain the sole recipients of short-term savings (less than five years).

Policyholders will benefit because the tax rate on their policy gains will plunge. And owners of nonstandard policies will not have to pay tax on gains in their funds.

Davey feels two details must still be settled.

The two mutuals, Old Mutual and Sanlam, represent more than 60% of the industry. As they have no shareholders' funds, the general accord is that their free reserves could be used as a measure and taxed accordingly. Davey defines these as "the unencumbered assets of a mutual office, determined actuarily with reference to the present value of policyholders' future claims."

He adds: "It is difficult to apply a rigid formula in the determination of free reserves, as it would curtail actuarial discretion on such matters as the mortality experience, the discount rate and the term to be used in the calculation."

But Old Mutual chief actuary Theo Hartwig sees no problem: "Free reserves are already calculated by the mutuals as required by the Insurance Act."

Finality must also be reached on how much of life office expenses may be offset against income. The formula now used is income minus 55% of expenditure (I -55%E).

'All parties concur that the 55% expense formula is wrong because corporations can deduct 100% of expenditure made in the production of income. But Davey notes: "The percentage cannot be 100% as income, by implication and in practice, excludes trading gains and will in future exclude dividend income, with the consequence that expenditure is incurred in the production of taxable and tax-free income."

The industry initially argued for full deduction of expenses but now, according to Hartwig, there is acceptance that the level of deduction should be pro rated. "It's a matter of agreeing on the formula."

Davey believes the new regulations can be put into effect from March 1993, if the I-E and free reserve questions are settled.

Hartwig points out that the Jacobs Committee, which has been examining tax on financial institutions, could produce its much-delayed report in time for next year's Budget if all parties have by then agreed to the finer points.

Some changes which will flow from the proposed regulations include:

- ☐ The minimum term will be five years, instead of the current 10;
- ☐ Contractual premium increases, now limited to the greater of 15% or CPI, will be limited to a maximum of 20% a year;
- ☐ Single premiums will be allowed, whereas 10 years of premiums are now needed for a standard policy;
- ☐ Life cover, which at present has to be included in any standard policy, will not be a requirement; and
- ☐ Ownership of standard policies will be extended from "natural persons" to allow corporate ownership.

Employers' policies that cover employees — typically to provide deferred compensation or keyman protection — are not affected by the proposals. ■

ECONOMIC OUTLOOK FM 7/8/92

Signs of sanity

Since the breakdown in political negotiations, attention has been focused on renewed violence, threats of mass action, a nationwide stayaway — and the deepening recession as investor and consumer confidence slumped further. In the gloom, a number of positive developments have passed almost unnoticed.

There is a spirit of increasing realism abroad. This was evident in an agreement reached, in principle, between the Chamber of Mines gold mining members and the

continued

Strong performances from the marginal groups

(58) ARG 8/8/92

Smaller banks upstage giants

MARC HASENFUSS
Business staff

SMALLER banking groups upstaged the larger banking conglomerates in performance rankings last year, according to KPMG Aiken & Peat's annual Banking Survey.

However, a banking analyst warned that the recent merger between Amalgamated Banks of South Africa (Absa) and Bankorp could end the strong performances of these niche market banks.

The strong showing by these marginal banks can be attributed to market flexibility and ease of access into niche growth markets, especially in the economic downturn.

Topping the "Return on Capital" list for 1991 was Prima Bank with 50 percent, followed by EP Building Society (EPBS) with 27,6 percent and Rand Merchant Bank (RMB) with 27 percent.

Established banks First National Bank (FNB) with 24,68 percent and Standard Bank Investment Corporation (SBIC) with 21,20 percent and Nedcor with 20 percent could only muster 4th, 7th and 10th place respectively.

As regards size (measured by total assets), Absa comes out tops with assets in excess of R51 billion.

(● Absa's assets have grown to R87 billion this year following the takeover of Bankorp).

The sheer size of the main banking groups (SBIC R50 billion and Nedcor almost R40 billion) could put additional pressure on the smaller banks.

In his industry overview, Ed Hern, Rudolph Inc director Mr Alan McConnochie said this year's Absa/Bankorp merger reduced all but the largest four banks to very minor participants in local banking.

"Within a few years, smaller banks could find themselves squeezed between the low cost Absa on the one hand, and the industry leader, Stanbic, on the other."

On the "Return on Assets" list for 1991 the first eight rungs were occupied by smaller banking groups. First was Albaraka Bank with 2,02 percent, followed by BOE Merchant Bank — 1,4 percent, Bank of Athens — 1,39 percent and Fidelity Bank — 1,34 percent, Prima Bank — 1,3 percent, Investec — 1,2 percent, RMB — 1,15 percent and Unibank — 1,1 percent.

SBIC and FNB filled the last two spots on the top ten with 1,09 percent and 1,07 percent respectively.

In the "Growth in Assets" category, Absa came out on top with an astounding R227 percent growth. Surprisingly, second spot was held by the Islamic-based Albaraka Bank with a 163 percent asset growth. Niche banks Investec, Unibank, Prima bank and Sechold's District Securities Bank all showed asset growth of over or close to 100 percent.

The top 10 "Profit after Tax" was obviously headed by the bigger banks. SBIC posted the biggest after tax profit for the year, with R532 million, followed by FNB (R385 million), Nedcor (R344 million) and Absa (R317 million).

CONSUMER

Hope in property market

STAR 8/8/92 58

THE signs for an upswing in the residential sector are falling into place. MAGNUS HEYSTEK reports.

WHILE an immediate upswing in the residential property market is unlikely in the next six to 12 months, the preconditions for a possible major and sustainable upswing in the next two to three years are falling into place.

This is the opinion of property economist Neville Berkowitz, who addressed The Star Investors' Club seminar on the property market this week.

The seminar was sponsored by Richland Properties.

Factors

"As residential property prices are closely correlated with economic growth and confidence, it follows that any upswing in the economy will prove to be a boost for property prices. But this will have to be accompanied by an upswing in political confidence as well," Berkowitz said.

Several factors were likely to affect the residential property market positively. They included an increase in the economic growth rate, a drop in bond interest rates to about 15 percent by the end of the year and an increase in net immigration.

"An improving economy should spell an increase in the real earnings of people. However, this real earnings position will only come about once the upswing gets into a more mature phase, so this is not likely to have a positive effect on the residential marketplace for the next 12 months."

The only sector of the market that was still showing some real signs of activity was clusters and townhouses, he said. The main reason for this trend was increased demand for security and the appeal of the "lock-up-and-leave" lifestyle.

"People are willingly paying a 40 percent premium for a smaller cluster house than than they would for ,5 ha in a suburb with the problem of worsening security."

Another development which had long-term positive implications for residential property prices was the decline in the supply of houses,

This could lead to substantial price increases, provided political developments were broadly acceptable to most people.

"The only missing ingredient for an upswing in the residential property market is confidence." It was unlikely that any political settlement would be reached this year. However, resumption of Codesa talks would restore confidence.

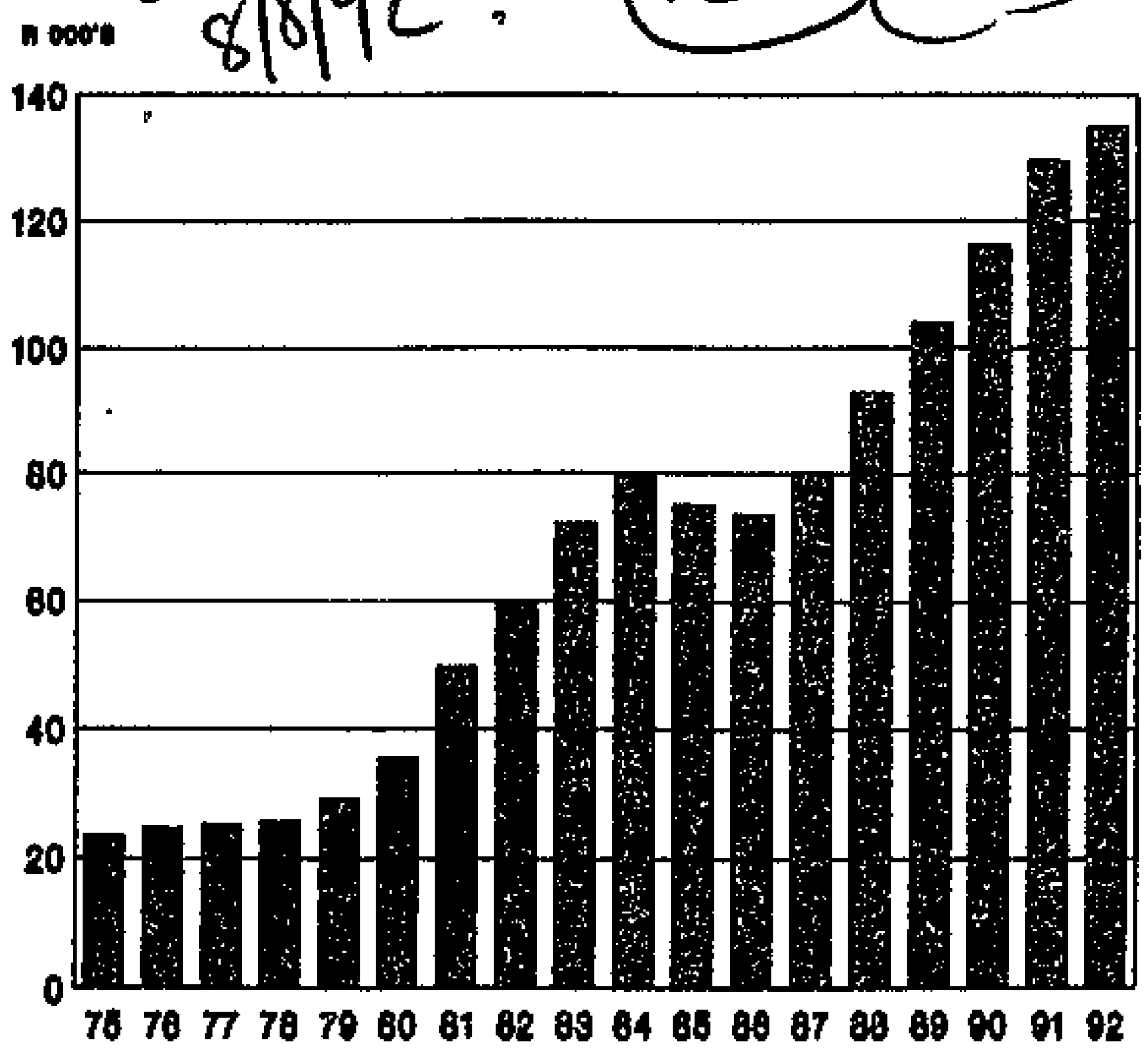
Scenario

"If we have an acceptable government with support from local and foreign investors, we can move into an upswing phase in the economy, funded in part by foreign capital. In this scenario we can see the residential property market move up during 1994 to take advantage of all the other indicators that are pointing to an upswing.

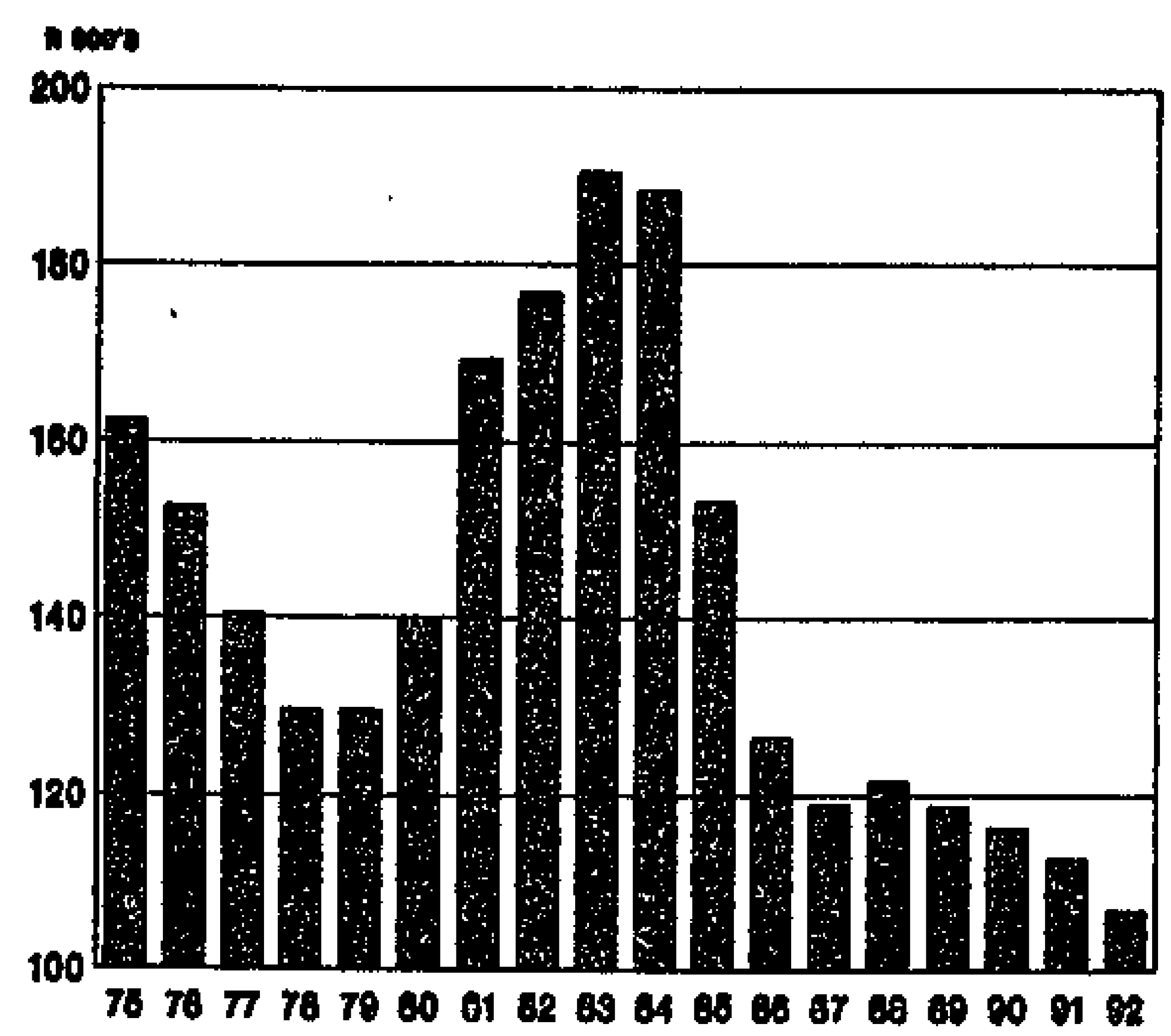
"This, of course, is the best scenario."

It was possible that a more prolonged period would be spent bringing a coalition government into power against a background of continual violence. In this case the market would remain without confidence.

"The worst-case scenario is civil war. One doesn't have to be a genius to work out what that would do to property values," he said.



Actual house prices (1992 reading is for January-March).



Real house prices — deflated by CPI as at 1990 (1992 reading is for January-March).

S Times (Buss) 9/8/92

Cheaper bonds

BoE Merchant Bank will lower its home loan rate by a percentage point to 16% from September 1. (58)

But major banks will not follow it. Nedbank divisional director Mike Leeming says the money-market shortage in July was higher than at any stage in the past 22 months. Because of a rise in inflation, any drop in home loan rates would be premature.

BOE is in a specialised market, offering loans on property worth more than R500 000. The bond has to be greater than R250 000.

First National Bank, Standard and Absa are not considering cheaper mortgage rates.

Absa insurance restructured

58

Business Day Reporter

THE short-term business of UBS Insurance Company and Allied Insurance Company would be merged to form Absa Insurance Company, while their long-term insurance would combine to form Absa Life, Absa announced last week. BDAY 10/8/92.

The group's insurance interests were being restructured to comply with proposed changes to the Insurance Act.

Intended legislation would not permit the combination of long- and short-term insurance businesses within a single company, Absa said.

Absa Insurance CE Louw van Wyk said policymakers would not be disadvantaged by the restructuring, and both businesses would benefit from the greater focus it provided. "The restructuring will also provide a stronger asset base for the respective businesses, greater solvency and improved economies of scale."

The restructuring was subject to the final approval of the Registrar of Insurance.

Absa Insurance Company's annual premium income will be R150m, excluding business from the former Bankorp group.

Chapman calls off Faircape listing deal

LINDA ENSOR

CAPE TOWN — Talks have collapsed between Pretoria-based property and financial services group E G Chapman and Cape-based property developer Faircape Homes about reverse listing of certain E G Chapman subsidiaries into Faircape.

The news broke on Friday following a week in which Faircape's share price doubled to 10c from 5c. The deal was under negotiation for some time.

E G Chapman Property Development Holdings MD Arthur Barclay said at the weekend that the talks had fallen through as the risk-reward profile of the deal did not balance out in the final analysis. It was felt that the interests of the Chapman group would not be served by continuing negotiations.

(58)

Barclay said the group's long term strategy was to seek a listing but was in no rush to do so.

BoE cuts home loan rate to 16%

(58) (102)

LINDA ENSOR and HILARY GUSH

CAPE TOWN — Board of Executors Merchant Bank has cut its home loan rate by one percentage point to 16%, but banking sources say there is little chance the move will set off a a rates war.

The cut, effective from September 1, was made possible by the trend of lower interest rates, BoE Merchant Bank MD Mike Thompson said at the weekend.

"We have decided to go to 16% in anticipation of a general drop in rates."

Major commercial banks would not match BoE Merchant Bank's move, spokesmen said. BDAY 10/8/92.

FNB banking GM Bob Wood said that although mortgage rates were reviewed weekly, FNB was not cutting rates in response to BoE's announcement.

Standard Bank home loans GM Duncan Reekie said the bank had "taken note" of BoE's move. He said BoE was a small niche player in the elite end of the market. "Standard Bank would have to consider the effect of a similar move across the full extent of the bond market from the developing market to the kind of market it (the BoE) competes in. We have a significantly larger market share here."

Nedbank divisional director Mike Leeming said a high money market shortage in July and an increased inflation rate in June meant "any bond rate drop might be premature". But interest rates, including the home mortgage rate, were reviewed

☐ To Page 2

Rate cut

BDAY 10/8/92.

continually.

Thompson said BoE, in taking its decision, had noted softening rates, and the general expectation that inflation would fall to about 12% by year-end. A further cut of one percentage point in Bank rate this year would not be surprising.

Furthermore, the Eskom 168 had dropped below 14,8% and the money market was liquid, which implied that there would be a scramble for assets, he said.

(58) (102)

☐ From Page 1

BoE led the market in the last round of rates cuts by about two weeks and Thompson said it intended to remain competitive. BoE's rates were about 1,5 percenage points lower than its nearest competitor.

BoE caters for the top end of the home loans market, with an average loan of about R500 000. It offers loans in selected suburbs where the bond required is R250 000 or more. Thompson said the higher margins achieved on this business allowed BoE to drop rates.

INTEREST RATES FM 14/8/92 (58)

Cutting the giant down to size

It seems that at last Reserve Bank Governor Chris Stals has won a bout with inflationary expectations. Since he undertook to preserve the value of the currency in 1989, he has not only had to fight demand pressures; he has also had to battle a number of technical factors which, like anabolic steroids, artificially boosted year-on-year inflation figures. These have sent incorrect signals to participants in the economy and perpetuated unfavourable expectations about the future course of inflation.

Now the technical factors are falling out of the figures — and interest rates have been tumbling in both money and bond markets (see graphs this page and p40). Along with the rates, economists are predicting a fall of up to two percentage points in Bank rate — the official rate at which the central bank lends to the banking sector.

"This will not mean a change in the monetary stance," says Absa group economist Hans Falkena. "Inflation should be down to 12,5%-13% by the end of the year. This means prime of around 16,25% — two percentage points below its present rate — would keep real interest rates at existing levels."

The elimination of one category of technical fall-out has happened gradually. Central Statistical Service's Martie Grobler explains that July last year was the last month which was fully based on the 1985 basket. If the 1990 weights had been used, the official inflation rate of 15,8% that month would have been only 13,7%. In June, 0,2% percentage points of this differential remained and that is still to be reflected in July and August figures. (The reason the 1990 basket produces a lower rate of inflation is that the weighting of food — the biggest single input to inflation — fell from 22,72 to 18,64.)

Rand Merchant Bank economist Rudolf Gouws identifies another technical factor. "In July 1991 the monthly rise in inflation was 1,3%. This is more than the present underlying trend which is around 1% a month. So growth in July is measured off a relatively high base."

An indication of the recent trend comes if the increase over these months — 0,8%, 1% and 1% — is annualised, says Gouws. The rate of inflation is then seen to be running at 12,8%. "If VAT is excluded it is only 12,3%."

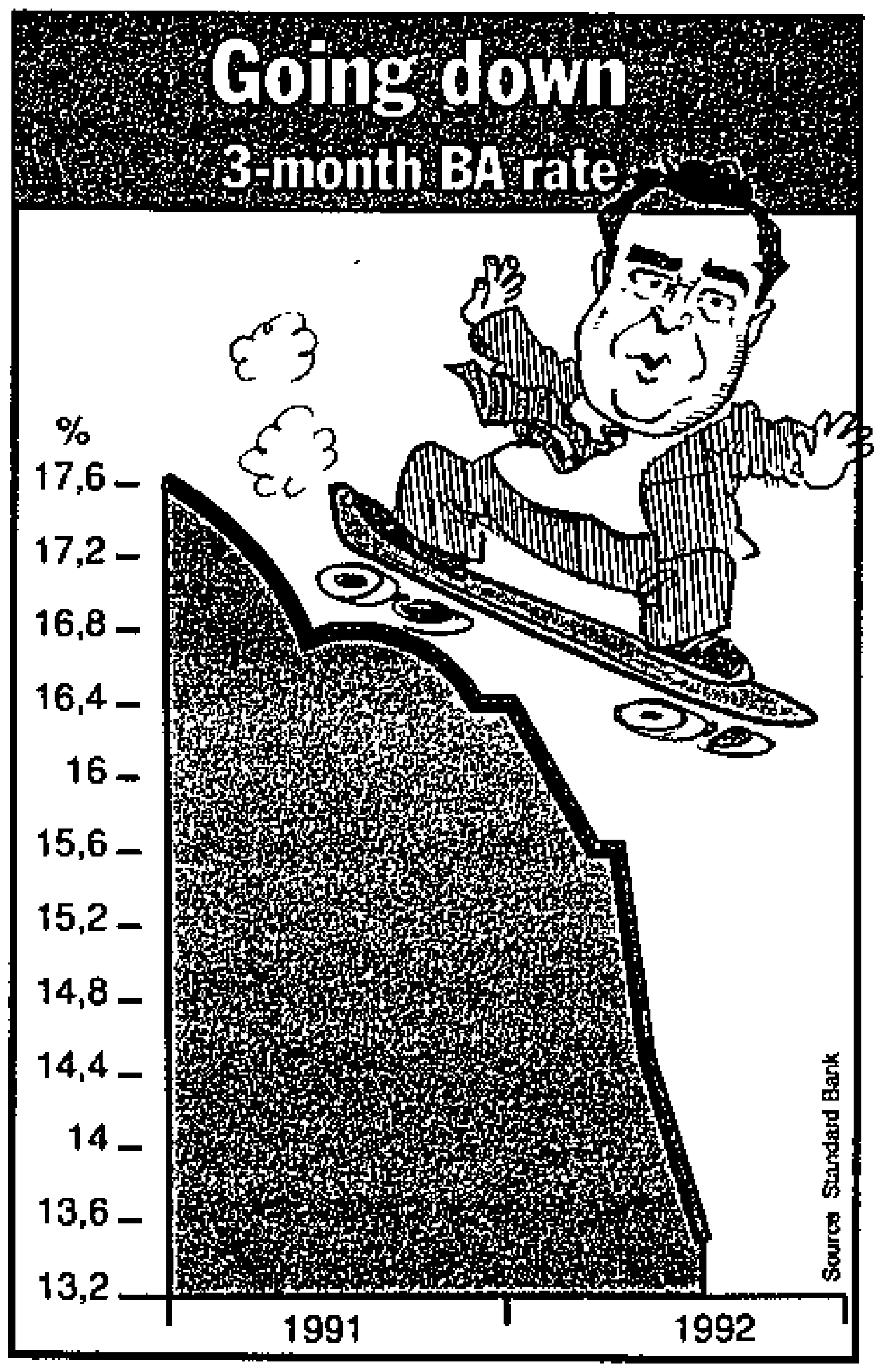
When VAT was introduced in October it helped to push the official inflation rate to 16,8% from 15,4% the previous month. With VAT stripped from the figures, the rate that month would have been only 15,6% according to CSS. By October this effect will have been eliminated.

Another reason for optimism is that the coming summer is expected to produce a normal rainfall. This will eventually have a favourable effect on many agricultural prices. Meat prices may rise as farmers restock herds but a solution to supply shortages is not hard to find, says Falkena. "I would advocate that we import whatever meat we need to make good the shortfall."

There are two ways to handle a supply shortage, Falkena argues, and both have a cost. "The one is to endure the price rises that result, and the high *nominal* interest rates necessary to keep *real* interest rates positive. And the cost is the marginal businesses that fall by the wayside, unable to service their debts."

He adds: "The other way is to import what we need and the cost is measured in a fall in foreign exchange reserves." This he believes is the option we should choose — as the current account of the balance of payments appears to be in a comfortable surplus and foreign reserves continue to improve (see p38).

But there is a proviso if this course is to prove an antidote to inflation. Meat must be allowed to move freely on to the market — unhindered by the Meat Board. If inflation is ever to be effectively contained the role of



the board in the economy must be radically changed. As long as it is allowed to straddle the distribution channels, all other players in the economy will be called on to pay the price.

In the money market, rate falls have been aided by expectations of a build-up in liquidity in the months ahead. The market shortage which hit R4bn on July 31 remained at high levels in the days that followed (R2,84bn on August 10). And funds will leave the system at the end of the month as corporates and provisional taxpayers make tax payments. But this will be countered by two major inflows: in mid-August two maturing issues of government stock will put R1,5bn back into the market; and at the end of August, half-yearly coupon payments will be made on government stock.

This favourable configuration of events is expected to set the scene for an initial one-percentage-point fall in Bank rate by September and a second one-percentage-point fall towards the end of the year ■

BMA FM 14/8/92

Carrying the can (58)

Will the Bond Market Association ever get off the ground? It's taken so long that the number of sceptics is multiplying. BMA CE Graham Lund concedes there have been problems — two postponements and now it looks as though next month's start won't be met either.

The BMA was established through the Financial Markets Control Act but it's still awaiting licensing — and that can't be effected until the rule book and clearing house methods and procedures have been resolved. Lund says agreement on these should be reached soon but adds that if next month's projection isn't met he'll be looking at November. If that isn't sufficient time his guess is it will be delayed until January or February.

Critics of the BMA say the problems are more serious than Lund suggests.

Under the current system, banks "mark cheques" every week, thereby effectively underwriting the trading activities of small players. This procedure forces the banks to take on risk that is difficult to monitor and control.

The role of guarantor does not please them and, under the proposed new system for gilts trading, they are still expected to fill it — though this time as risk managers.

Lund argues that, as risk managers, they would be in a position to negotiate limits on the value of trades undertaken by smaller players.

They can also insist on details of trades and information on whether daily positions are closed or open. On this basis, says Lund, the banks will be happy to guarantee transactions.

continued →

 FM 14/8/92 58

That's all very well, say traders, but it raises the issue of confidentiality. The argument is that the banks, once in possession of sensitive information, will pass it on to their own dealing floors which will use it to ramp the market.

Lund

Lund says risk managers won't be able to see transactions deal by deal. That means it won't be possible for the banks to use information selectively.

Anyway, he adds, the contention impugns the honour of the banking system because bankers don't behave in an underhand manner.

This view earns only cynical sighs from traders.

The BMA system will remove fears of vast operations being undertaken through what was an under-capitalised market, says Lund. He accepts that some BMA members, principally JSE brokers, are complaining about the costs of regulation but argues that the BMA's cost structure is pared to the bone.

"The real problem," says a senior trader, "is that if the BMA is introduced we will have the safest and most illiquid financial market in the world."

Moreover, he adds, the role of small players, which includes some merchant banks, is being ignored. "They are the primary users of the market and the people whose expertise gives it liquidity." If their activities are severely circumscribed, liquidity could reduce by as much as a third. "It will then be very difficult for the issuers of primary paper to feed the same quantities of securities into the market."

Lund says he's surprised these matters are being raised again. They were dealt with, he adds, at a BMA meeting six weeks ago when Investec's Simon Shapiro was delegated to examine the whole issue of risk managers. His report concluded that, if the objective was to operate in a guaranteed market, then the risk-manager route was the only reasonable option. If that was unacceptable, then the method adopted in London would have to be applied, and that involves confining trading by each firm within the limits imposed by capital adequacy rules.

FNB's Neil Garden says the banks are developing from scratch the day-by-day real time risk reporting systems necessary for risk managers "We've been joined in this by representatives of the traders who now serve on the BMA committee," he adds

The real problems, however, are in the exotic derivative instruments, such as hedging mechanisms. There is no central register for these and it's clearly going to take time before the matter is resolved.

The fact that these issues haven't gone away suggests that the matter of the BMA's future role is still under consideration, which goes some way to explaining why it's taking so long to get off the floor. *David Gleason*

BOND MARKET

Little acorn

JSE brokers operating on the gilts market feel discomfited. In the middle of a raging bull market an unknown competitor has been making off with a large slice of market share. SA Capital Market Brokers (CMB), headed by Australian MD Michael Atkins, has introduced a system previously unused in SA for dealings in primary stocks.

SA International Money Brokers (IMB) holds 40% of the equity in CMB and provides an established communications network with voice boxes installed in the trading rooms of the major banks, merchant banks and issuers of primary paper.

CMB is offering to match sellers and buyers for a commission of R75 for each R1m nominal traded through its services. This compares with JSE brokers' standard charge of about R225. It can be even more if JSE brokers handle both buying and selling legs since they charge buyer and seller. When this is computed over the extent of the market's daily gilts transactions, worth R500m-R1bn, it converts to a potential saving for trading institutions of R75 000-R150 000.

Atkins refuses to be drawn on the volume of business CMB is handling but market sources put it as high as R150m daily. "I've been surprised with the extent of our success since we opened three weeks ago," is all Atkins says. Traders will make increasing use of the service, he believes, because anonymity is preserved and CMB cannot take a position Frontrunning on orders, as the practice of buying for a trader's own account on the back of large orders from institutions is sometimes described, has long been a bone of contention.

JSE brokers are miffed. The senior gilts trading partner of a large brokerage says the introduction of CMB's service "is good for the market and good for liquidity but it's being done at the expense of the (JSE) gilts floor. We can't possibly support it." There are deficiencies, he adds. "In a volatile market traders can't leave orders on the screen for long. If they do they're sitting ducks."

CMB's costs are low, says Atkins, "because we don't get involved in administration. We put sellers and buyers together, advise them of the identity of their transacting partner, and let them complete the deal without interference."

The CMB system is widely used in London, New York and Sydney where it has contributed to a reduction in the high costs inherent in any trading operation as well as increasing market liquidity. The fact that it's now here and has attracted so many users quickly is evidence of its acceptability.

It's rumoured that three new firms, all offering services similar to those of CMB, will open their doors in the next month. ■

INSURANCE

Fighting fraud

58 14/8/92

To combat fraudulent claims, the SA Insurance Association (Saia) has proposed the pooling of information from its 42 members. Captured in a suitable database, the pool would help identify people who claim frequently or who claim against more than one insurer for the same loss. Rodney Schneeberger, Saia's chief executive, says the project is being tested by two major insurers. The cost, spread among most of the association's members, involves only the alteration of their claims information files to conform to a centralised base.

A similar pool exists in Holland and in the UK, where there is an anti-fraud and anti-theft register. This helped detect a case where the insured claimed against 11 different insurers for the loss of one vehicle.

Working with Information Trust Corporation, Saia intends to create a system which gives out warning signals. Says Schneeberger "Insurers would have access to claimants' credit histories and this facility could, for instance, enable increases in claims frequencies to be linked to judgments against claimants. We don't know how many claims on personal lines of insurance are fraudulent, but there is a suspicion that many claims are either inflated, or relate to

PPI TICKS UP IN JUNE

The producer price index (PPI) for June rose above 9% for the first time since October, to 9,2% from May's 8,7%. The month-on-month rise was 0,9%.

June's 0,5 percentage point uptick can be attributed to two factors:

☐ An increase in the index for imported commodities, which rose 0,5% in the month, following a 0,3% decline in May. The locally produced component rose 1% in the month after rising 1,2% in May; and

☐ The increase was measured off a relatively low base — PPI in June 1991 rose only 0,4% in that month.

But there were large monthly increases in agricultural food (1,5%), fresh meat (1,5%), "other" food products (3,8%), clothing (2,1%) and electricity, gas & water (3%).

incidents which never took place."

Costs of assessment, borne by the insurers, have become unrealistic where small claims are being probed. A central claims register will act as a deterrent to frequent and multiple claimants. ■

PRIMA BANK

Disclosing a new MD

Prima Bank Holdings acting MD Clive Ferreira succeeds the late Johan Bellingan as MD. The appointment was made at a board meeting last month. Ferreira has been with Prima since it began four years ago and was second-in-command.

Ferreira

"My first objective is to satisfy clients and the public that the bank is still in safe hands," he says.

Despite publicity involving Prima, the Reserve Bank and the now-liquidated Cape Investment Bank, which Ferreira claims has harmed the bank, latest financial results to June 30 show healthy growth. Capital (primary and secondary) grew 122,7% to R15,3m.

The growth in capital helped to maintain Prima's risk-weighted capital:asset ratio which, at 8,4%, is well above the 5% requirement of the Deposit-Taking Institutions Act, though lower than 1991's 9,6%. Return on capital is 44,2% (55,9% in the previous year).

Ferreira says the increase in capital came from R3,4m retained income and the issue, during the financial year, of R3m preference shares and R2m unsecured debentures.

Assets grew 92% to R275,6m mainly as a result of investments in subsidiaries, an increase in the loan book and from trading activities. Meanwhile Prima's return on assets dipped from the previous year's 1,32% to 1,14%. Net income for the group grew 27% to R3,8m after making "ample provision" for bad debts which, though not disclosed, Ferreira says makes up 2% of the loan book.

He says the 1991 financial year's 150% earnings increase came from "nonrecurring items."

Prima's income base is diversified: trading (35%); fee income (34%); interest income (22%); and investments (9%). Ferreira says more than half can be regarded as recurring income.

The bank receives most of its fee-income from corporate and structured finance transactions and insurance sources such as life, credit and short-term insurance.

Prima's financial disclosure is still minimal; so it is difficult to assess the true nature of the group's financial standing. Most analysts ignore the smaller banks for this reason. But Ferreira says disclosure will fall into line with new requirements that come into force in January 1994.

He adds that another objective of the bank will be to look for some international connections: "We're talking to a number of interested parties abroad." ■

VAT FM 14/8/92

Flat on its back

Extending VAT to more foodstuff from April did little to offset the effects of the recession on government revenue over the first quarter of the fiscal year.

According to the most recently gazetted Statement of Revenue, VAT collections totalled R3,5bn between April 1 and June 30.

Together with sales tax revenue of R35m, this is 21% lower than the amount collected through GST in the first quarter of last year.

Though weak consumer spending ate into government VAT earnings, income tax revenue was 19,3% higher, at R9bn, compared with the first quarter of last year.

Total inland revenue for the quarter, after

Continue →

Bank rate may be the next

S/Times (BASS) (58)

A BANK-RATE cut could follow the drop in the home-loan rate announced by Standard Bank, Nedbank, First National Bank and the Perm on Friday. 16/8/92

The home-loan cuts this year from 20% to 17,25% were followed by bank rate. Eighteen months ago home loans were at 21%.

The latest 0,75% cut injects R480-million into the economy. Cheaper home loans this year have put R1,7-billion into borrowers' pockets.

Market talk on Friday was that a drop in bank rate was imminent was denied by the Reserve Bank's Chris de Swardt. He said: "We are not considering it."

Standard Bank initiated the move, lowering home loans from 18% to 17,25%. It was followed by Nedbank, First National and the Perm.

Standard Bank's Dennis Matfield hopes the drop will "restimulate the housing market and property industry as a whole".

FNB's Bob Wood says the cut will lower the number of repossesions.

"The market gives us the ability to do it".

Capital-market traders believe the Reserve Bank will follow with a percentage point drop to 14% before the

By TERRY BETTY

end of August, inflation permitting. Traders expect the consumer price index due later this week to drop by about 0,5% from June's 15,1%.

They say falling market rates are putting downward pressure on bank rate. The long-term Eskom 168 has fallen to 14,10%. The long-term RSA has dropped to 14,20%.

Three- and six-month Treasury bill rates have shed about 0,5% to 12,77% and 11,94% respectively.

Econometrix's Azar Jammine does not expect a bank-rate cut until end-September, when inflation should be below 14%. He says Reserve Bank Governor Chris Stals does not want the bank rate to be below inflation.

Dr Jammine says the home-loan drop is insufficient to stimulate the economy, but will help to slow its deterioration.

"It is part of the process that should eventually result in economic recovery."

The drop will ease the pain of cash-strapped individuals. Others will use the spare cash to pay debts, to pad their bank accounts or pay off their bonds faster.

Premiums set to rise sharply

BDAY 17/8/92

LIFE insurance policy premiums particularly for young people will increase because of AIDS, a spokesman for Southern Life said at a seminar on AIDS yesterday in Johannesburg.

The insurance industry had recognised that the HIV virus, which can lead to full-blown AIDS, "is going to become a killer of young people in a big way", Paul Truyens said.

The industry's ability to provide life assurance to the average man in the street might become endangered, he warned, unless it introduced changes.

Testing applicants for the HIV virus itself would become common.

"The second thing that will happen is that there'll be a steady increase in the premiums that young people will have to pay.

"Even though a young person might be tested negative and is given life assurance, the younger he is the more likely it is he might still become positive because he has not changed his (social) behaviour." — Sapa.

SACC probe into ANC under way

BDAY 17/8/92

PATRICK BULGER

AN SA Council of Churches (SACC) team which plans to visit ANC camps to test claims of maltreatment and disappearances also wants to inspect government installations used in the covert war against the ANC.

SACC Justice and Social Ministeries director John Lamola said the SACC had been given the go-ahead two months ago to begin interviewing people who claim family members had gone missing in ANC camps in Africa. The ANC had camps in Angola and still has a presence in Uganda and Tanzania.

Lamola said the SACC was planning to visit the ANC's camps once a full list of missing people had been drawn up. He said the SACC team had been in contact with a number of ANC dissidents who had returned from exile complaining of maltreatment.

"Our intention is to go with a list of names. The visit will involve international church figures," Lamola said.

He said the visit to the camps, permission for which was granted by ANC president Nelson Mandela last week, would probe alleged human rights violations committed by the ANC in exile.

"We have stood against human rights violations of the apartheid regime. We should not overlook what has happened outside the regime," he said.

Lamola said the SACC wanted to visit government installations used during the undercover war against the ANC, in particular Vlakplaas police camp, which renegade policeman Dirk Coetzee said was used as a base for attacks on anti-apartheid figures.

Meanwhile, the commission of inquiry appointed by the ANC to investigate conditions in its camps had not completed its report and would sit for another day, a source close to the commission said.

The source denied that the commission had named ANC administrative official Mzwai Piliso as being primarily responsible for abuses in the camps.

The source said the commission's terms of reference were limited to an investigation into conditions of detention, allegations of maltreatment and complaints about loss of property.

The ANC said a report would be submitted to Mandela and that there would be no comment on the issue until he had studied and made public its findings. The ANC said it had committed itself to publicising the findings when it set up the commission.

Buthelezi issues fresh appeal on peace to ANC

BDAY 17/8/92

MSINGA — Inkatha president Mangosuthu Buthelezi yesterday issued a fresh invitation to ANC president Nelson Mandela to join him in a bid to end the carnage in the country.

Addressing the people of Msinga and neighbouring districts in Natal, Buthelezi also rejected the concept of a troika consisting of him, Mandela and President F W de Klerk ruling the country.

"I want no alliance with the ANC . . . All I have said is that unless Dr Mandela, Mr de Klerk and myself come together to combat violence, violence will flourish.

"I say today to Mandela yet again, act against the violence with me. I say to him, have the courage to go back to your very own suggestion that you and I should share platforms to combat the violence.

He also slammed the ANC's withdrawal from Codesa. "The going is going to get tough because of political tensions created by the ANC's refusal to go back to the negotiation process."

Meanwhile, eight people were wounded in Alexandra, north of Johannesburg, when attackers armed with AK-47 and R-1 rifles fired on the police but missed their target, wounding bystanders instead.

The wounded were treated at a clinic in the township.

On Saturday, two bodies were found, police said in their daily unrest report. One had been shot and another hacked and stabbed to death.

On Saturday night a commuter was shot dead and another seriously wounded when they were attacked by unidentified gunmen on a train in Soweto between Phomolong and Dube stations.

No arrests were made.

Two bodies with hack wounds have also been found at Ivory Park, Midrand, where a taxi war claimed four lives last week.

Major banks set the scene for cheaper money

(88)

ARG 17/8/92

SVEN LUUNSCHE

JOHANNESBURG. — A rate cut by major banks over the weekend has fuelled speculation that the Reserve Bank will lower its key Bank rate within a few weeks.

Standard Bank announced a 0,75 percentage point cut in its bond rate to 17,25 percent on Friday, a move that so far has been followed by First National Bank, Nedbank and the Perm.

Other financial institutions are expected to follow this week.

Rumours swept financial markets on Friday that the central bank was set to lower the Bank rate by up to 2 percent.

A cut in the Bank rate is the precursor to lower interest rates on all bank lending to customers.

Analysts say pressure for a Bank rate cut is emanating from two sources.

First the deteriorating state of the economy, as evidenced by a 2,6 percent fall in gross domestic product (GDP) in the second quarter of the year, and, second, interest rates in the money and capital markets have recently declined sharply.

On the capital market, rates on the benchmark Eskom 168 fell to a six-year low of 14,1 percent last week, while short-term Treasury bill rates on the money market shed about 0,5 percent.

Economists caution, however, that a Reserve Bank move would be contingent on a significant improvement in the inflation rate, when consumer price index (CPI) figures for July are released later this week.

Speculation growing over Bank rate cut

By Sven Lünsche 58

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TransAtlantic pays the price of Sun Life stake

(58)

By Sven Lünsche STAR 17/8/92

Profits of Liberty Life's UK arm, TransAtlantic, which was recently listed on the London Stock Exchange, fell sharply because the group had to absorb the cost of raising its stake in insurer Sun Life.

TransAtlantic's pre-tax profits in the six months to June fell 22 percent from £34,2 million to £26,6 million. The fall in earnings per share from 9,16p to 5,08p was more pronounced because of the £150 million one-for-four rights offer in May.

Both the property interests in Capital & Counties, and the insurance interests did well, says TransAtlantic chairman Donald Gordon.

Despite the depressed UK property market, Capital & Counties' shopping centres made steady letting progress, boosting its earnings by 40 percent to £28,9 million.

Sun Life, which TransAtlantic controls jointly with French group UAP, almost doubled its contribution to £16,3 million, with new premium income rising from £636,4 million to £886,1 million.

Despite the improved earnings of its operations, TransAtlantic's bottom line was hard hit by a reversal of last year's interest receipts of £5 million to interest payments of £18,6 million.

This follows on the £161 million the group paid to raise its stake in Sun Life from 28 to 50 percent, and an end to interest capitalisation on the Thurrock shopping centre project, which brought in £15,8 million in 1991.

The borrowing profile remains conservative — net borrowings represent around 35 percent of shareholders' funds, with 80 percent of these borrowings in fixed long-term debt.

Mr Gordon says the current recession has provided "many attractive opportunities" for expansion.

TransAtlantic's strong capital base and support from its two major shareholders, Liberty Life and UAP, would allow the group to participate in the restructuring process forced upon many property and insurance businesses by the prolonged recession, he says.

JSE-listed First International Trust (FIT), which holds 37 percent of TransAtlantic, reflected the performance of its subsidiary with a sharp fall in earnings to 12,8c (19c) a share.

An unchanged interim dividend of 7c has been declared, with FIT expecting the final dividend to be maintained at 1991's 13c.

Towering over giants

ARG 18/8/92

(58)

TOM HOOD, Business Editor

OLD MUTUAL has staked its claim firmly as South Africa's richest company and Africa's leading life insurer.

Its total assets grew by R14,8 billion or 20 percent to more than R87 billion in the year ended June 30, including R13 billion of assets managed on behalf of clients.

This means Old Mutual is worth more than five of South Africa's industrial giants combined — De Beers, Anglo American, South African Breweries, Gencor and Rembrandt Group.

Its wealth enabled it to pay out more than R27 million every working day to policyholders. This amounted to R6,8 billion for the year, up 51 percent on last year and 18 times more than was apaid out 10 years ago.

Only three years ago, Old Mutual was paying out R10 million a day in benefits.

The R87 billion of assets represents more than R2 300 for every man, woman and child in South Africa, said Old Mutual's chairman Mike Levett today.

"Put another way, one could say that every person employed in the formal sector, including agriculture, would have accumulated savings of about R14 000 invested with Old Mutual," said Mr Levett.

This more than anything else represented Old Mutual's ability to mobilise the savings of the community to provide for the long-term financial security of tis members, he said.

"A gratifying feature was that the largest portion of these benefits was paid to members during their lifetime."

More than R1,2 billion was also paid out for death and disability, compared with R897 million paid a year ago.

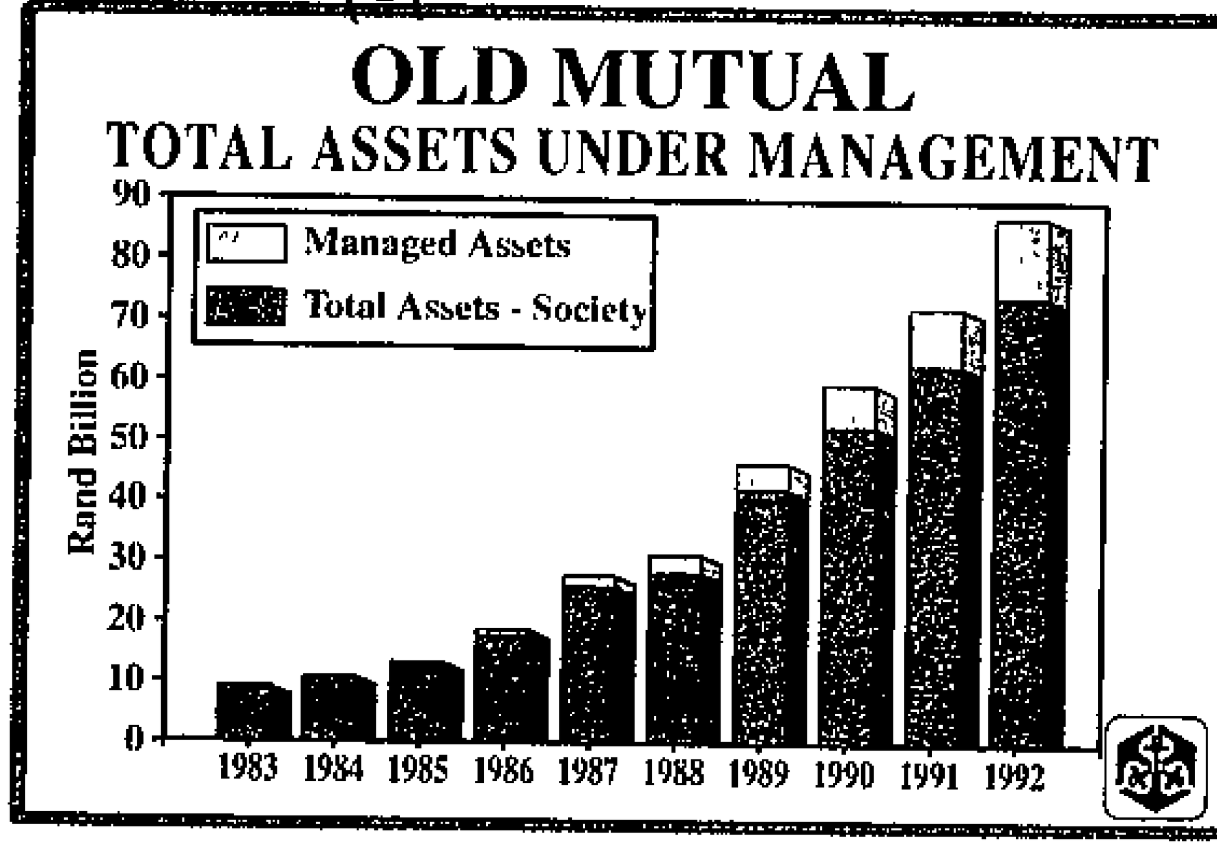
The growth momentum was reflected in a 27 percent jump in premium income to more than R10 billion, a new milestone for the local insurance industry, he added.

A significant feature was a 54 percent hike in single premiums to R2,2 billion.

Total income, comprising premium and investment income, rose 23 percent to almost R15 billion.

Investments earned R4,6 billion, a rise of more than R500 million.

The market value of managed assets grew by 37 percent or R3,5 billion to R13 billion during the year. This includes assets of pension funds and unit trusts.



Old Mutual's grip on the stock market is shown by the volume of shares it owns — almost R44 billion at market value, a growth of R7,6 billion in a year.

Already the country's biggest landlord, Old Mutual spent another R1,3 billion to boost the value of its property portfolio to R8 billion.

As the recession bit harder and retrenchments increased, more policyholders were compelled to cash in their insurance policies.

Old Mutual paid out R618 million to individuals who surrendered their policies — a 50 percent increase on the R413 million paid out in 1991.

Payouts rocketed more than threefold to R1,1 billion for surrenders by people in group pension funds managed by Old Mutuial. Only R229 million was paid for group business surrenders a year ago.

"This reflects people are hard up and cashing in their assets," said chief actuary Mr Theo Hartwig.

Further mortgage bond rate reductions on cards

STAR 18/8/92

By Magnus Heystek
Finance Editor

58

Further cuts in mortgage bond rates are expected following Friday's announcement by Standard Bank of a cut of 0,75 percent in its bond rate to 17,25 percent.

A rate of 16 percent is now expected before the end of the year while rates could decline even further if inflation falls later this year.

All the "Big Five" banks have now reduced their rates. The lowered rate applies to all new applications, while existing bonds will come into line on September 1.

This is the third reduction in bond rates since the beginning of the year and home-owners are now starting to feel a real difference in monthly repayments.

The latest reduction will free another R450 million a year in total bond repayments, which should prove a welcome boost to a depressed retail industry.

A person with a R50 000 bond will now have to pay a minimum of R743 a month (excluding insurance) at an interest rate of 17,25 percent. This compares with R849 a month at an interest rate of 20 percent — a saving of R106 a month (see table).

Someone with a bond of R150 000 will by now have seen a reduction of R319 a month.

According to the banks the latest drop was a reaction to reduced demand for mortgage finance. The residential property market has declined sharply in the past three months because of the depressed economy and the mass action campaign.

Bank spokesmen hope the latest drop in bond rates will boost the property market, but estate agents and developers are more cautious.

"We need more than cuts in interest rates; we need economic growth and political confidence for this market to really take off," a developer said yesterday.

The further decline in bond rates — normally a precursor to a lowering of other interest rates, including the prime overdraft rate — reflects on the depressed state of the economy.

While debtors might welcome the latest drop in mortgage rates, savers are faced with greater reduced interest payments while inflation is still soaring.

Pensioners living off fixed-income investment, in particular, have seen their incomes decline sharply in recent months at a time when the price of basic foodstuffs has risen by as much as 25 percent. The purchasing power of such pensioners has dropped by as much as 35 percent in recent months.

ADRIAN ARNOTT

Smooth transition to corporate entity

8/10 AM 19/8/92.

58

IN THE space of just three years, AMA's top leadership has changed from having a founder-owner at the helm to being a fully-fledged corporate entity.

Southern Life acquired 100% of AMA in December 1989 from founder Tony Leveton, who stayed on temporarily as a director to ensure a smooth transition to the management team which is now in place.

As AMA chairman Adrian Arnott explains, Southern's expertise lies in the field of life insurance. When it branches out into a new field, it is an established policy to do so in partnership with an established expert, in this case Leveton.

The current management team has been in place for about 18 months and Arnott says he is happy to maintain a low profile, leaving the affairs of AMA "in the capable hands of Tim Gelman and his executive team".

Arnott, who is also Southern's executive director of employee benefits, says Southern considered medical aid to be a natural extension of its existing base.

The idea, he says, is to position AMA as the health-care expert within Southern's stable and as a complement to its other services.

Reluctant

Arnott is reluctant to discuss what Southern paid for AMA, but says it was considerably less than the R100m involved in its recent acquisition and refinancing of debt of a 50% stake in the MediCor group. MediCor operates 10 Medi-City hospitals in SA and Namibia.

With the envisaged changes to legislation governing medical aids, Southern's hospital and medical aid interests mean it is well positioned to move strongly in the direction of managed health care.

Govt underwrites bank finance

R500m loan plan to bolster small business

BDAY 19/8/92. (58). (18/8/80)

A R500m scheme would provide development finance for thousands of small and medium businesses to enter the mainstream of the economy in the next three years, the SBDC said yesterday.

The scheme — a joint effort by the SBDC, five commercial banks and government — would offer development finance to small and medium enterprises through the branch networks of the banks, the SBDC said.

The banks involved were African Bank, Boland Bank, FNB, Nedbank and Standard Bank.

The Finance Department, through the Trade and Industry Department, had provided the initial R20m to underwrite the scheme, which was being administered by the SBDC.

SBDC head of business financing Kees de Haan said: "The scheme underwrites a portion of the risk to which the bank is exposed when considering small business loans, thus enabling the bankers to retain their normal credit standards while at the same time reducing the collateral which the entrepreneur would normally have to supply."

The scheme harnessed the business financing expertise of thousands of the banks' managers and their infrastructure of more than 1 000 outlets, and combined this with the development of the SBDC, De Haan said.

It benefited the entrepreneur by reducing collateral requirements, increasing sources of development capital and providing greater access to the whole range of services offered by the banks, he added.

THEO RAWANA

To date the scheme had underwritten finance to more than 130 small and medium enterprise clients for whom finance amounting to R28m had been mobilised.

"The maximum amount of financing per client which may be accommodated in the scheme amounts to R400 000, while the maximum period of the guarantee is five years.

"A fee of 0,75% per annum is levied on the amount granted, while the banks may not charge an interest rate higher than their prime overdraft rate plus 4%," De Haan said.

"The scheme is a further deployment of the SBDC's striving to optimise state development funds and the mobilisation of private sector resources in the promotion of entrepreneurship among all South Africans," he added.

He said the scheme was created to unlock the financial resources and infrastructure of the commercial banks for the benefit of the small enterprise community.

Last week SBDC MD Ben Vosloo said the SBDC had been forced to cut loans by almost 30% because of government's virtual elimination of its subsidy.

He warned that loans could be cut by 50% unless new forms of finance were secured for the next financial year.

Loan inquiries from aspirant businessmen were pouring in at the rate of 2 000 a day, almost double the rate of last year.

Government this year cut state capital funding for the SBDC from R100m to less than R8m.

Levett wants devaluation of rand

(447) DUMA GQUBULE (25)

THE Reserve Bank's policy of maintaining a strong rand was questioned yesterday by Old Mutual chairman Mike Levett, who called for a devaluation of the currency to stimulate exports. B/DAY 19/8/92

Presenting the assurance group's results, Levett said it was worrying that the currency's value was not reflecting differences between world and domestic inflation rates. Such a situation could easily result in a non-competitive currency in a high inflation country in a very short time.

The group reported a 22,6% increase in total income to R14,9bn for the year to end-June. Total managed assets grew by 21% to R87,3bn.

Forecasting an economic growth rate of "less than 2% for 1993", Levett said the country's significant upturns had always been led by exports and the performance of world economies. Stimulating the economy through exports was, therefore, preferable to using lower interest rates, which were already on the low side. He suggested pegging the rand to the weakest of a basket of currencies rather than the average, as the Bank was doing. (58)

A weaker rand would result in better rand revenues for commodity prices and affect job creation by, for example, making marginal gold mines less marginal.

Levett said no country had experienced a successful change to a stable democracy without a sound economic performance before, during and after transition.

What was needed, he said, was a significant reduction in the level of uncertainty. This could happen only when realistic rules for the economic game were established and adhered to.

● See Page 13

No democracy without growth, says OM chief

STAR 19/8/92.

By Derek Tommey (SS)

Mike Levett, chairman of the Old Mutual, SA's biggest financial institution, has appealed to politicians to give top priority to getting the economy moving.

Heading the list of issues needing to be addressed is one of "significantly reducing the level of uncertainty".

Mr Levett warns: "No country has ever experienced a successful transition to a stable democracy in the absence of a sound economic performance before, during and after the transition."

Performance

In the light of this record, the poor performance of the South African economy is cause for grave concern, he says.

In the past two years, real gross domestic product (GDP) has shrunk by 9 percent, and close on 200 000 jobs have been lost in the private sector, a trend that is continuing this year.

With 300 000 people joining the labour market every year, it is not surprising that 40 percent of the work force is believed to be unemployed.

Mike Levett . . . cause for grave concern

Mr Levett says it is obvious that a successful transition to a more democratic dispensation cannot be tackled on the political playing fields alone.

"The task of economic reform cannot wait for the political reform process to run its course. The economic issues need to be addressed urgently."

He says that any political change leads to uncertainty and that the current political impasse is severely aggravating the situation because it is paralysing decision-taking and impeding economic growth.

Any effort to put the economy back on a sustainable growth path will have seriously to address the issue of uncertainty.

"Realistic rules for the economic game need to be established and adhered to," he says.

Without such rules South Africans will not be willing to invest in new production, meaning that unemployment, with all its associated ills, will increase further.

"If South Africans are not prepared to invest, it is unrealistic to expect foreigners to perform the task," he says.

Other requirements for economic growth put forward by Mr Levett include a cut in government spending.

"This is high relative to other more successful economies at a similar stage of development.

"Consequently, tax rates are also high. Without spending restraint, a reduction in tax rates cannot take place."

Mr Levett warns against any attempt to raise living standards by means of populist economic policies.

"The well-known failures of populist policies, such as those in Latin America, demonstrate the vital importance of maintaining macro-economic stability," he says.

The economy must be restructured to being outward-looking and internationally competitive.

Here the management of the exchange rate will be crucial, and the failure of the exchange rate to compensate for the inflation differential is worrying.

● Despite the recession, Old Mutual has lifted its annual premium income by more than R2 billion to above R10 billion for the first time.

Premiums

Income from premiums and annuity considerations in the year to June rose 26,9 percent from R8,06 billion to R10,2 billion.

After including the 13,9 percent rise in investment income from R4,06 billion to R4,63 billion, the society's total income was R14,9 billion — up 22,6 percent on last year's R12,1 billion.

Total assets under management rose 20,3 percent to R87,3 billion, or more than the combined wealth of five of South Africa's mining and industrial giants — De Beers, Anglo American, SA Breweries, Gencor and Rembrandt.

AMA

Southern Life's move a watershed for the industry

BDAY 19/8/92 58

SOUTHERN Life's acquisition of AMA last year marked a turning point in health care history in SA.

AMA changed direction dramatically over a year ago, adopting a market-driven and innovative approach which has prepared the company for the changes now looming in the industry.

This has given members a superior service in the form of a range of customised healthcare solutions represented by a number of innnovative, market-driven products.

Determined to stay in close touch with its market, AMA recently established a unit dedicated to ensuring that the existing client base is satisfied with products and services.

It is also acutely aware of health care issues and has reacted swiftly to alleviate the financial burden on its members, with a range of products.

The fact that many medical aid members are out of pocket after a major operation has seen AMA introduce a form of medical insurance or "gap" cover, for one of its largest funds.

This move was a response to a recent relaxation in legislation which ensures that members of this scheme do not need any extra medical insurance. These members are covered up to 50% above the scale of benefits for major expenses such as hospitalisation and surgery.

As medical aids have reasonably large membership bases, they can offer the same gap cover as insurance companies at very competitive rates, mostly because they operate on margins of between 6% and 8%, while the insurance companies' cost for underwriting is about 40%.

Another innovation, which encourages frugal use of medical aid, is a "no-claim-bonus".

Linking

The 70/100 plan — first developed locally by AMA — sees the member paying 30% of all the costs incurred in a particular year — up to a certain threshold.

This scheme has been further developed by linking it to a savings option.

If, for example, a member pays R500 a month, R150 of this can be put into a fund to co-finance co-payments. At the end of the year, the member builds up a "no-claim" bonus which can then be used to cover future medical costs.

This system offers particularly younger members more cost-effective medical cover with very direct benefits for low claims, while building up a material nest egg.

AMA marketing director Ray Welham believes that an important spin-off from the direction in which AMA's product development has moved will be to get people involvement in the whole cost containment exercise.

RAY WELHAM

"We have acted to ease the burden on our members' pockets, as much as legislation allows. However, it is crucial that members contain costs from their side. Frugal and informed use of medical aid will see a healthy and adequate system for all."

Detailed in-

THROUGH a combined approach, AMA is addressing HIV/AIDS and its impact on healthcare provision. Its approach includes an internal policy and regular briefing and training, as well as the development of a medical protocol, dental protocol and a care centre.

AMA corporate communications manager Gillian Gresak is the driving force behind the company's AIDS awareness programme.

The policy provides that an employee infected with HIV/AIDS will not be ostracised by the company.

"An HIV/AIDS infected employee of AMA has his/her dignity as a proud human being and is respected in the same way as any other employee in the company," it states.

It does not recommend pre-employment screening because the virus may be in the window period and not

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BDAY 20/8/92

Mercantile sources out

THE swing to outsourcing continues, with the latest move made by Mercantile Bank. It has outsourced its full technology and computer facilities to SPL.

The contract, valued at more than R3m over three years, is expected to provide more efficient systems.

Mercantile Bank MD Derek Cohen says the bank is growing fast, providing corporate and consumer banking and finance, instalment finance and treasury and deposit procurement. It has more than 40 000 retail customers, and will use SPL to run its inhouse networks and to develop and integrate a new software system into the company's existing applications.

This integration is expected to be done in the next year, and will result in a quicker turnaround in drawing up documentation and providing customers with more detailed information.

58

Cohen says outsourcing is a logical choice because the bank is not in the business of developing a huge computer infrastructure as a fixed cost overhead.

Southern suffers R1bn in surrenders, write-offs

(5B) CT 28/8/91

By ARI JACOBSON

SA's difficult economic climate caused about R1bn in group policy surrenders and write-offs in the year to March, Southern Life shareholders heard at the agm yesterday.

And with the future SA in view SA Shareholders Association chairman Issy Goldberg warned that financial institutions "should not be seen to fiddle while Rome burns".

He was talking of the dire need of large finance houses to invest in low cost housing "which should be as much as 5% of the free cash available each year".

He said that "no asset would be worth anything should the country collapse into chaos".

Southern Life Chairman Neal Chapman mentioned that "SA's provision for the four pillars of need — housing, health, welfare and education is a challenge of awesome proportions".

But he added "there is much cause for hope and encouragement to be found among the developments that have taken place over the last 12 months".

COMPANIES

Guardian gets a pre-tax boost

ANDREW KRUMM (58)

GUARDIAN National's pre-tax profit, boosted mainly by a turnaround in underwriting results, rose 53% to R29,18m in the half-year to end June from R19,12m for the same period last year.

An interim dividend of 77,5c — 65c in June 1991 — was declared.

Gross premium income rose to R339,13m from R270,27m in the first half of last year, while income after commission and policy charges rose to R236,12m from R192,5m. BDAY 21/8/92

Chairman Donald Gordon said the result was encouraging. He said the main reason for the turnaround in the underwriting result — which rose to a R3,23m surplus from a R4,67m loss in 1991 — was an improvement in the company's personal insurance division, helped by the levelling off in the crime rate.

He cautioned that while the half-year had been free of major weather losses, the spate of fires — both corporate and small commercial — reported had had an impact on the net underwriting result.

Investment income, which made up most of pre-tax profit, increased 9,1% to R25,95m against R23,79m in 1991. Taxed profits rose 37,7% to R23,5m compared to R17,06m last year.

Disability claims crunch on the cards

(58)

CT 21/8/92

By MAGGIE ROWLEY
Deputy Business Editor

ABUSE of lump sum disability claims has resulted in major losses for large SA life assurers in recent years and a clamp-down appears to be on the cards.

Don Brown, assistant GM, employee benefits of Southern Life, said disability claims were running at twice the level of three years ago.

While insurers had already taken certain steps to reduce the level of losses in the past year, firmer measures could be expected in the near future, he said.

"Some companies have increased rates by about 25% in the past year but the continued high level of claims would make further increases inevitable."

In an article in Southern Life's employee benefits newsletter, Benenews, Brown said the deterioration in the industry had been particularly severe over the past two years, mainly as a result of the poor economy, organisational restructuring and a greater awareness of disability benefits among employers.

"The state of the economy has resulted in many companies cutting back their workforce,' he said.

"Retrenchment usually involves some cost to the company as well as the unpleasantness of telling employees they no longer have jobs.

"Some employers are trying to avoid this by submitting disability claims for employees who have a degree of disability but have nevertheless been able to work satisfactorily until then."

He said restructuring in certain parastatals and other companies over the past five years had resulted in many of these organisations undergoing major changes. Retrenchment had been an inevitable part of this process.

"Many employees have advanced to a certain level only to find that their old responsibilities no longer exist — it is particularly difficult to fit these older employees into the restructured organisation.

"Here too, if any degree of disability can be found, a claim will be submitted," he said.

Francois Marais, assistant GM, group benefits at Sanlam, confirmed an increase in the general level of disability claims.

"It always happens in an economic downturn.

Exaggerated claims

"But it is not just fraudulent claims. If a company starts retrenching, those who are legally entitled to claim benefits but who have been working nonetheless are often the first to be retrenched. By claiming disability for these people, the company reduces its own moral and financial responsibilities.

"However there is also some abuse of the system with exaggerated and faked claims," he said.

Lessons, he said, had to be learned from the US where life assurers, which generally shied away from lump sum benefits, employed special staff to assist policy holders get rehabilitated.

"The longer people stay out of the job market, the harder it is for them to find a job so through helping rehabilitate those with disabilities these people pay for the salaries 10-fold through the number of claims they save the company."

Marais said South Africa was fairly unique in the world regarding lump sum disability benefits and it was "basically an unhealthy financial situation."

He said what would be far more beneficial to the industry would be the reduction of lump sum disability benefits in favour of smaller annual payments on proof of continued disability.

"The penny has to drop with the big insurers sooner or later. They will have to realise that while they might lose some business initially, they will benefit in the long term," he said.

Brown stressed the need for employers to understand the cost involved in the abuse of disability claims.

"While insurers have largely absorbed this cost until now, they will have to take steps to protect themselves in future.

"If the position does not stabilise soon, premiums may become too high to be affordable and conditions too stringent to provide effective cover."

He said the conditions under which disability insurance was sold were being altered to protect the industry, and the following changes could be expected:

- Lowering the maximum age for disability claims from 65 to 60;
- Reducing the level of benefits over the last 10 years;
- Insisting the benefit provided be used to purchase an annuity where payment would depend upon continued disability;
- Allowing the insurer a much longer period to assess the permanence of certain disorders such as depression;
- Imposing a maximum level of benefit of, for example, twice the annual salary; and
- Refusing to provide cover for some perceived high risk groups.

Johannesburg deeds office delays alarm estate agents

Sowetan 21/8/92

(58)

By Joshua Raboroko

■ Shortage of staff at Johannesburg deeds office for transfer of houses:

THE Institute of Estate Agents of South Africa has called an urgent meeting with deputy Minister of Justice Mr Danie Schutte concerning delays in the Johannesburg deeds office.

This was confirmed yesterday by the executive chairman of the institute, Mr Jan van der Merwe, who said that they would ask the Minister to intervene immediately in the matter.

He was reacting to reports that delays in the Johannesburg deeds office would cost the city's real estate industry at least R37,5 million a month from November to January.

Van der Merwe said they were concerned about the delay, although he did not like to divulge "too much information" on what they would discuss with the Minister.

However, he added that they would definitely do "something to persuade him to take action to stop the delays".

Deeds registrar Art Hanekom estimates that by November there will be a backlog of 20 000 title deed examinations because of staff now taking study leave.

This will mean a delay of at least a month in the registration of change of ownership of any property, a process which usually takes less than 10 working days.

It will also affect hundreds of blacks who are flooding the suburbs from townships, especially new home buyers, and buyers paying occupational rent until transfer is registered as well as sellers anxious for their money so they can buy elsewhere.

Estate agent Alan Hancock calculated that at least an average house sale price of at least R150 000, the loss of interest alone on 20 000 transactions at 15 percent a year would be R37,5 million a month.

The cash flows of estate agents were also likely to be severely affected as they cannot earn commission on any sale that is not complete.

Estate Agent Board chairman Mr Norman Nel said in Pretoria yesterday that the matter was "tragic", although the board did not have power over the deeds office.

He said a lot of people would be uncomfortable with the delays.

Hanekom said he did not expect the backlog to be eradicated until mid-January, although he would have a full staff complement of 15 senior examiners and 29 juniors after November 16.

In a circular to conveyancers, he noted that applications for the expediting of deed examinations "will be considered in exceptional cases", and then only if they are submitted in writing before the deeds are lodged.

INTEREST RATES FM 21/8/92

(58)

Fine-tuning the system

Rates in the money market continued to fall at the start of the week despite a shortage at the discount window, on Monday, of nearly R2,4bn. The rate on three-month BAs fell from 13,3% on Friday to 13,10% on Monday and 13,05% by mid-morning on Tuesday The rate on 12-month CDs fell from Friday's 12,10% to 12,05% and 11,95%.

"We prefer to be part of the shortage," explains a banker, "and keep interest rates down, rather than pay more on the margin which could affect the entire rate structure, pushing up the average cost of funding." This strategy is based on the assumption that liquidity will rise in the weeks ahead and that a fall in the official Bank rate will be announced soon — and explains the anomaly of falling rates at a time when the shortage has been consistently high.

At R3,8bn on Thursday — high for mid-month — it was only a little below the month high of R3,9bn on August 4. This is partially explained by flows into the State Exchequer Account earlier in the month. Another factor was the outflow of foreign exchange, with the repayment of debt within the net, scheduled for August 15 under the Third Interim Arrangement agreed to in July 1990. It is estimated that, together with interest payments which often coincide with capital repayments, these totalled $US250m-$US300m.

The shortage fell to R1,8bn by Saturday, as about R2bn in maturing government stock came into the market. Though it rebounded on Monday to R2,4bn and tax payments will take money out of the system between August 21 and month's end, bankers don't feel under pressure.

"Given the level of tax payments this fiscal year, the August payment isn't expected to be substantial," was one explanation. And the market is confident that the Reserve Bank will assist via repurchase agreements and other transactions, if there should be a liquidity squeeze. And, at month's end, interest payments on government stock — the R150 — are expected to amount to about R1,2bn and smooth out the normal month-end shortage. After that fundamentals can be re-assessed and participants are confident that these are sound.

July inflation figures due next week are expected to benefit from the lower bond rate effective from that month. Nedbank's economic unit says bond rates make up "at least half of the weight of the housing index" — which has a weighting of 21 in the overall index. Also, a number of technical factors will contribute to a lower official inflation rate (*Economy* August 14) in July.

Money supply growth is seen as under

control with little impetus coming from demand for credit — so the medium-term outlook for inflation remains relatively favourable.

And there will be no external constraints to reducing interest rates. The rand will be buoyed by a surplus on the current account for 1992 which is "projected at R5,1bn, higher than an earlier estimate of R4,2bn," says Nedbank. This is despite the need for maize imports. "Exports are expected to continue to rise steadily in the second half of 1992 as a result of improved commodity prices ... Commodity prices have risen steadily in the past few months. *The Economist* dollar commodity price index for all items and metals had risen by 6% and 15% respectively by July 1992, compared with December 1991 levels."

So there is light at the end of the tunnel. ■

PROFESSIONAL LIABILITY

Called to account

Price Waterhouse (PW), one of the biggest international accounting firms, has developed a kingsize US$338m headache. In what is thought to be one of the largest awards against a US accounting firm, an Arizona jury has brought in a verdict requiring PW to pay London bank Standard Chartered what American sources call a colossal sum.

As though that isn't bad enough, PW's UK director of communications, Sue Hurley, confirms that PW's professional indemnity insurance cover does not stretch to the amount awarded. She explains, however, that PW is organised in 26 worldwide firms and the Arizona case relates solely to the US partnership. That means SA partners will not be obliged to dig into their personal pockets — a matter of some relief to them. SA national senior audit partner Stewart Patterson confirms this.

The case arises out of an action brought by Standard Chartered, against PW, in which Standard claimed that losses had been incurred by the Arizona bank, United, because of an oversight by PW in respect of losses of $17m on two loans in United's portfolio. Union Bancorp, a subsidiary of Standard, bought United in 1985 and sold it to Citibank at a loss of $100m in 1988.

The decision by Standard Chartered and Union to expand into Arizona was made in 1984, apparently on the basis of what they perceived to be the state's strong economy. The deal to buy United was entered into in September 1985 and consummated in January 1987. However, in 1987 and 1988, the Arizona property market took a nosedive, events compounded by the world stock market Crash of October 1987

In papers prepared by PW, it is stated that Standard Chartered was severely criticised by UK bank regulators for what was described as its ill-timed investment in Arizona. Faced with its own financial problems, Standard Chartered then began an examination to determine whether a claim could be developed against PW as United's auditors. Subsequently, in 1988, a suit against PW was initiated.

According to the *International Accounting Bulletin*, reaction within the accounting profession in the US has been of "disbelief and horror." PW's US chairman Shaun O'Malley says the verdict is unfair and unjustified and adds: "This outrageous result is symptomatic of a legal system out of control." In an unusual show of solidarity, Coopers & Lybrand chairman Eugene Freedman issued a supportive statement damning the verdict as "another example of an American tort system out of touch with economic reality."

PW has moved for an immediate retrial. Meanwhile, the Arizona jury's verdict is due to be re-examined and confirmed by the judge on September 11. Under the Arizona

OLD MUTUAL FM 21/8/92

Fortune's favoured (58)

Total assets under management by Old Mutual reached R87,3bn in the year to June 30 — an increase over the year of 20,5%. In a recent issue of *Fortune* magazine, Old Mutual was ranked 38th among the world's top 50 assurers, in terms of assets.

Fortune's list is dominated by mutual societies and, according to the magazine, Old Mutual is the sixth largest life office outside the US, Japan and UK.

Chairman Mike Levett says growth momentum is reflected in a 27% increase in premium income, which exceeds R10bn for the first time. This included a 54% increase in single premiums, which Levett claims is a measure of an assurer's ability to produce good long-term investment performance — though it can be argued that recurring pre-

BANKING

Cheques and balances (58)

Perhaps it's because of their big new buildings, or maybe it's their high-profile advertising campaigns, but banks are perceived by the public as being flush with money — money they've skimmed from customers' accounts through excessive bank charges.

The public has the right to complain, and they do. The *FM*'s letters page is often used by readers to express their feelings — and by bank executives to reply. The use of words such as "bloodsuckers," "swingeing," "ripped off," and "gouged," show that feelings are strong.

Bankers maintain that the banking system is as efficient as any in the world. Nevertheless, services to current and savings account holders are costly to provide and the customer must pay for them.

"Banks are not profiteering," says Tony Norton, director-general of the Council of Southern African Bankers. The difference between the rates at which banks borrow and lend does not generate enough profits to justify free banking facilities.

Another factor is that banks are required to hold capital against loans extended. As this requirement increases over the next few years, banks will lend more cautiously and rely less on interest income. Which means there will be greater emphasis on fee income.

But banks say they charge the bare minimum — because competition allows no room for exploitation.

Norton adds: "Even the tiniest *dorp* boasts two banks, sometimes more. Competition, not cartels, characterise our banking system. If a customer is dissatisfied with any aspect of the service he receives, he can and must

Continued →

shop around for a better deal."

Getting the facts, though, is not easy. While all the banks and institutions have glossy brochures on display, spelling out their product range, few are explicit about the costs of products. Bank personnel are usually helpful, though sometimes their information does not tally with data obtained from other branches. The *FM* went to the head offices of the major banks for information in this survey. It is fair to say the ordinary consumer would probably experience greater difficulty than we did in collecting comparable data.

We asked all the banks for information on their ordinary current accounts (such as the majority of customers operate) and not the so-called premier packages, and constructed our table from this data.

On current accounts, the former building societies charge lower service fees. For example, the Allied's fee structure is expressed as 50:50:10, which means that the charge is 50c for any amount withdrawn up to R100, a further 50c for every additional R100, and a maximum fee per transaction of R10. The highest fee is the Trust Bank's 70:75:12. Why the discrepency?

The banks say they base charges on the cost of providing services. As FNB senior general manager Viv Bartlett explains: "Internal costings, which depend on volumes, dictate pricing levels." Because each institution's costs differ, so do their fees.

But why are bank charges on a cheque of R10 000 more than those on a cheque of R10 — when the cost of processing the two cheques is identical? Nico van Loggerenberg, also of the council, explains there is another dimension to pricing decisions: charges are ultimately based on an assessment of the risk to which each customer exposes the bank. "The bank has to carry the risk if something goes wrong with the R10 000 cheque, therefore the fee is higher."

Not surprisingly, it is difficult to identify an institution that, overall, provides the least expensive service. Those that charge higher fees for one service tend to levy lower charges for others. To complicate matters further, though Absa's Allied and United cheque accounts seem to be cheaper to operate (which is why they did not supply additional methods of reducing or avoiding charges — see table), customers may find the facilities and range of services they offer are limited compared with those of the older banks. An Absa spokesman explains its Allied/United current accounts are standardised; on the other hand, Trust/Volkskas current account customers can personalise their package. This option is reflected in higher fees.

Charges are not set in stone. What most customers don't know is that many of the banks have not one, but several, service-fee formulas. New customers, or those who don't know this fact, are usually charged a higher fee as a matter of course. But they can negotiate. The charges shown in our table were described as average.

Unless customers make specific enquiries, they are usually not advised how they may save money on bank charges. Again, most banks offer so-called pricing options to current account holders. If a customer maintains a minimum balance in his account (R1 000 at Standard; R750 at FNB), he will pay no service fees (except for "foreign" ATM charges). However, the account doesn't earn any interest either. Nedbank's N5 000 investment account requires a balance of R5 000; it offers lower service fees and pays an annual interest of 10,5% on daily balance.

Most banks allow customers to choose interest either on the minimum monthly balance (at rates ranging from 3% to 5%), or on the daily balance of R500 and over (at 1,5%).

The former is more advantageous to customers with low volumes of transactions and relatively high balances, while the latter maximises interest income to accounts that fluctuate widely during the month.

The message is clear: bank charges are a fact of life. But the customer has a role to play in keeping them to a minimum.

☐ **Next week: Charges on savings accounts** ■

Anthony Sarankin

(58)

Current accounts: Checking the charges

TRANSATLANTIC (58)

Pleasure/pain principle

FM 21/8/92

It was a pleasure and a pain for chairman Donald Gordon to present TransAtlantic Holdings (TAH)'s first interim report since its London listing. The final arrival of the UK property/insurance hybrid on the London share service pages of the *Financial Times*, to join its "parent" Liberty Life, which owns 54%, is the pleasure.

The pain is the state of both the equity and property markets. Gordon notes that TAH was first listed in Luxembourg on Black Monday, October 19, 1987 and adds: "Stock market conditions in London . . . on July 30 1992 were scarcely more favourable."

TAH came on at a 39% discount to NAV and last week's report on the first half did nothing to improve matters, even though the deals of the past year and a change in accounting approach makes it difficult to compare the results with 1991. The group's 50% of Sun Life (against 27,7% last time) is equity accounted, after the takeover in partnership with Union des Assurances de Paris, but the impact of the £147m rights issue and the acquisition of the minority in Capital and Counties has yet to come.

Taken from the top line of pre-interest profit, the figures are encouraging. Property investment and trading income gained 40%, to £29m, while equity-accounted Sun Life raised insurance income by 92%, to £16,3m

Continue Continued on page 108

FOX FM 21/8/92

Continued from page 103 (58)

— for a total lift of 55%, to £45,2m. The underlying rate of growth in Sun Life's new business was 18%.

That, however, was all negated by interest charges. TAH has stopped capitalising so much interest payable on developments — principally the flagship Thurrock shopping centre — and the £161m cash drain for Sun Life cut receivables. The net result was a £23,6m swing to a negative £18,6m.

It left pre-tax profit 22% lower at £26,6m, while EPS (ex the one-for-four rights) fell twice as much to 5,1p — leaving the maintained 6p dividend uncovered.

Gordon justifiably makes much of TAH's low gearing — 56% and none of it short-term — and the undoubted opportunities presented by pickings to be had from the wreckage of the UK property market, as well as in the insurance sector. But the market view of TAH will be all important if these are to be exploited through the use of paper, which was the paramount motive for the listing.

UK retail sales still await the recovery needed to boost TAH's biggest tenants and, at present, London is not attuned to its mixture; 64% of pre-interest earnings derive from property and 36% from insurance. Nor has it yet grasped the potential synergies between the two.

In addition, TAH is not yet a significant institutional stock with "free" market capitalisation of only £90m — Liberty, UAP, Gencor and Anglo/De Beers hold 83% of the shares. So this week, it sat at 184p on a somewhat listless yield of 9%, about right for the property sector but well below the 6,4% average of life insurers or Liberty's 7,4%.

TAH is better poised than most for a fairer economic wind, but, for the time being, it has no choice but to sweat out the doldrums.

John Cavill

FM 21/8/92

58

HOME LOANS — 1

Cash stash

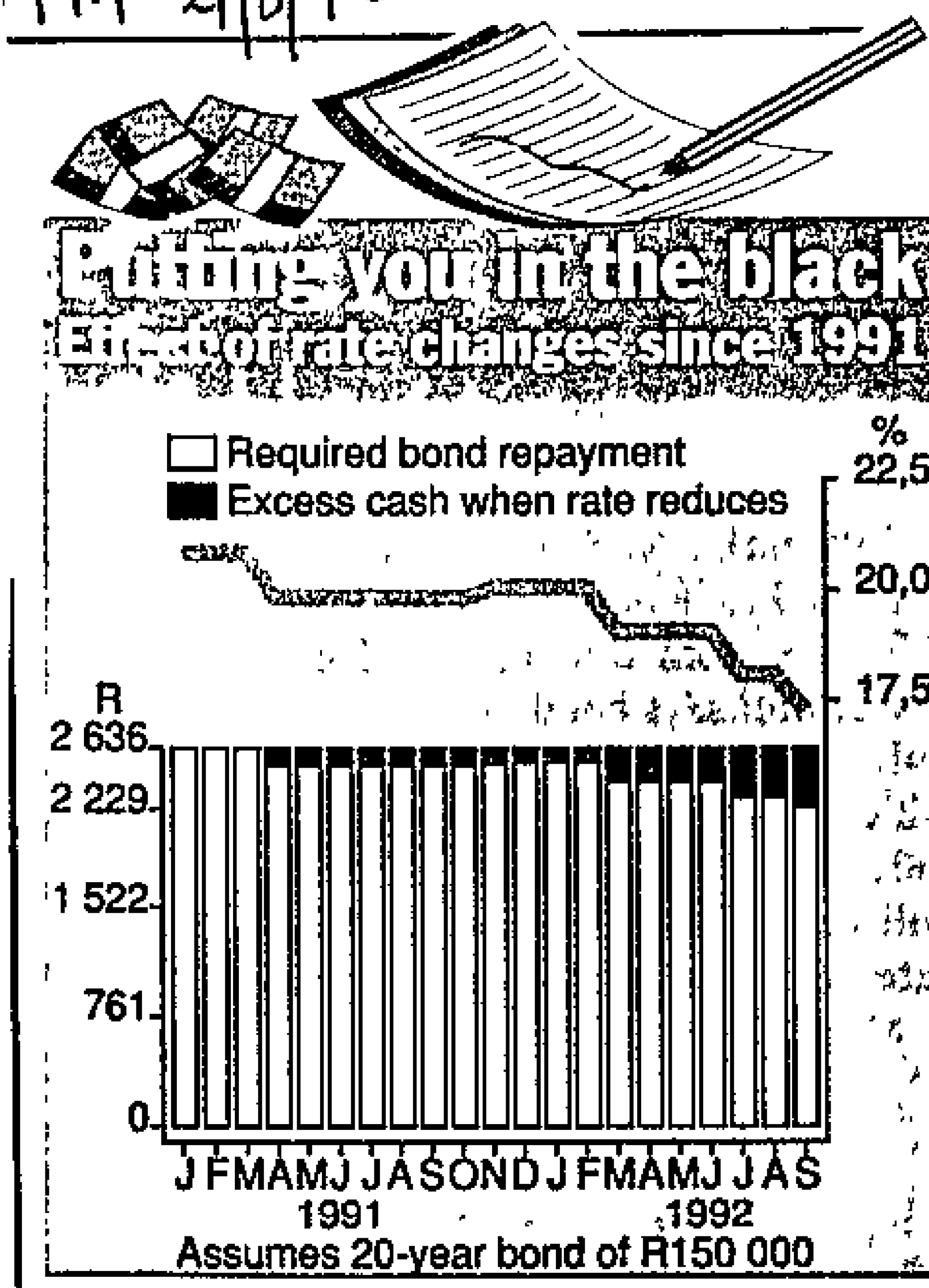
FM 21/8/92

Homeowners complain that the price of just about everything they need keeps going up. The exception — that elusive something that occasionally moves in the opposite direction — is the cost of a home loan. Since the start of 1991, mortgage rates have dropped from 20,75% to 17,25%, effective from September 1, and may fall further before the year is out.

NBS's Trevor Olivier suggests they may end the year at 16%. "But this depends on many factors," he warns, "not least of which is inflation's behaviour over the period."

The reduction in bond rates has eased the burden on borrowers. Monthly instalments have fallen to make some spare cash available for other uses.

To illustrate, we have taken a typical borrower, Mr X, with a bond of R150 000, repayable over 20 years at 20%. This year's first rate drop, to 19%, in March, reduced the monthly repayment from R2 548 to



R2 431. That's a saving of R117. Likewise, when the rate moved to 18% in July the instalment declined another R117 to R2 314. From September 1 the borrower will find that his monthly payment has declined to R2 229. Should rates fall to 16% by year-end, the instalment will be R2 087 — or R461 less than at the beginning of the year (see graph).

The R5 532 this would add up to over a year should come in handy to most families.

But, even at 17,25%, if Mr X chooses to continue paying his original mortgage repayment, he will reduce the term of his loan from 240 to 136 months and knock about R293 020 off his total interest bill.

Another effect of the rate cut is that home ownership becomes more affordable to more people.

Property analyst Erwin Rode says the lower rates will probably affect the number of houses sold but not necessarily their prices, especially at the lower end of the market.

Olivier cautions, however, that rates rise just as they fall and first-time buyers who, at the lower rates, just manage to get a bond, could find themselves in trouble later if rates go back up. He adds that the entire market suffers when cash-strapped mortgage borrowers are forced to sell their properties at desperation-induced lower prices. ■

HOME LOANS — 2

How the cookie crumbles

The recent round of cuts in mortgage rates has presented problems to former building societies. With their huge home loans books, they are highly exposed to the fall in income:

☐ Saambou Bank's mortgage loans represent about 66% of its more than R4bn in total assets;

☐ NBS Bank 66% of about R9,5bn;

☐ Amalgamated Banks of SA (Absa), with both Allied and United Building Society's portfolios, 36% of about R80bn; and

☐ Nedcor Bank, which has the Perm — formerly a building society — among its divisions, 35% of about R38bn.

The institutions which led the interest rate moves were the traditional banks, Standard and First National, who announced the cut to 17,25% on Friday. They have proportionately smaller exposures:

☐ Standard about 20% of total assets worth R46bn; and

☐ FNB with about 17% of R39bn.

These banks are making a determined drive for home loans. There are two major attractions: they have a risk-weighting of only 50%, which means banks have to hold less capital against them than they do against other types of loans; and they provide banks with marketing opportunities for many of their other products. That is why banks have recently been prepared to offer home loan rates lower than prime, over a period.

Even the giant Absa, with no need for organic growth, can't afford to lose its edge in the market. Despite the competition, it's still granting more bonds than any other organisation and it can't afford to retreat from the market for fear it will create a perception that it is uncompetitive.

Says spokesman Gavin Webster: "Our share of the home loan market is relatively large but, since the creation of Absa 2, mortgage loans form a more balanced percentage of our book." ■

'The Big 3' open door on wealth

ARGT 22/8/92 (58)

TOM HOOD
Business Editor

THE Big Three raised the lid on their assets this week to reveal the wealth of the country's largest insurance companies.

Together, they reported combined assets of R307 billion — a figure more than three times the R96,5 billion the government plans to spend this year.

And Liberty Life claims to have eclipsed Old Mutual and taken the No 1 spot.

Mutual, until now considered the giant of the insurance industry, disclosed total assets of R85 billion last week, jumping a staggering R14 billion in a year.

Sanlam's is estimated to be worth about R60 billion, though it could be higher as it has bought hundreds of million of rands of commercial property and leased the buildings back to the sellers.

Liberty group, which announced a payout of R250 million in dividends to celebrate 35 years in business, reported that market capitalisation of the insurance arm, Liberty Life, now exceeds R10 billion.

This, said chairman Mr Donald Gordon, made it in its own right the fifth largest listed company by market capitalisation on the Johannesburg Stock Exchange after the Anglo/De Beers group, the Rembrandt/Richemont group, South African Breweries and Gencor.

However, Liberty also has a 40 percent stake in the country's largest banking group, Standard Bank Investment Corporation (Stanbic), according to McGregor's Who Owns Whom.

Mr Gordon said following the outstanding results of Stanbic earlier this month, not only had the Standard group reaffirmed its leading role in the banking field but the combined performance of the wider Liberty Life/Standard Bank group had consolidated its position as the largest South African-based financial services group with a combined market capitalisation on the JSE of R17 billion.

"The total assets controlled or jointly controlled by the wider Liberty Life/Standard group now exceed R160 billion in South Africa and internationally," he said.

Commenting on the group's interim results for the six months to June, he said there had been a combined growth rate of more than 40 percent over the last 10 years in assets and shareholders' reserves.

Shareholders' interest in Liberty Life increased to R4,98 billion and total assets to R36,4 billion.

When the interests of minority shareholders were included, shareholders' funds jumped to almost R9 billion.

The net taxed surplus rose by 32 percent to R144 million and Liberty Life raised its interim dividend by 25,6percent to 54c.

In the last 10 years, Liberty's asset base rose to R36,4 billion and the shareholders' capital and reserves have reached R5 billion.

"This represents a combined growth rate of more than 40 percent compound over the 10 years and achieves for Liberty Life probably the highest capital base of any insurer in the Western world, particularly if the interest of minority shareholders is taken into account, which increases total capital and reserves employed to R9 billion," Mr Gordon said.

THE JSE WEEK

Liberty (58) adds 14%

By JULIE WALKER

LIBERTY Life led the way with ultra-consistent results and handsome special dividends in the half-year to June. The share price put on 600c, or 14%, to R49,50 and Libhold R12 to R122.

Part of its success is attributable to Liberty's having added to its Stanbic holdings, paying R45 about a year ago. Stanbic hit R71 this week after a 550c climb. It has been a star performer in both earnings and share-price appreciation; a year ago it was R47,50.

Anglo American must rue the day not long ago when it sold a large parcel of First National Bank shares off the market. First National gained 100c to R58,50 this week, almost double the price at which Anglo probably sold. S Times (Buss)

Perhaps the memories linger because Anglo American and stablemate De Beers came under increasing downward pressure when everyone thought the bad news was history. 23/8/92

For no reason other than newspaper speculation that De Beers might be dealing with the Namibian Government on Consolidated Diamond Mines, the market whacked the shares another R5 down to a 12-month low of R54,75. The price later rallied to R56,75. Anglo American dropped to below R100 for the first time since early 1991.

Industrials were quiet, other than Richemont and Kersaf. A large deal in Kersaf before lunch on Friday fuelled speculation that Sol Kerzner might return to run the show — talk denied by Kersaf.

Stals in the hot seat amid calls for slump quick-fix

S Times (BUSS) 23/8/92

By CIARAN RYAN

ALL eyes are on Reserve Bank Governor Chris Stals who delivers his annual review on Tuesday against the backdrop of the longest recession since 1904.

Dr Stals is under pressure to lower interest rates to stimulate growth.

But on past behaviour he is unlikely to heed the chorus for a quick-fix without the fundamentals of lower inflation and money-supply growth being in place.

However, he told Business Times last week that lower interest rates would not be inflationary because too much surplus capacity existed in the economy.

S8

Unrest

Businessmen are challenging Dr Stals' restrictive monetary policy at a time when unemployment has reached crisis-point and the economy has shrunk by 9% since 1990.

JSE president Roy Andersen says: "I question whether we have not pushed the economy further than we can afford to.

"Unless we do something about it, social unrest could well get out of hand."

Standard Bank Investment Corporation (SBIC) managing director Eddie Theron says positive real interest rates should be maintained. He urges fiscal and monetary discipline.

"Having come this far under the present policies it would be a pity to resort to those which are inflationary and result in distortions in the economy."

Dr Stals' address may coincide with the expected release of the money-supply and inflation figures. Dr Stals uses the figures as a measure of consumer demand and to peg interest rates above the rate of inflation.

Consumer inflation was increasing at 15,2% a year last month. Bank rate is now 16%.

But economists say consumer inflation is artificially high because the drought has raised food prices and last year's VAT increases are still counted in the figures.

Econometrix's Tony Twine says consumer inflation could fall from 15,2% to as low as 14% in the next two months. Short-term money market rates have dipped below 13% in response to the build-up of liquidity in the economy. Banks are dropping deposit rates to deter cash from entering the system.

Board of Executors' Rob Lee says underlying inflation is about 12% compared with a prime lending rate of 18,25%. Most European countries enjoy positive real interest rates of between 5% and 6%.

A lowering of interest rates results in an automatic devaluation of the rand as borrowers move on-shore in search of cheap money and demand for imports increases, resulting in gradual debasement of the currency.

Finrand

Old Mutual chairman Mike Levett has called for a devaluation of the rand to stimulate growth.

His plea is supported by several economists, including Mr Twine and Mr Lee, who say devaluation will have to be part of a structural adjustment programme aimed at cutting government spending, maintaining positive real interest rates, reducing taxes and tariff barriers, abolishing or phasing out the financial rand and introducing incentives for manufacturers.

Don't cut bond payments — housing officer

S Times (CM) 23/8/92

THE drop in bond interest rates can help homeowners to pay off their mortgages up to five years sooner, provided they maintain their monthly repayments at the former rate, says Mrs Belinda Fortune, housing information officer for the House of Representatives.

She urges homeowners not to reduce bond repayments, as paying the same monthly amount will shorten the loan period and save hundreds of rands in interest in the long run.

A Standard Bank spokesman estimates that the new bond rates will enable homeowners to save about R57 a month on a R100 000 bond with a 20-year term.

Mrs Fortune cautions prospective homeowners about budgeting properly when signing up for a mortgage loan.

"Interest rates might hold steady for quite a while still, but one must always prepare for a possible increase some time in the future."

Free advice on home ownership is available from Mrs Fortune at the Directorate of Housing, ☎ (021) 45 5630.

□□□

KLEIN VICTORIA, Bellandia's new 24-unit development on the corner of Alice and Smart Streets, Goodwood, has been designed specially for those who find current house prices have risen beyond their means, according to Bellandia managing director John Clark.

Each unit consists of two bedrooms, an open-plan kitchen and living room, bathroom, private garden, kitchen courtyard and on-site parking.

"Although it is believed that units in a development of this quality can fetch R140 000 in this area, we managed to arrive at a price of R120 000, which is excellent value.

"An added bonus is that 105% bonds have been arranged with the United, which will cover legal costs as well."

Banks asked to halt govt loans

CT 24/8/92

JOHANNESBURG. — Civic leaders on the weekend called on banks to halt financial services to the government until democracy was firmly on course.

The call was issued at talks between the South African National Civic Organisation and the Council of South African Banks. CSAB holds more than R13bn in government loans, Sanco claimed. — Sapa

58

Demand for bank credit decreases

By Sven Lünsche (58) STAR 25/8/92.

Credit extension by the country's banks to the private sector has slowed significantly over the past year, but there has been a noticeable shift from hire-purchase to leasing and mortgage financing.

Providing a detailed breakdown of the type of credit extended, the Reserve Bank says that hire-purchase financing showed an annual growth rate of only 1,3 percent, while the rate of increase in other loans and advances (mainly overdrafts) receded to 0,3 percent in June.

The Bank says in its 1992 annual report that the slow rate of increase in HP was due to decreases in HP credit for the purchase of goods such as new motor vehicles (—2,9 percent), agricultural machinery and industrial, commercial and office equipment.

Over the same period (June '91 to June '92) the utilisation of HP credit for used cars showed a 9,4 percent rise.

In contrast to the slow rise in HP and overdraft financing, mortgage advances rose by 17,2 percent in the year to June, well in excess of the inflation rate.

The Bank comments that this increase relates to a slower rate of capital repayment, higher transaction values and the increased use of this kind of credit to finance consumer spending.

However, the main alternative to HP credit seems to have been leasing financing, which was used by 35,5 percent more individuals and 10,2 percent more business enterprises than a year ago.

Overall, the leasing finance transaction rose by 23,3 percent in June over June '91, with the major growth being experienced in sectors which suffered large declines in hire-purchase spending.

The use of leasing finance to buy new and used cars rose by an annual 34,7 percent and to purchase industrial, commerical and office equipment by 50,1 percent.

Overall, however, the Bank says that credit extended by the monetary institutions at 9,1 percent in June was well below the prevailing inflation rate.

"The low growth rate was largely related to the depressed economic conditions and higher real interest rates — households became less inclined to make use of additional consumer goods, while businesses cut expenses to maintain profit levels."

The Reserve Bank also notes that since 1990 the amalgamation of banks and building societies has led to a far higher level of concentration of banking activities.

At the end of April this year the number of registered deposit-taking institutions had fallen to 48 from 59 at the end of February last year.

In addition 75 percent of credit extended to the private sector in March this year was handled by the country's four largest banks — Absa, Standard Bank, FNB and Nedcor. In March 1990 the largest five banks only controlled 50 percent of credit extension.

Stals considers changes in banking supervision

B|DA7 26/8/92

(41)(58)

GRETA STEYN

THE Reserve Bank is considering major changes to banking supervision after what Governor Chris Stals described as "various controversial issues".

He gave a clear indication that a new regulatory structure was in the offing, but noted that no firm decisions had been made.

The "controversies" that triggered the move apply to the difficulties surrounding small banks, notably CIB.

The most important objective was to establish an arms-length relationship between the Office for Deposit-Taking Institutions and the Reserve Bank. The Office, formerly the registrar of banks, was brought into the Reserve Bank's fold five years ago. Central bank officials at the meeting yesterday did not want to express an opinion on whether the two offices would once again go their separate ways. But it is clear that Stals is unhappy with the Bank acting as finacial supporter to depositors who lose money when banks fail.

The Bank felt that the combination of the functions of monetary policy and banking supervision had led to confusion. The confusion stemmed from the Bank providing some depositors who had had money with insolvent banks with refunds.

"This assistance gave rise to the perception that the Reserve Bank has a 'duty of care' to protect the interests of a wide range of investors," he said. He added that the credibility of the central bank as monetary authority could be undermined. The bank would examine the extent to which its credibility as monetary authority could be undermined by its involvement in bank supervision.

One of the main considerations would be the feasibility and financing of a limited deposit insurance scheme for private savers. The provision of financial support to deposit-taking institutions in financial distress should be aimed solely at preserving the stability of the banking system and of the broader financial system. The combination of the two functions would also have to be questioned in the light of the international trend towards integration of financial services.

It might not be feasible for the central bank to regulate financial services not related to banking.

'Overcharges' on overdrafts

58 CT 26/8/92

By DANIEL SIMON

A CITY businessman claims that banks are miscalculating interest rates on clients' overdraft facilities, and that he is currently investigating 68 cases involving R2,5 million in excessive interest charges.

Rand Search managing director Mr Mike McKiever said this week that nine times out of 10, bank statements reflected too high an interest rate calculated on overdraft facilities.

Mr McKiever launched Rand Search in January this year and has so far successfully claimed back R76 000 on behalf of three clients.

One of the three was a Philippi farmer who received R59 000 back in over-charged interest.

An employee at the farm said: "The bank didn't give us any problems. They just paid up."

The owner of a Mowbray clothing manufacturing firm who received R15 000 back from his bank said: "The bank admitted it was at fault and blamed it on a computer error."

Tracing agent finds new claims

Mr McKiever said: "The banks are making errors and this must come out into the open."

In response to Mr McKiever's claims, Clearing Bankers' Association executive director Mr Nico van Loggerenberg said that if there were clients who had complaints, he would like to hear from them.

"With most of these complaints one has to look into the situation from step one. When people borrow money they should make it their business to ask what they are paying for it."

Mr Van Loggerenberg added that major banks were holding discussions with a view to creating a position for an ombudsman in the banking industry.

Mr McKiever said three new complaints which he was investigating involved a Hout Bay company which was apparently owed about R500 000 — he still had to confirm that figure — and a Strand couple who were owed about R150 000.

The couple — who asked that they not be named — yesterday claimed that they had to sell their farm at half the price when their bank called in the debt after learning that Mr McKiever was investigating their claim.

The bank's head of operations said Mr McKiever was "causing problems" with his accusations and that the bank stood by its interest calculations.

Mr McKiever said an Eastern Cape farmer in Cradock was also owed R77 000 on an outstanding overdraft of R136 000.

A spokesman for the Eastern Cape regional office of the bank involved said the bank had recalculated the interest on the farmer's loan and that the outstanding amount was correct.

(58)

Bankers back democracy

CT 28/8/92

JOHANNESBURG. — Bankers yesterday declared their support for a non-racial, democratic South Africa — but said they could not back demands to halt services to the public sector.

The Council of Southern African Bankers (Cosab) was responding to demands by the South African National Civic Organisation to stop banking services to the public sector. — Sapa

BONDS AND BLACK HOUSING (58) FM 28/8/92

Moses views the promised land

Until this week, there were signs that progress was finally being made in breaking the impasse in the moribund black housing market. But the controversial president of the SA National Civic Organisation (Sanco), Moses Mayekiso, may have over-reached himself in his linkage of mortgage lending to political demands.

On Tuesday the Council of Southern African Bankers issued a statement rejecting his position that a boycott will be instituted at the end of this month unless the institutions pressure government to accede to Nelson Mandela's famous 14 demands for the resumption of constitutional talks.

A boycott would throw the black housing market into chaos and essential investment would be lost.

The council — the umbrella body designed to promote the "common interests" of SA's banks and building societies — puts this clearly but politely: "Our objectives agree with yours. Where we must differ is in tactics. You require us to stop all services and activities relative to the public sector on the basis that this would force President F W de Klerk to concede to Dr Mandela's 14 demands.

"This we regret we cannot agree to. Quite apart from the damage it would do to the internal economy, which is already on its knees, it would kill off the last vestige of foreign loan and investment interest as we would be seeing the banking system co-opted by a political agenda. This precedent would render us liable to pressure from all future political agendas."

This development is unfortunate. At a recent meeting initiated by Mayekiso, with Manpower, Local Government & National Housing Minister Leon Wessels, there was a productive exchange of ideas and perceptions. And on a broader level, a certain amount of relationship-building has occurred between the financial institutions and the civics which Mayekiso represents.

The spur which led to the bankers' response this week was Mayekiso's dual call for government to dissolve all apartheid local authorities forthwith — and for financial institutions to halt all credit to government pending acceptance of the 14 demands. The first plea is familiar; the second is absurd.

Mayekiso's position is not incomprehensible. At grassroots level, he charges that government's restructuring of local authorities is being handled in a unilateral manner. He told the *FM*: "Restructuring in the interim period should be characterised by a negotiated national approach, one which should provide ... national guidelines ensuring a national framework for the destruction of apartheid local government structures and

Civics' Mayekiso ... *the market gives way to rhetoric*

the introduction of new democratic ones."

Of course, this makes sense — but his call for the dissolution of local authorities to facilitate "constitutional restructuring within the framework of the national constitutional negotiations" does not. For this would trigger a breakdown of local authority — as we have already witnessed in certain PWV regions — pending a national settlement.

Talks on the housing crisis had been in progress. A further meeting was due to be held this Wednesday at which the Mortgage Lenders Association would furnish Sanco with details of its exposure in black and coloured townships, which Sanco estimates at R6,7bn. Sanco said that if the banks addressed the issues in good faith — which include Sanco's request for exposure levels and proposals for a set of technical suggestions to improve the provision of financial services to urban and rural communities — then "it is more likely than not Sanco will discourage mass action campaigns against the banks."

This has not happened. The bankers' statement suggests that "we revert to the *status quo ante* where at an operational level the Mortgage Lenders Association is working closely with you, and where the political agenda is put to one side for consideration in more appropriate forums outside the banking industry."

As the *FM* went to press, Mayekiso appeared ready to call a bond boycott on political grounds. It remains to be seen whether the ANC — and Mandela in particular — can dissuade him. In the recent past he has ignored Mandela's well-considered rebuke that a boycott would blight investment in black housing He is projecting himself as a man of the people. ■

DEEDS OFFICE

Back in 10 minutes

Johannesburg's Registrar of Deeds announced last week that as many as 20 000 deeds could be in arrears by mid-November — because of a month's study and exam leave for Deeds Office staff. As a result, the property industry has been thrown into a state of anxiety.

On August 10, Registrar At Hanekom issued a circular to conveyancers warning of the impending delays in registrations — a notice that has enraged estate agents, conveyancers and, of course, buyers and sellers. Property lawyers say the delays could cost the seller of a R10m building as much as R108 000 in interest at 13% a month.

Werksmans property partner Laurence Kaplan says this is not the first time the industry has had to pay for delays at the Deeds Office. He says it is time to privatise the service.

He argues: "A seller would be prepared to pay, say, R500 to have his transfer go through in 24 hours while another who can afford to wait a month could pay R10. In other words, the market is willing to pay for better service and, by privatising the Deeds Office, better salaries could attract better staff and deliver the service required."

Kaplan wants institutions and major market players to lobby government towards that end.

For his part, Hanekom believes the outcry is out of proportion to the delays. He says there is now only a seven-day delay, not three months as reported. "My circular was only a warning that in the worst-case scenario, there could be a delay of one month or 20 000 deeds in arrears."

Staff leave for studying and writing exams for the Diploma in Deeds Registration is an annual event. But numbers have been particularly high this year, with 14 of Hanekom's staff taking second-year exams. He concedes, however, that in coming years, ways of staggering leave will have to be found. As for privatisation, Hanekom questions how any private organisation would be able to guarantee title, though he says backlogs could be eliminated.

Failing privatisation, it has been mooted that were the industry to pay the Deeds Office R5 or R10 registration fees across the board, with no time limits, more staff and better service could be afforded. ■

PROPERTY AND THE ECONOMY

The space race

FM 28/8/92 (58)

Vacancies are hurting institutions but they intend to weather the storm

Economists may predict a general economic upturn during 1993 but the lagging property sector will continue to feel the tail end of a four-year malaise until well into 1994. That, too, has been predicted.

The reality is that vacancy factors in institutional portfolios — as in the buildings they hold — are creeping up. Empty buildings — particularly offices — are all too apparent.

"What's happening to those empty offices in Sandton?" observers continue to ask. Why do developers continue to build?

The questions are valid. Of the offices completed in 1991, according to research company Real Estate Surveys, 34% are still vacant. Of those to be completed this year, an even higher 47% are unlet.

Sage Properties — whose operations include listed Pioneer and CBD Fund as well as Sage Properties and Sage Life's property portfolio (giving a combined value of roughly R1bn) — does not believe the 10%-12% vacancy factor in institutional office stock represents a crash. Sage Properties executive director Simon Mills says all that is needed is a seven-percentage-point take-up to get to the normal 5% vacancy level.

His views and confidence are shared by many other institutional portfolio heads. But that doesn't mean that they are not feeling the crunch — and acting on it.

The picture is indeed grim. Nonresidential building starts have fallen dramatically, by as much as 43% in the first four months of 1992 compared with the corresponding period in 1991. Though spec building persists — some believe if they build now rather than later the saving on building costs will make up for the loss in rents — the general trend is a decrease in office investment. This will decrease further, Real Estate Surveys notes, as a result of poor demand and the completion of office starts, which will further push up the oversupply.

On that point, Real Estate Surveys MD Erwin Rode says, given that building costs will rise by only 7%-10% this year, the spec building argument is fallacious.

He adds that office starts reached their top turning point only in the second quarter of 1991 to lag the economic downswing recognised in 1989 by the usual 12-18 months. This same time lag will thus translate into increased investment in office space 12-18 months after the improved economic conditions expected during 1993. Hence "no noteworthy increase in investment can be expected before 1994."

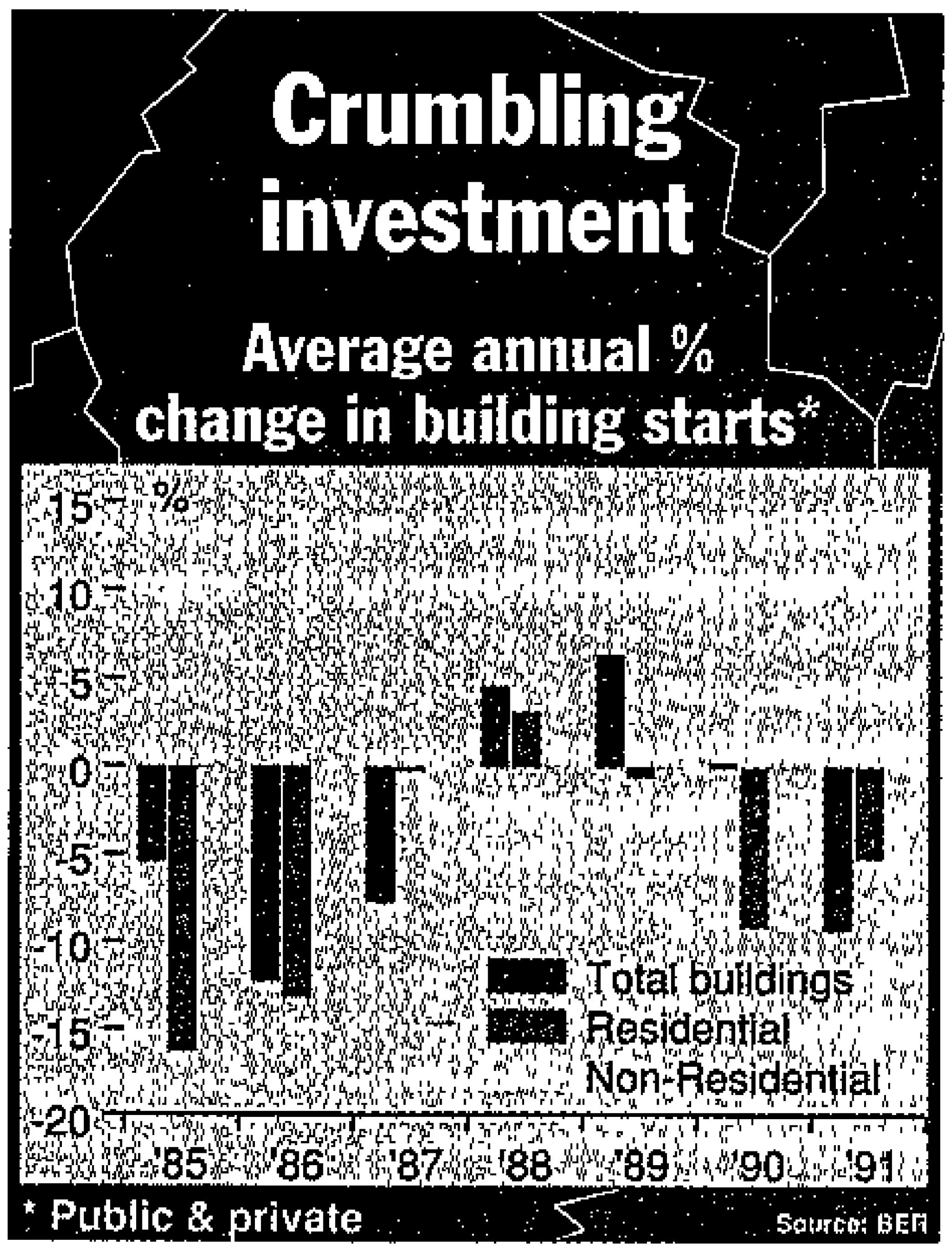
The real losers, of course, are builders. More small firms — possibly as many as 300 — face liquidation this year. Former Bifsa economist Charles Martin estimates that unofficially 40 000-50 000 building workers (officially 25 500) are unemployed.

The whiplash is also being felt by the professions.

Relief for the construction industry — when it comes — is not likely to emanate from office, retail or home building. The retail sector is expected to be negatively affected by the fact that the upswing will not be consumer-orientated and that private consumption will benefit only later in the upswing starting from mid-1993.

Then disposable income should begin to improve.

Disposable income will not increase until then; so the residential market will also continue to suffer.



* Public & private Source: BER

Builders may find some relief in the industrial sector. The Bureau of Economic Research strongly believes the economic upswing will be led by an increase in manufactured and other exports, which translates into a demand for industrial space. Coupled with the fact that there is less surplus capacity in this market, investment will be more sensitive to the economic upswing and react quicker. Signs of this are already occurring as developers ready themselves for demand 12 months hence for air and road freight-related business in key areas. The Jet Park industrial node near Jan Smuts is a case in point.

Timing is the most critical factor for developers. Many of the largest property owners believe they have learnt the lessons of the last downswing in 1982-1983 which hit the property industry in 1984-1985.

"At that time, all our new industrial park developments came on stream simultaneously," says Old Mutual Properties' Witwatersrand regional manager Anton Bieber. "This time round, we've spaced the developments better and can afford not to give space away."

But, like many others, OMP is suffering. As the largest owner of property — about R6,5bn worth, plus another R500m in countries like Zimbabwe, Namibia and Kenya — its 8% vacancy factor translates into R500m worth of empty space around SA.

Much of its currently vacant space is in CBDs but also in suburbs such as Sandton's Rivonia where Mutual Village has 4 000 m² of offices to let. Its industrial parks in City Deep, Isando and Droste Park (of which only 20% of 20 000 m² is let) also need to be filled.

Owners like OMP are confident their empty space will eventually be let in prime decentralised areas such as these but they are less confident of the recovery rates for older CBD buildings. They may now have to weigh up the advantages of receiving rentals from costly converted flats-from-office buildings or no rents at all.

Prospects for the recovery of small developers-cum-owners of buildings on suburban fringes are equally gloomy. Cases in point are offices in Sandton's Fourways and Sunninghill and on the outskirts of Randburg. Development on Randburg's fringes took place when CBD rentals there were already suffering.

The recent acquisition of Bankorp by Absa, and the rationalisation of the banking group, is expected to affect already oversupplied city centres. Staff cuts, and therefore more vacant offices, will add to the woes of the letting market.

Examples of vacancies in other major institutional portfolios are office space in Commercial Union's Village Walk, Sandton (3 000 m²); Mine Pension Funds' newly completed office buildings of Gillooly's View, Bedfordview, 540 Pretorius Street, Arcadia, Pretoria, and phase two of Tulbagh Centre, in Colbyn, Pretoria; Momentum Life's office buildings in Sandton's Epsom Downs and Woodmead, as well as its minifactory developments on the Reef at Robertville and Wadeville (12 00 m²); and Barlow Rand Properties' 3 300 m² of empty space at Alrode.

Vacancy levels in Ampros' buildings have been well publicised. Affected Johannesburg buildings in the listed Amaprop stable include: Garden Plaza and 32 Diagonal Street; in Mainprop, Total House; in Apex, the well-known His Majestys, Damelin and Sebel Centre buildings; and Monex House.

The list goes on.

What are the holding costs for owners of semi-let or unlet buildings, the *FM* asked Sanlam, which, with a roughly 4% vacancy factor in its R6bn portfolio, has R240m worth of empty space? GM Banus van der Walt cites the example of a R10m building 50% let. If the initial yield was 10%, half-let means a yield of 5%, which in turn translates into a loss of revenue of R500 000 a year. In terms of capital loss, on a simplistic level, if the income stream is valued on a 10% yield, it is R5m. To offset this, landlords will attempt to cut operating costs.

Naturally, most institutions are loathe to discuss their positions.

Part of the problem is that they feel it is unfair to test a portfolio's performance on vacancies alone — but admit that when vacancies are given in rand value terms, a truer picture is reflected.

Compared with the vagaries of including capital and income growth, however, the *FM* believes vacancies are a useful indicator. Income and capital growth figures can be manipulated. So they have been left out of the table.

Admittedly, as Sage's Mills points out, some portfolios may have achieved low vacancies by letting below prevailing market rates, though this may not necessarily be a sensible financial strategy. It is easier to assess capital and income growth in the listed vehicles. Nonlisted insurance and pension fund portfolios are likely to include capital growth figures based on internal valuations. These then prop up the figures.

Most of the quoted vehicles are showing income growths of 7%-12% but capital growth has been negligible.

It is interesting to note, says one property trust manager, that most of the insurance company portfolios reflect combined income and capital growth with figures of 15%-26%. But they do not denigrate Fedlife's boast of less than 1% vacancy and annualised net income and capital growth of 26,1% in 1989, 29,7% in 1990 and 25,1% in 1991.

These figures still translate into a better-than-average net income growth of probably 12%.

When it comes to letting in a tenant's market, two arguments prevail. The difficulty revolves around the fact that, instead of selling a product once-off at a discount, the discount as far as the landlord is concerned can last up to five years. Some landlords feel it is better to sit with empty space and wait for six months to a year for rentals to rise. Their problem is assessing the period required for the change.

Others believe that, because it is difficult to assess when rentals will rise, it is preferable to let at whatever rents are reflected in the market at the time.

Both Ampros and Investec Property Group have taken this view. IPG, which manages the R160m Metpro, reduced vacancies in this portfolio from 16% in September to 6% in June, mainly by embarking on an aggressive letting drive. IPG let 18 000 m² of industrial space (90% of Metpro is industrial) at 1991 rentals. IPG group property manager Jeffrey Sher says income growth in the year to March 1993 is expected to be 6%-7%. Thanks to the letting drive, that's three percentage points higher than the March 1992 year.

The difference between these two attitudes may not amount to much at the end of the day, when proponents of the so-called "wiser financial strategy of waiting for better days" are propositioned by a willing tenant.

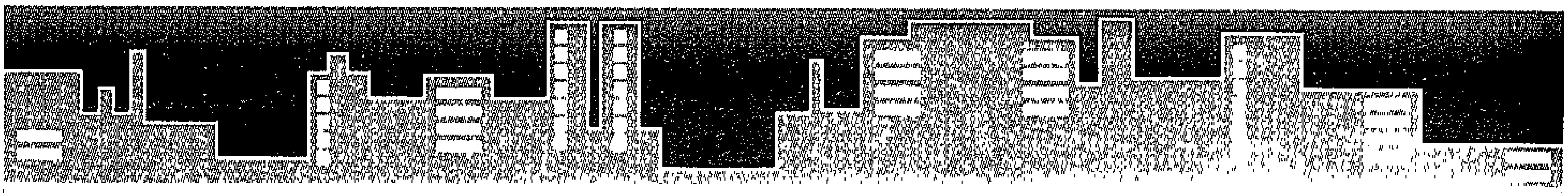
Though they may not advertise it, it is unlikely that they will turn him away at a cost of 15%-20% off the desired leasing package.

Still, says Sher, while the big boys can afford to hold out for better rentals — rightly or wrongly — the smaller funds cannot follow suit.

In the short term, it's the investors in the property trusts and the policyholders of the likes of Old Mutual, Sanlam and Liberty Life who lose from the empty space and all that it implies.

The improving prospects for the economy from next year will mean a better outlook for the nonresidential sector from the second half of 1994. While institutional portfolios are suffering — in the short term — it must be remembered that institutions invest over a 15-to-20-year period to match their liabilities for pension payouts or maturing insurance policies.

Their view, therefore, is that property is a long-term investment. They believe they can weather the downswing. But perhaps they would say that ■



NO ONE LIKES THE SEE-THROUGH LOOK

A selection of SA's larger property portfolios

Institution	Size of portfolio	Total in m²	Overall vacancy %	Portfolio breakdown: Retail %	Industrial %	Offices %	Other %	Portfolio vacancy factor: Retail %	Industrial %	Offices %
Old Mutual Properties	R7bn	na	8(V)	20(V)	25(V)	50(V)	5	3(V)	7(V)	11(V)
Sanlam Properties	R6bn	na	<4(V)	40(V)	5(V)	40(V)	5	<1(V)	5,6(V)	6(V)
Liberty Life Properties	R4,3bn	1,5m	<4(V)	59(V)	2(V)	39(V)	2(V)	<1(V)	0	<4(V)
Southern Life Properties	>R2bn	1,1m	5(A)	25(A)	15(A)	60(A)	—	3(A)	6(A)	6(A)
Mine Pension Funds	R1,8bn	na	4(V)	21(V)	12(V)	40(V)	27(V)•	#0(V)	#0(V)	4(V)
Amaprop	R1,7bn	444 891	6,6(A)	33(A)	—	67(A)	na	2,7(A)	—	8,6(A)
Absa	>R1bn	na	<1(A)	na	na	na	na	na	na	na
Iscor Pension Fund	>R1bn	na	<5(V)	30(V)	50(V)	20(V)	—	na	na	na
Fedlife	R1bn	na	1(V)	15(V)	25(V)	55(V)	5(V)	1(V)	0(V)	1(V)
Momentum Life	R1bn	na	7,06(A)	30(A)	21(A)	49(A)	—	4,8(A)	13(A)	5,9(A)
Standard Bank Group	R950m	477 000	3(A)	—	—	97(A)	3(A)	na	na	na
Metropolitan Life Properties	R775m	700 266	3,7(A)	30,2(V)	14,8(V)	47,8(V)	—	0,6(A)	5,9(A)	6(A)
Mainpro	R727,23m	276,466	1,35(A)	42(A)	—	50(A)	8▲▲	—	0(A)	2,41(A)
Transnet Pension Fund	n/a	n/a	0(V)	30(V)	40(V)	25(V)	5(V)	0	0	0
Barlow Rand Properties	R510m	na	0,1(V)	—	41(V)	11(V)	48**(V)	na	na	na
Cenprop	R500m	126 000	3,2(A)	35(V)	—	32(V)	32(V)†††	na	na	na
Compass	R479,59m	186,464	3,5(A)	34(A)	—	66(A)	—	0,7(A)	—	3,6
Capital	R400m	395 000	2,7(A)	5(V)	55(V)	11(V)	29(V)‡‡	na	na	na
Apex	R383,95m	155,723	5,74(A)	62(A)	—	38(A)	—	2,18(A)	—	11,57(A)
Rand Mine Properties	R82m††	na	0,004(V)	2(V)	68(V)	30(V)	—	23(V)▲▲	0(V)	0(V)
Commercial Union	R330m	na	<1(V)	15(V)	13,57(V)	60(V)	21,4(V)	0(V)	0(V)	2(V)

V = Value. A = Area. **Comprises 8% warehouses, 36% motor showrooms and building material outlets and 4% vacant land
††Excludes mining land and townships covering some 4 000 ha. •Comprising 15% hotels (City Lodge is 60% of its hotel investment) and 12% in property trusts.
†††Comprises 3% parking and 29% interest. ‡‡Comprises 2% parking and 28% interest. ▲▲West street south shops, Selby, Johannesburg.

Source: FM Research

FM 28/8/92 (58)

BANKING FM 28/8/92

Sustaining interest (58)

The *FM's* survey of bank charges this week spotlights fees on savings accounts.

Interest rates are falling and depositors are seeing a diminishing return on their investments. In the savings account arena, where yields are lowest because investors require easy access to their funds, customers are particularly sensitive to the corrosive effect of bank charges on the relatively small amount of earnings derived from interest.

Banks prefer savings accounts to have a high level of deposits and a low level of withdrawals. Therefore, they impose transaction fees to discourage multiple withdrawals. But customers can minimise charges — or, at some banks, escape them altogether — by maintaining the prescribed minimum balance in their accounts. Another way is to avoid over-the-counter service whenever the transaction permits and use automatic teller machines (ATMs) instead — preferably the institution's own, which are always cheaper and sometimes free (see table).

Most banks offer special concessions to senior citizens. At Absa banks (Allied, Trust, United, Volkskas), clients who are over 60 qualify for free savings facilities (unlss they use other banks' ATMs) — but only if they ask for them.

The NBS offers free service to students, national servicemen and State, social, disability or war pensioners.

At most banks, ATM charges are the same whether the funds are withdrawn as cash or transferred to another of the customer's accounts. But inter-account transfers at Allied and United are free when the customer uses the bank's own ATMs.

Our table does not include interest rates which the *FM* carries every week (see P107). Most institutions offer tiered rates (which depend on the account balance), making meaningful comparisons difficult.

But patterns do emerge. For example, NBS pays 7,25% interest on balances between R2 001 and R5 000. Standard's Autobank Plus Plan pays 5% on balances between R1 000 and R4 999. Though the NBS might seem a better deal for customers with R3 000 to invest (the NBS customer will earn about R5,60 more per month), ATM transactions at the NBS cost R1 each. At Standard ATM charges fall away if the account balance is is above R500. The NBS investor's interest will not be eroded if he limits ATM transactions to five or less.

Council of Southern African Bankers director-general Tony Norton admits that people regard bank charges as a "grudge purchase."

But perhaps customers would be less grudging if they felt the service they received warranted the charge. One complaint is the time it takes to clear cheques deposited in savings accounts — up to 15 days at some institutions. Banks must protect themselves against fraudulent practices but, in a banking system that boasts about its technological prowess, a delay of three weeks seems the easy way out — for the bank at least. The customer, on the other hand, has to wait.

☐ **Next week: Charges on credit cards** ■

Anthony Sarankin

Savings accounts: cards on the table

	Allied	First National	NBS	Nedbank	Perm
Balance enquiries					
Own ATM	Free	Free	Free	Free	Free
"Foreign" ATMs	Free	Free	R1,00	Free	Free
Withdrawals, transfers and payments					
Own ATM	Balance to R1 000 75c (transfers fee) Balance above R1 000 Free	Balance to R200 R1,00 Balance above R200 Free	Balance to R5 000 R1,00 Balance above R5 000 Free	Balance to R500 R1,00 Balance above R500 Free	Balance to R1 000 R1,00 Balance above R1 000 Free
"Foreign" ATMs	Balance to R1 000 R1,50 on first R100, thereafter 50c per R100 Balance above R1 000 Free	R1,30	R2,00	Balance to R500 R1,25 Balance above R500 75c	Balance to R1 000 Saswitch R1,50 for first R100, thereafter, 60c per R100 Balance above R1 000 Free
Teller withdrawals	Balance to R1 000 Cash R1,00 Cheque R3,00 Balance above R1 000 Free	Balance to R200 R1,00 Balance above R200 Free	Balance to R5 000 Cash R2,50 Cheque R6,00 Balance above R5 000 Free	Balance to R500 R4,00 Balance above R500 Free	Balance to R1 000 Cash R3,00 Cheque R7,00 Balance above R1,000 Free
Monthly balance levy	No	No	R10 on accounts with balance below R2 000	No	No
Cash deposit fees	Free	Free	Free	Free	Free

	Standard	Trust	United	Volkskas
Balance enquiries				
Own ATM	Free	Free	Free	Free
"Foreign" ATMs	50c	Free	Free	75c
Withdrawals, transfers and payments				
Own ATM	Balance to R500 R1,00 Balance above R500 Free	70c	Balance to R1 000 75c (transfers fee) Balance above R1 000 Free	Balance to R1 000 75c Balance above R1 000 Free
"Foreign" ATMs	Multinet R1,00 Saswitch R1,30	R1,25 on first R100, thereafter 57c per R100	Balance to R1 000: Multinet R1,50 Saswitch R1,50 for first R100, thereafter, 50c per R100 Balance above R1 000 Free	Multinet R1,50 Saswitch R1,50 for first R100, thereafter, 50c per R100
Teller withdrawals	Balance to R500: R1,50 on savings book R1,00 on savings card Balance above R500 Free	R5 for cheque withdrawals; cash withdrawals free	Balance to R1 000: Cash R1,00 Cheque R3,00 Cheque-issuing terminal R2,00 Balance above R1 000 Free	Balance to R1 000: Cash R1,00 Cheque R3,00 Balance above R1 000 Free
Monthly balance levy	No	No	No	No
Cash deposit fees	Up to R250: Free Above R250: 40c per R100	Free	Free	Free

FNB set for takeover of offshore bank? 53

FIRST National Bank (FNB), formerly an associate company of Britain's Barclays Plc, is believed to be planning a takeover of an offshore bank.

Speculation has been rife in banking circles and the market place that FNB, one of the largest three banks in SA, has been planning the takeover for some time.

The target bank is believed to be London-based. CT 29/8/92

- **FNB said talks were under way that could affect its share price, and cautioned shareholders.**

Bank will not help Masterbond victims, says Stals

STAR 29/8/92 (58)

BRENDAN TEMPLETON

MASTERBOND victims cannot expect the Reserve Bank to provide them with financial relief, says Bank Governor Dr Chris Stals.

He announced during the Bank's annual meeting this week that the Bank was investigating the possibility of introducing a limited deposit insurance scheme for private investors to protect them from loss of savings.

When Saturday Star asked him whether this could include Masterbond victims who invested through banks, the answer was a firm "no".

Banks acted as agents for Masterbond, taking millions of rands from thousands of pensioners even though this was illegal in terms of the Deposit Taking Institutions Act.

Stals said the registrar of deposit-taking institutions — who was answerable to the Bank — had paid out certain investors who suffered when some small banks were liquidated recently. This threatened to create the false impression that the Bank was a lender of last resort.

To clarify the situation, the Bank intended to determine exactly when it would be willing to pay out private investors. The only guideline the Bank would use was whether such payouts were in the interests of the banking industry as a whole. Masterbond fell outside the Bank's ambit as it was not a registered deposit-taking institution, Stals said.

Others differed with him. They believed the registrar should have forced Masterbond to register because it was taking deposits from the public.

The registrar claimed Masterbond fell outside the ambit of deposit-taking institutions legislation as it accepted deposits on behalf of property development schemes and therefore acted only as an agent.

However, Masterbond also had shares in some of the properties, and Don MacKenzie, of the Masterbond Victims' Disaster Fund believed this meant it could not claim to have been merely an agent.

Stals said he wished to end the five-year "marriage" between the registrar and the Bank.

The registrar had a regulatory role to play which could bedevil the Bank's proper function — the control of monetary supply.

"The registrar does not really belong in the Reserve Bank," he said.

Nedcor shares dip on bond boycott fears

CT 31/8/92 (58)

Own Correspondent

JOHANNESBURG. — Nedcor shares took a beating last week as the threat of a bond boycott led investors to take a dim view of the Perm's prospects.

The share shed 6% in a week to close at R15,25 — a sharp fall at a time when bank margins are comfortable and competitors Stanbic and First National are favoured by the market.

Nedcor's shares have been on a downward trend since its March interim results, which disclosed a 22,6% jump in bad debt provisions. The Perm accounted for the largest single increase in risk provisions.

Nedcor spokesman Mike Leeming said he believed last week's threats by SA National Civics Organisation leader Moses Mayekiso of a large scale bond boycott had put pressure on the share.

"We have been in contact with the civics and believe the probability of a bond boycott was exaggerated," Leeming said.

Perm divisional chief Hugh Maclachlan said the Perm was probably in a better position to deal with any boycotts than other lending institutions because of its longstanding relationship with the civics. Other banks had larger township exposure in rand terms than the Perm, although the latter's portion of exposure was the highest at about 26%.

Asked whether the Perm was cutting back on its township lending, he said: "We are looking at our exposure and at our risk profiles. In some areas, we would not like to see an increase in our exposure This obviously does not only apply to townships There are some white areas in the Free State that are also not a good risk at the moment."

He said the Perm's township exposure was still rising, but not at as rapid a pace as three years ago.

The biggest mortgage lender, Absa, has also seen its shares come under pressure, reflecting the market's concerns over Absa's takeover of Bankorp

Absa also is not actively seeking increases in its mortgage book as it wants to concentrate on increasing its share of the corporate market.

Language lab for all

SAFMARINE has donated R50 000 to a language laboratory which, in addition to helping immigrants to learn English, Afrikaans and Xhosa, will be available to South Africans.

A spokesman for Safmarine said it was hoped to provide other African languages in addition to Xhosa.

58

The project is a joint venture between Safmarine and the Company for European Immigration.

The laboratory will be housed at the Jan van Riebeeck High School and the 20 workstations will be available to pupils there and from neighbouring schools.

Safmarine MD Tony Farr, who officially opened the laboratory, said the project was part of the company's overall community involvement programme "aimed at the upliftment and education of all South Africans."

CT 31/8/92

MONEY MARKETS by Hilary Gush

Players rethink forecasts after Stals scotches rumours

BDAY 31/8/92 (49) (58)

THE money market was on hold last week as persistent rumours of a cut in official interest rates were scotched by Reserve Bank Governor Chris Stals. At the Bank's annual meeting on Tuesday Stals stuck to his guns and vowed to maintain strict monetary policy.

Subdued money market activity saw the rate on the liquid 90-day BA rate hold steady over the week in a narrow 12,4%-12,5% band from a previously wider 12,4%-13% range. Twelve-month NCDs also held their ground at 11,55%.

The money market shortage drifted between R2,5bn and R3bn. Although month-end is nigh and cash — in the form of tax payments — will be leaving the system, no great swings in the shortage are predicted as interest payments on government stock balance any outflows.

Rates on the Bank's weekly three- and six-month Treasury bill (TB) tenders were modestly up on Friday from the previous week's lows. Bids totalling R515m were received for the R150m offered in six-month TBs. These were allocated 15 points up at 11,43% from an earlier 11,28%. The average rate on the three-month bill was 12,03% from 11,99% the week before.

Much rests on consumer inflation figures, due for release early this week. An inflation rate of 14% or less would again spark off rumours of a Bank rate cut and money market rates would be driven down further. However, broad market perception is that July consumer inflation will lie between 14% and 15%. If this is the case, chances of a cut in official rates are slim.

In line with this, money market rates are unlikely to soften until inflation is substantially down. They are expected to remain steady, perhaps with a little sideways movement until then.

Capital market rates maintained an upward trend last week with the yield on Eskom's bellwether bond, the E168, trading 14 points up at 14,23% towards Friday's close from 14,09% the week before.

After Tuesday morning's indications from the Reserve Bank that there would be no respite from strict monetary policy, players were forced to rethink their forecasts. At the session's close on Tuesday the yield on government's R150 stock shot up to 14,47% from an overnight 14,24%.

By Friday the government stock had recovered some of its losses and the yield was back down to about 14,33%, but still higher than the previous week's close of 14,18%. Due to the weakness of equities, support for capital market instruments is likely to be sustained. As more and more new funds move into gilt-edged stocks, rates should continue to come off steadily

FNB woos Ansbacher in R300m deal

56

CT 31/8/92

From GRETA STEYN

JOHANNESBURG — First National Bank is negotiating to buy British merchant bank Henry Ansbacher in a deal worth about R300m.

FNB senior GM Viv Bartlett yesterday confirmed the name of the merchant bank. This followed cautionary announcements at the weekend in Johannesburg and London.

Ansbacher's announcement said discussions were at an advanced stage and might lead to an offer.

Bartlett said FNB was not specifically looking for a merchant bank, but wanted a London banking licence and infrastructure. Ansbacher would give FNB access to offshore deposits.

"We would become virtually self-funding in sterling and dollars. Ansbacher is a net provider of funds to the London markets."

FNB's move follows Standard Bank's acquisition of a London banking licence. Absa has two banking licences in London and Nedcor also has a branch in the city. Ansbacher has a 100-year history in the city.

FNB MD Barry Swart was quoted in the London Financial Times at the weekend saying the bank had found it was unable to service its multinational clients without a European presence.

He said the bank also wanted to trade SA securities in London.

London merchant bank Singer & Friedlander had been looking at buying Ansbacher, but the deal fell through.

The Independent newspaper reported in London at the weekend that Ansbacher had said the price Singer had been prepared to offer was between £50m and £60m. The bank's management believed this undervalued the bank and was unfair to minority shareholders.

Ansbacher, which specialises in Third World and SA debt, made a pre-tax loss for 1991, but turned profitable again in the half-year to June.

The Independent said Ansbacher management was likely to be relieved at the appearance of a new suitor. The worry about Singer was that the two banks were so similar in structure that Ansbacher was likely to be dismantled with heavy job losses in a takeover. A foreign, non-merchant bank acquirer might be less likely to break it up and more likely to invest in its expansion.

The report quotes Singer chairman Anthony Solomons saying: "We gave them price parameters.... We think it is worth doing at a certain price and no more."

The outcome of the discussions with FNB would be known by October.

Ansbacher's shares are 62% held by Swiss investment group Pargesa Holdings. Pargesa indicated 18 months ago that it wanted to sell its bank shareholdings. Its Ansbacher stake has fallen sharply in value as the shares have slumped to the current 26p from 90p in 1990.

The shares were unchanged at 26p on Friday.

Indemnity insurance suggested for investment advisers

By Stephen Cranston 58

In the light of the sometimes "unhelpful" advice which has been given to investors recently, members of the Investment Analysts Society have been invited to take out professional indemnity insurance.

PI insurance has been a growing field for doctors, attorneys, architects, accountants and quantity surveyors, but only recently has the service been available to financial analysts.

PI Insurance Brokers says it can cover investment analysts in cases in which they are negligent in giving advice, preparing reports and providing recommendations.

The brokers warn that lawsuits can result from lack of care in drafting documents. misrepresentation of facts and disregarding client instructions. STAR 4/8/92.

Managing director John Pearson says an adviser could be sued if he put the life savings of a pensioner into a high risk venture when he had been instructed to put money into a steady, income-generating investment.

Lawsuits can also arise from more mundane forms of incompetence such as the loss of documents and clerical errors.

It can also cover against fraud and the misappropriation of assets — though cover falls away when any form of wilful negligence or criminal action is proved.

It will cover legal defence costs, however, including attorney client costs — not all of which are covered when costs are awarded to the winning party.

Brokers says that many professionals have insurance cover but it might not be adequate for current day conditions.

Garth Rowe, a liability specialist at PFV Insurance Brokers, says that the danger to the analyst does not lie in incorrect forecasting.

An advisor could not be sued, for example, for advising somebody to buy Iscor shares just because the value of those shares on the stock exchange has fallen.

"The problem lies in the way in which the investment is presented. When an advisor guarantees a return — and it is alleged that some did about Masterbond — then he's running a risk of litigation."

Price Forbes does not specialise in professional indemnity but it is often asked about it by members of the main professions such as architects, consulting engineers and doctors.

These established professions, though, may have professional indemnity cover through their umbrella bodies, such as the Law Society and the Medical Association.

Tax on life policy likely to change

BDAY 5/8/92.

58

ANDREW KRUMM

LIFE assurers and their clients will benefit from a more favourable tax dispensation from March next year — provided revenue authorities and the Life Offices Association settle "certain" difficulties, says Southern Life deputy GM Tony Davey.

Speaking at a tax seminar yesterday, Davey said life offices, the Financial Services Board and revenue authorities had recently agreed in principle to do away with the problem sixth schedule to the Income Tax Act, which regulated the tax treatment of life policies.

"We agreed that the Insurance Act — rather than the Income Tax Act — should be the appropriate vehicle to define a life office's product range," he said.

Davey said the "trustee principle" would be applied from March 1 1993, which meant that life offices would pay tax on behalf of their policyholders and at more favourable tax rates.

"At present the life offices tax rate is set at 43%, which is the maximum marginal personal rate. But it is unfair to apply this rate to policyholders in lower tax brackets, and vice versa in the case of corporate policyholders.

"However, the LOA and government reached agreement that policyholders, who are natural persons, would be taxed at an average rate — namely 32% — while corporate policyholders will be taxed at the corporate rate."

Davey said the trustee principle was in line with a Margo Commission recommendation that it was more efficient to collect tax at the source of payment rather than from clients.

But the implementation of the trustee principle would require life offices to maintain four separate funds. These were an untaxed policyholders fund, two taxed policyholders funds, and a taxed corporate fund.

With the demise of the sixth schedule and the revision of the Insurance Act, both the insurance industry and clients would benefit, he said. "The classification of life policies — as standard, deemed standard or non-standard — will fall away and policyholders will receive tax-free policy benefits.

"Existing polices will also benefit from a 'tax holiday' in that current non-standard policies will not be subject to tax on the gain element," he said.

SECHOLD FM 7/8/92 (58)

Opaque profit sources

Sechold may not be able to maintain the low profile it has quietly been working under since listing five years ago if it keeps recording strong growth, like the 21% increase in EPS in the year to end-June. The dividend was lifted 17,6%.

Not much else is disclosed in its accounts, though to be fair there has been a slight improvement since a year ago. Arthur Kelly, MD of the holding company whose main business is its investment in four banks, as well as other financial services interests, says he doesn't believe there is any bank in SA on full disclosure. "At least we say we are not on full disclosure," is his defence.

Full marks for honesty, but that's not going to be much help to potential investors. One reason, Kelly says, for limiting information on all sources of income is the niche markets some of the group's banks and businesses have established. "To identify these could hurt the company and provide an advantage to competitors," he maintains.

Whatever these markets are, they are showing good returns. Profits have increased for seven successive years, the latest attributable income of R17,5m being nearly 2,5 percentage points higher than the increase between financial 1990 and 1991.

Sechold emphasises return on shareholders' funds as the most important measure of performance, and this was held at last year's 31%. Shareholders' funds nearly doubled over the year to R106m, partly through the issue of redeemable prefs which brought in

FM 7/8/92 (58) fox

additional capital of R40m. Total assets are now stated at R7,86bn.

Sechold's sources of income are quite diversified, coming from banking, securities trading, portfolio management and other financial services. In the past year it added mortgages to its business mix, by opening a home loans division in 100%-subsidiary Secfin Bank, though this is not yet contributing to profit. Chairman Jack Kearney is soon to retire and will be succeeded by Malbak's Grant Thomas.

The market likes the share, which has advanced 50% over the year, to 630c; so do the big Cape-based insurance groups, which hold a significant number of the shares. Though there must be reservations relating to disclosure, the share seems a fair investment.

Shaun Harris

FM 7/8/92 (58)

SOUTHERN LIFE FM 7/8/92

Gains on the roundabout

Activities: *SA's fourth largest life assurer.*
Control: *Anglo American 20,3%; First National Bank 29,2%.* (58)
Chairman: *T N Chapman; MD: J R Calitz.*
Capital structure: *168,7m ords. Market capitalisation: R3,25bn.*
Share market: *Price: R19. Yields: 3,4% on dividend; 5,1% on earnings; p:e ratio, 19,5; cover, 1,5. 12-month high, R24; low, R18. Trading volume last quarter, 419 000 shares.*

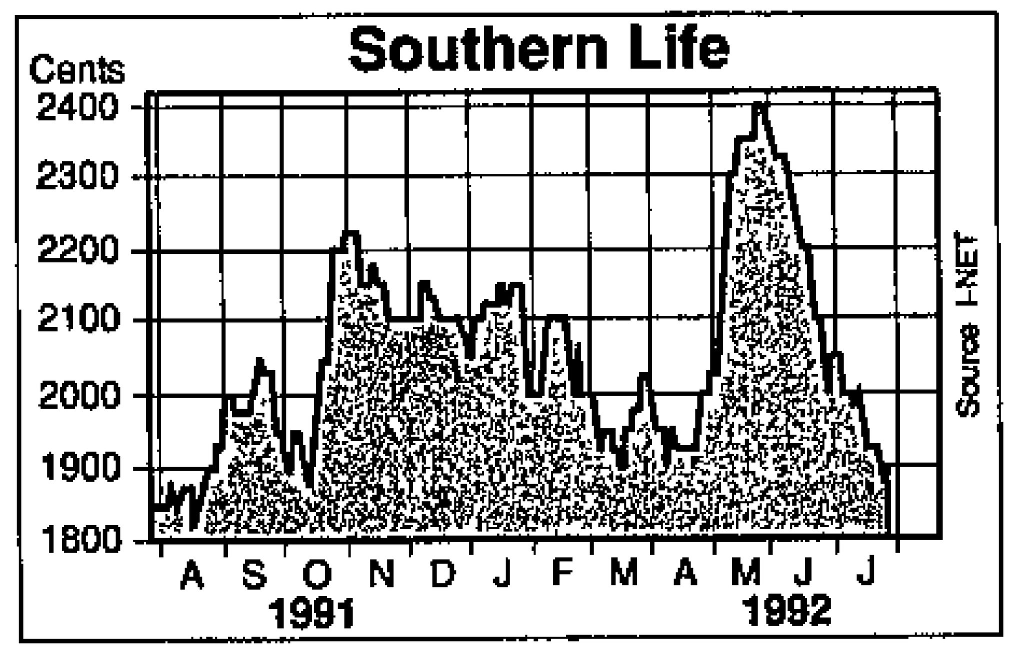
Year to March 31	'89	'90	'91	'92
Total assets (Rbn) ...	10,7	14,0	14,9	17,7
Premium income (Rm)	1 388	1 596	1 853	1 998
Investment inc (Rm)	740	870	940	1 076
Taxed profit (Rm)	95	115	138	165
Earnings (c)	56,3	68,3	81,9	97,5
Dividends (c)	37,6	45,5	54,5	65,0

Companies showing real growth in attributable earnings over the past year are the exception rather than the rule. On the face of it, growth of 19% in Southern Life's net taxed surplus of R164,5m is highly commendable. However, information in the annual report puts a different perspective on this.

Income rose 10%, whereas outgoings increased 25,5%. Amount available for policyholder benefits and reserves rose only 7,6% to R2,6bn. This is the lowest growth rate since at least 1986 (1987: 28%; 1988: 32%; 1989: 16%; 1990: 17%; 1991: 14%).

Making matters worse, benefits paid to policyholders rose an almost alarming 55% from R1,2bn to R1,86bn. Chairman Neal Chapman explains that while this included

Southern Life's Chapman ...
making more payouts



expected growth in payments to policyholders, there were two other causes. First, the recession brought about more redundancies, lay-offs and insolvencies, all of which involved payouts.

Second, off-balance sheet portfolios have, it seems, become more attractive to some pension and provident fund trustees. Business was accordingly withdrawn from Southern, though some found its way back as off-balance-sheet assets managed by Southern Life Asset Management.

The increased disbursements for policyholder benefits meant that either the transfer to life funds had to be substantially reduced for the taxed surplus to be equal to or greater than the previous year or vice versa. In the event, the transfer to life funds from the income statement was almost halved from R1,07bn in 1991 to R566m, the lowest quantum transferred since 1986, and the taxed surplus rose 19%.

The impression that profit declared is therefore manoeuvred by the expedient of inflating or deflating the amount transferred to life funds is inviting. To some extent, the fall in cash generated by operations, from R1,26bn to R741m, adds to a feeling of unease about the correlation between successful profit growth and divisional performance, which was less favourable in terms of premium income growth. However, a closer study of the income statement dispels this.

It shows Southern's net pre-tax income rose 30% to R237m and confirms that as long as assets under administration continue to grow, so will operating income. What was lost on the swings was more than gained on the roundabout. The reduction in cash flow generation was almost exclusively a direct result of increased benefit payouts.

Other significant year-on-year movements were: single premium income declined by 14,5%, to R430m, whereas recurring premium income rose by 16,2%, to R1,57bn; net investment revenue grew 14,3% to R1,1bn; the value of equity investments other than property increased from R7,6bn to R10,1bn; and total assets under administration grew by 18,8% to R17,7bn, to parallel the rise in net taxed surplus.

Over the past seven years, net taxed surplus per share has increased at an average compound rate of 21,9%, and total assets by 22,8%. Since 1987, when return on average shareholders' funds was 16,7%, this ratio has grown until, in 1992, it was a satisfactory 27,9%.

In terms of historical p:e ratios, Southern is rated second only to Liberty Life and is on a par with Metlife. Its consistent growth of earnings and assets points to the likelihood of this trend continuing. A superior rating for the share is justified.

Gerald Hirshon

BOLAND BANK FM 7/8/92

Growth constraints

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: *13,5m ords. Market capitalisation: R108m.*
Share market: *Price: 800c. Yields: 6,5% on dividend; 17,7% on earnings; p:e ratio, 5,7; cover, 2,7. 12-month high, 1 100c; low, 800c. Trading volume last quarter, 52 000 shares.*

Year to Mar 31	'89	'90	'91	'92
Total deposits (Rm)	2 166	2 811	2 741	3 029
Total assets (Rm)	2 423	3 057	3 293	3 496
Taxed profit (Rm)	13,6	14,9	17,0	19,0
Earnings (c)	101,4	110,8	126,4	141,3
Dividends (c)	46	46	48	52
Net worth (c)	848	917	995	1 018

From a shareholder's viewpoint, Boland Bank has been an uninspiring investment. To the extent that it is not as diversified as its big competitors, management is not responsible for this. Its poor showing is largely a function of its size.

Boland Bank is an old organisation, esteemed by many of its clients and shareholders. It fills a special niche — mostly in farming — in the country districts that it mainly serves, and it is run by knowledgeable executives.

But consider the statistics. Average annual compound growth in EPS over the nine-year period 1983-1992 was 4,9%. Dividends rose by 5,9% a year. A rights issue in 1987 resulted in a dilution of EPS to 87c, from the previous year's 124c, though attributable earnings rose by 40%.

If 1988 is used as the base, the picture improves considerably but it is still not good. Average compound annual growth in EPS over the past four years has been 12,9%, still well below inflation; dividend growth was only 5,5% a year.

Boland cannot generate adequate benefits from technology because it is relatively small and does not enjoy the economies of scale of the big banks. Also, its dividend policy has been conservative to enlarge reserves and the capital base.

We have pointed out (*Companies* July 19 1991) that, because of its minor-league base, Boland was at a disadvantage and being squeezed by its larger rivals. This squeeze is intensifying. Last month Absa declined to support the bank's plan to expand its capital base by issuing preference shares (*Fox* July 31).

Nevertheless, in a tough year, management has succeeded in boosting performance in the area it knows best, commercial banking. And, for the first time, disclosure is

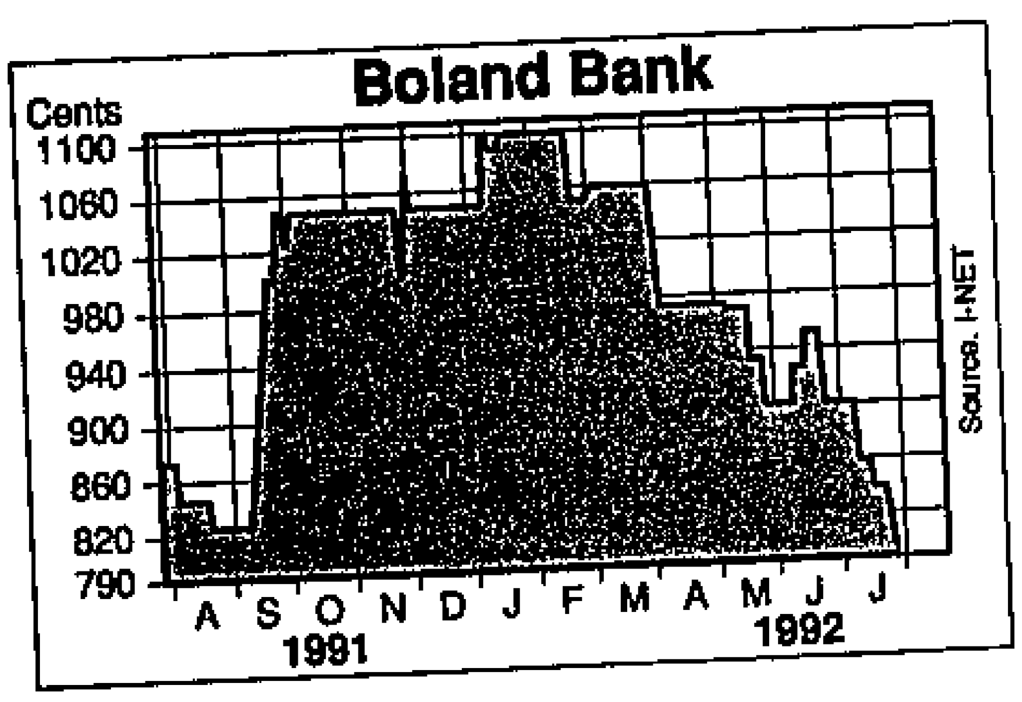
continued

FM 7/8/92 58

more explicit. Chairman Pietman Hugo says emphasis was placed on promoting cheque accounts and broadening the electronic card base. Judging by the increases in savings and current accounts — 25% and 44% respectively — it was a successful foray.

But other advances jumped by 22%. This partly explains the higher provision for bad and doubtful debts and the transfer of additional amounts from disclosed profits to internal reserves.

Net income before provisions and tax was 23,4% up on 1991. Under the circumstances, this is a good result. It now remains to be seen if write-offs will be as large as the



provisions. If not, by concentrating on the areas where the big banks are perceived to be failing to produce as good a service as is made out, Boland could render more respectable yields and keep predators at bay for a while. The share price has fallen back from the high of R11 earlier this year. *Gerald Hirshon*

CU boosts income by 80 pc

STAR 7/8/92

By Sven Lünsche (58)

Good results by both the short-term and life assurance divisions boosted Commercial Union's (CU) attributable earnings by 80 percent to R30,5 million (R17 million) in the six months to June.

Shareholders benefited from the good performance, receiving an interim dividend of 50c (42c).

CU's short-term arm CU Insurance reports a more cautious underwriting policy and a slowdown in the "rise in criminal activity".

The underwriting surplus subsequently improved to R10,9 million from a deficit of R3,6 million in June last year.

In addition to the underwriting surplus, the operating company received R4,9 million from the life insurance division CU Life and R1,6 million from CU Trade Finance.

Total group net premium income at the half year was R433,8 million, 10 percent higher than net income of R395,1 million previously.

CU Life's premium and investment income rose to R330,6 million while its assets moved above the R3 billion level for the first time.

Fedsure group performs well

STAR 7/8/92

58

By Leigh Hassall

Fedsure has lifted interim earnings by 42 percent on the strength of a big rise in premium income of subsidiary Fedlife and the profitable use of new capital

In the six months to June the group increased its net attributable income to R19,3 million (R13,6 million), with earnings a share jumping 22 percent to 24,6c (20,2c) and dividends up to 15,25c (12,5c)

Group assets grew by R1 billion to more than R6 billion, 35 percent ahead of the R4,51 million a year ago.

Life assurer Fedlife, from which Fedsure earns the bulk of its revenue, had a buoyant half-year.

Gross premium income grew to R600 million, with recurring premiums increasing 22 percent to R361 million and single premiums 157 percent to R239 million.

Arnold Basserabie, group chief executive, says. "Our growth has come from a number of factors, including innovative new products, improved service levels, and good investment performance".

Surrenders

The number of life policy surrenders was up, but overall surrenders were fewer than last year.

Expense figures are not disclosed for the interim period, but Mr Basserabie says "We are 15 percent up on last year, but compared with the growth in premium income, the expense ratio will be substantially reduced".

Other companies in the Fedsure stable also performed well during the interim period.

Short-term insurer Fedgen achieved a profit of R3,3 million after having been in the red in the past two years

Beleagured Saambou, in which Fedsure holds a 31 percent stake, has shown losses for the past two years but Mr Basserabie says he is confident the management has taken steps to improve the bottom-line.

The interest in Saambou represents less than one percent of Fedsure's assets

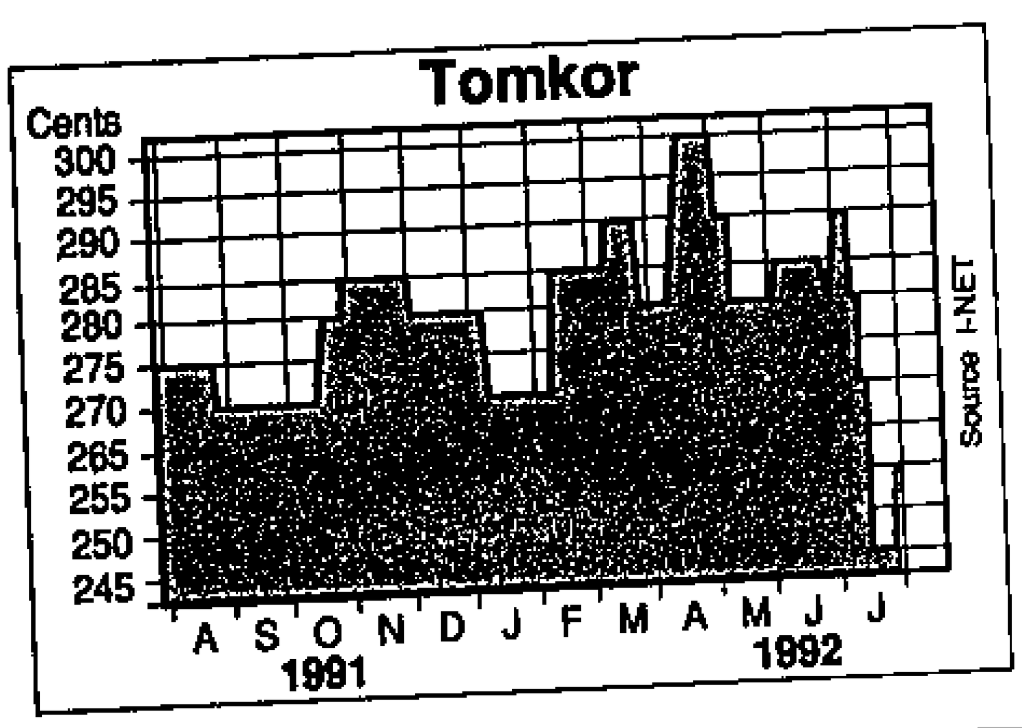
In the past 18 months Fedsure has ventured into the wider financial services market, including a share swop with Investec.

Given a positive outcome of the current political logjam, Mr Basserabie envisages that growth for the rest of the year will probably match that of the interim.

TOMKOR FM 7/8/92 58

Still an asset play

A revaluation of Tomkor's property portfolio added R40m to fixed assets, improved gearing and almost doubled NAV. Less favourably, though, borrowings had increased again



at last year-end.

The Pretoria-based property company has been tightly run by chairman Alec Wapnick for more than 20 years and grown through gearing in that time. He considers the present gearing satisfactory for the industry but a further reduction would have a marked effect on earnings.

Borrowings were brought down with the restructuring a couple of years ago. Last year Tomkor's acquisitions and developments absorbed more than R9m. Cash flow was boosted by a R5m increase in creditors, as management extended payment periods to help shrink interest payments — which are

continue →

Activities: *Investment holding company. Derives revenue from rentals, dividends, interest and management fees generated by subsidiaries.*
Control: *Directors 29%.*
Chairman & MD: *A Wapnick.*
Capital structure: *10,6m ords. Market capitalisation: R27,6m.*
Share market: *Price: 260c. Yields: 7,3% on dividend; 7,6% on earnings; p:e ratio, 13,1; cover, 1,0. 12-month high, 300c; low, 250c. Trading volume last quarter, 181 000 shares.*

Year to Feb 29	'89	'90	'91	'92
ST debt (Rm)	8,8	2,8	0,9	0,2
LT debt (Rm)	75,7	115,3	54,5	57,4
Debt:equity ratio	1,08	1,05	0,99	0,60
Shareholders' interest	0,44	0,47	0,49	0,59
Int & leasing cover	1,65	1,21	1,13	1,27
Return on cap (%)	9,6	9,2	16,5	8,6
Turnover (Rm)	20,4	27,4	24,9	18,2
Pre-int profit (Rm)	17,2	21,7	18,9	14,1
Pre-int margin (%)	84,3	79,0	76,1	77,3
Earnings (c)	39,0	18,4	14,2	19,9
Dividends (c)	34	18	14	19
Net worth (c)	869	1 049	524	902

Tomkor's Wapnick ...
gearing for growth

still absorbing 80% of pre-interest profit. But assessed tax losses have been exhausted and the effective tax rate will rise to about 48% (1991: 30%) this year and reduce attributable earnings further.

Last year — Tomkor's first fiscal year of operating as a single entity since the Octodec flotation — rental income improved 22% and there was a 94% occupancy rate in the group's properties in the PWV area, against the industry's 80% average. Earnings rose by two-fifths and the dividend by a quarter.

Wapnick says property values, whose rise in recent years has offered a sound hedge against inflation, have recently plateaued in some sectors and depreciated in others. Because of this, and the possibility of bad debts or depressed vacancy levels, he does not venture a forecast on earnings. He expects higher turnover to result from recent acquisitions, which include 3 ha of the largest privately-owned property in Pretoria CBD's north-west.

Though gearing has improved, interest and leasing cover remain low. Considering the property market lags the economy by about 18 months, the year ahead is not going to be easy. The share stands at a 71% discount to NAV but is thinly traded. *Kate Rushton*

BANKING FM 7/8/92

In good company (58)

SA banks fared well in *The Banker's* latest survey of the world's top 1 000 banks. The results, published in the July edition, show that the average pre-tax return on shareholders' funds of 11,43% was bettered by most of SA's main banks. FNB led the field with 41,4%. Only Bankorp, with return on equity of 8,5%, did not match the survey's average (see table on P34).

The average return on assets of the top 1 000 was 0,51%. Except for Bankorp's 0,33%, SA banks did considerably better — ranging from NBS with 1,12% to FNB's 1,81%

Information was obtained from the latest financial statements. The reporting periods of the SA banks were: Absa March 31 1992; SBIC December 31 1991; Nedcor September 30 1991; FNB September 30 1991; Bankorp June 30 1991; and NBS Holdings March 31 1991.

The primary ranking was based on Tier One capital, as defined by the Bank for International Settlements, which includes common stock and declared reserves, plus the increasing number of perpetual, irredeemable and noncumulative preference shares. It excludes hybrid forms of capital such as cumulative or fixed-term stock, other instruments, goodwill and revaluation reserves, which fall under Tier Two capital.

The top 10 are:

- ☐ Sumitomo Bank, Osaka, US$16,9bn;
- ☐ Dai-Ichi Kangyo Bank, Tokyo, $15,9bn;
- ☐ Fuji Bank, Tokyo, $15,1bn;
- ☐ Sanwa Bank, Osaka, $14,8bn;
- ☐ Crédit Agricole, Paris, $14,6bn;
- ☐ Sakura Bank, Tokyo, $13,5bn;
- ☐ Union Bank of Switzerland, Zurich, $13,1bn;
- ☐ Mitsubishi Bank, Tokyo, $13bn;
- ☐ Barclays Bank, London, $11,6bn; and
- ☐ Deutsche Bank, Frankfurt, $11,2bn.

Absa, ranked 207, headed the local list with Tier One capital of $1,1bn. NBS Holdings, with $138m, was ranked 923.

Capital:asset ratios of the top 1 000 improved. Total assets grew 5,6% and capital rose 9,6%.

Despite dominating the rankings in capital levels, the average capital:asset ratio of the top 10 Japanese banks was only 3,5%. This was a little ahead of Germany, with a 3% average among the top 10, and behind France, which had 4%. The Swiss banks

continue →

FM 7/8/92 (58)

The Banker's rankings

*As defined by BIS
**Profits are pre-tax

Ranking by capital		Tier 1* capital $m	Tier 1* capital %	Assets $	Assets Rank	Assets %	Pre-tax profits $	Pre-tax profits %	Real profits growth %	Real profits growth Rank	Profits** on capital %	Profits** on capital Rank	ROA %	ROA Rank
207	Absa	1 104	11,7	18 760	249	8,5	238	63,5	41,4	119	22,7	179	1,27	235
232	SBIC	985	21,2	17 780	263	14,7	290	28,9	11,8	284	32,2	62	1,63	127
339	Nedcor	647	17,3	13 115	332	22,3	194	10,1	-4,3	489	32,4	61	1,48	165
359	FNB	589	18,1	12 403	344	17,6	225	19,9	4,3	371	41,4	29	1,81	98
434	Bankorp	450	86,3	8 860	437	-3,7	30	n/a	n/a	n/a	8,5	635	0,33	691
923	NBS Hold	138	22,2	2 733	807	29,6	31	14,2	0	426	24,4	149	1,12	293

% capital: assets

Ranking on adequacy	Latest	Previous	Top 100 ranking Latest	Top 100 ranking Previous
Absa	5,88	5,72	449	381
SBIC	5,54	5,24	487	449
Bankorp	5,08	2,63	556	867
NBS Hold	5,05	5,36	562	436
Nedcor	4,93	5,15	587	462
FNB	4,75	4,72	612	526

Source THE BANKER

were especially well-capitalised with an average ratio among the top 10 of 5,67%.

The capital:asset ratio of SA banks ranged from Absa's 5,88% to FNB's 4,75%.

The picture has changed following the financial year-ends — with FNB's rights issue this year and an increase in the capital base at Nedcor and SBIC when shareholders took scrip in lieu of dividend payouts.

The ratios must be seen in the context of the Basel Accord minimum of 4% for Tier One. But this applies to risk-weighted assets — with weightings of assets ranging from 0% to 100%.

Banks are increasingly providing information on the risk-weighted composition of assets and next year *The Banker* will include a request for this information in its questionnaire. It will highlight those banks and countries which are not able to provide them.

The survey of 64 countries is *The Banker's* 23rd annual ranking of the world's top banks. ■

NEDCOR FM 7/8/92

Techno-shift

58

Nedcor Bank ended months of speculation about the direction of its information technology strategy by announcing last week that it would replace its four Unisys V-Series mainframes. It plans to spend between R50m and R80m in the next three years migrating commercial banking applications to two large Amdahl and Hitachi mainframes.

The decision signifies a major shift for the group, which has been a big user of mainframes from Unisys and its predecessor Burroughs since the Sixties. The success of the conversion could have a big effect on Nedcor's performance in the next few years. The cost of the change, if the group also replaces Unisys mainframes at the Perm and installs new software applications, could be as high as R200m, according to analysts. Management is confident the figure will be much lower.

Nedcor CE Chris Liebenberg says the amount to be spent on the technology shift is not significantly higher than that which had already been anticipated at this stage of the group's investment cycle. He argues that the move will reduce operating costs.

For several years Nedcor has had to wrestle with the question of whether it should follow its major rivals and convert to IBM technology or stick with Unisys. Such a con-

FM 7/8/92 58

version is often complex and expensive. The operating costs of IBM and compatible mainframes are considered to be higher than those of similar Unisys machines. However, IBM technology has become the standard mainframe platform for most banks throughout the world and, as a result, a wide range of software and hardware products have been developed for this environment.

Unisys, which has clawed back from near-bankruptcy in the US, has been forced to rationalise its mainframe offerings and last year announced there would be no further enhancements to its top-end V-Series, though the mainframes will continue to be developed and supported for the next decade. So Nedcor Bank believed it was faced with a mainframe conversion even if it wanted to stay with Unisys technology.

Local Unisys distributor Unidata had hoped that the bank would migrate to the US firm's A-Series mainframes used by the Perm. This, it argued, would enable the group to reduce costs by sharing resources and applications between Nedbank and the Perm.

Though no announcement has been forthcoming about the Perm's future plans, it now appears likely it will follow the lead and later replace its Unisys mainframes.

To avoid trailing its major rivals, which already have substantial investments in IBM technology, management at Nedcor Bank has embarked on what it describes as an "open systems" strategy.

This innovative, some would say bold, strategy involves the bank running IBM and Unix applications on the two new mainframes. Management at Nedcor Bank aims to minimise the risks of its open systems strategy and hopes to leapfrog competitors by being able to run either IBM or Unix applications. ■

STANDARD BANK INVESTMENT

FM 7/8/92

Raising the margin

(58)

It is a sad but inescapable fact that when economies — and, by extension, individuals — do badly, banks perform best. Standard Bank Investment Corp's interim results prove the point.

EPS rose a shade over 20% to 245c — marginally better than the market expected. The interim dividend went up similarly to 53c. Shareholders are again offered a choice of taking the dividend in either cash or additional shares; unless they are cash-strapped, taking shares is a sound way of adding to net worth. SBIC is unlikely to suffer any shortage of capital while it keeps a scheme like this in place: an overwhelming number of shareholders opted for shares last time.

The interesting figures in the consolidated income statement deal with interest income.

FM 7/8/92

(58)

These reveal that trading margin — the difference between the cost of money from lenders and the level at which SBIC passes it on to borrowers — rose nearly 3% to 28,23% over the same six months in 1991. Net interest income was R1,16bn.

Operating profit pre-tax rose a massive 46% to R420m but an 85% leap in tax held taxed profit to a more modest 24% gain, at R259m. This includes R30m from associate companies, mainly Liberty Life. This 25% increase shows how well Liberty has done.

Operating expenses rose 21,6% to R1,5bn, with much of the increase on computer expansion and new product development. SBIC seems to be applying the tactic that while much of the opposition is in disarray, it's a good idea to steal a march on them.

The results are much helped by a significant cut in provision for bad and doubtful debts, down 10% to R173m. Senior GM Andrew Fleming says the number of bad debts increased but the quantum is down.

At R65, a p:e of 12,8 compares with a sector average of 12,6 and FNB's 10,2. That is probably a fair indication of SBIC's intrinsic value. As the second half is usually better than the first, the results strengthen the view that this is a solid counter worth a place in diversified portfolios.

David Gleason

Banks awash with money

Star 8/8/97

(58)

THE downward trend in interest rates has accelerated in recent weeks, reports MAGNUS HEYSTEK.

ANOTHER bout of mortgage bond rate-cutting could be on the cards after The Board of Executors announced yesterday that it was cutting its bond rate by 1 percentage point to 16 percent from the beginning of next month.

This would come as welcome relief to thousands of home-owners under financial pressure.

The major players in the bond market — Absa, First National Bank and Standard Bank — would not immediately comment on the BoE move, but analysts say that a further softening of interest rates coupled with a relative lack of demand could force bond rates down even further.

Liquidity

Board of Executors Merchant Bank yesterday announced it would cut home-loan rates by 1 percentage point to 16 percent from September 1.

BoE Merchant Bank offers home loans only on properties worth R500 000 and more in selected suburbs and where the bond is at least R250 000.

Home loans assistant general manager Richard Harman said the reduction was a result of the current liquidity in the market.

As a result of depressed market conditions, together with political uncertainty, the demand for home loans had reduced considerably in recent months. Banks were currently awash with money.

A spokesman for First National Bank said it had no "immediate plan" to further reduce mortgage bond rates, but the bank was "following the situation closely".

But money market commentators said bond rates would come down across the board very soon. The average mortgage bond rate now is 18 percent while certain prime customers pay 17 percent.

The downward trend in interest rates has accelerated in recent weeks. On the capital market, the rates were down by another 250 points this week to around 14,5 percent. Commentators are expecting long rates to be about 12 percent by year's end.

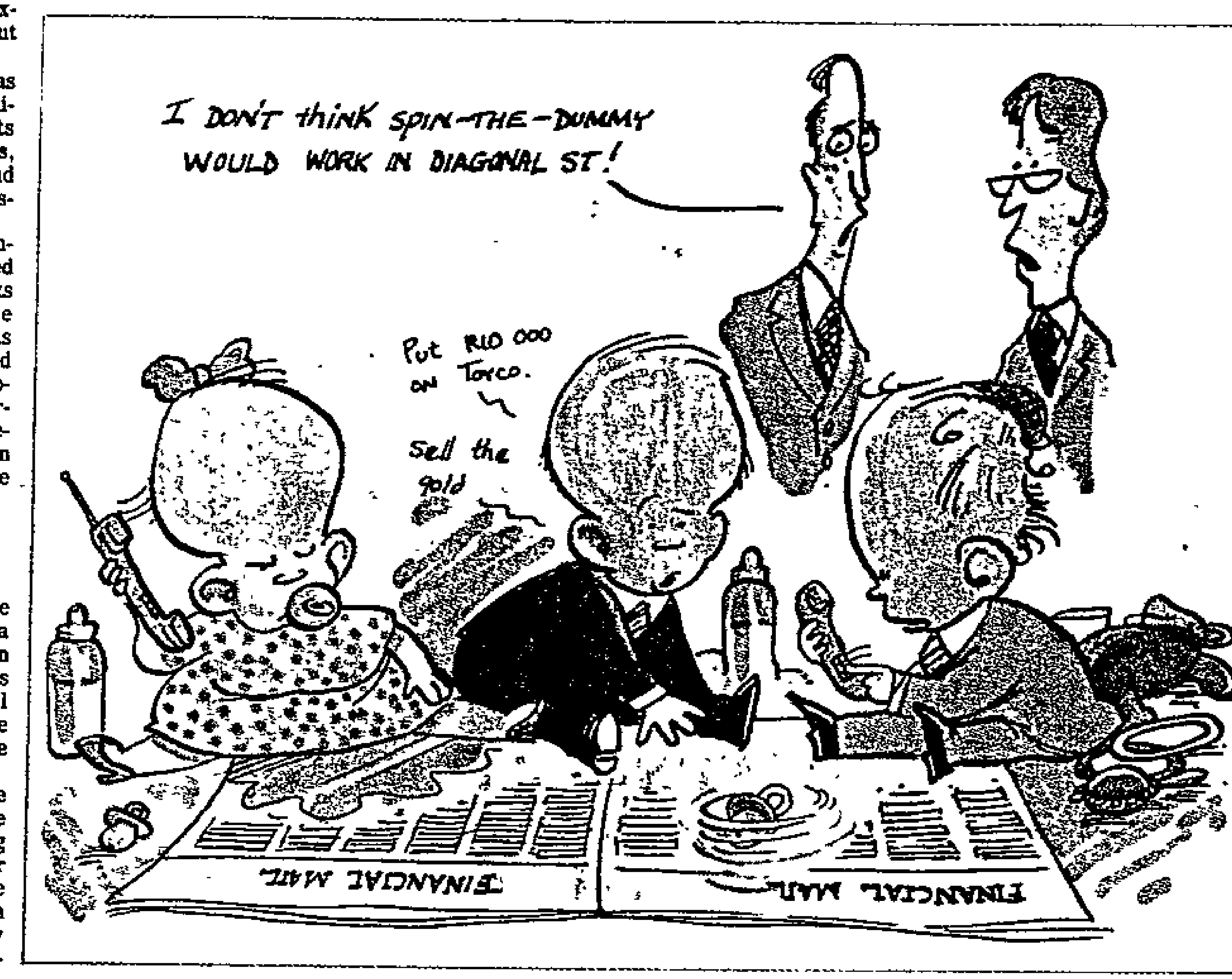
While the Reserve Bank has been battling to drain liquidity from the money markets via special tender issues, rates have been drifting and traded around 14 percent yesterday.

The downward drift in interest rates has been fuelled by optimistic pronouncements on the inflation rate. While the impact of the drought has kept inflation high, the trend is still downwards, say economists, and a return to a normal rainfall pattern could result in inflation coming down to around 12 percent by the year-end.

More housing

A further drop in mortgage rates will, in itself, have a disinflationary impact on prices. Mortgage repayments have been declining in real and nominal terms for some years and should enable more people to afford housing.

Property economist Neville Berkowitz disagrees with the consensus that declining mortgage rates are good for property prices. "Prices are closely linked to confidence in the economy. This will only come when the political situation improves," he says.



Follow the Std 9 lads and make JSE killing

STEPHEN CRANSTON

Investors in the stock exchange would be well advised to dismiss their

SA Eagle rides winds of troubled economy

B/DAY 11/8/92.

ANDREW KRUMM

SHORT-TERM insurer SA Eagle has reported a 79,9% rise in interim earnings to end-June, to R23,2m from R12,9m in the comparable period of 1991.

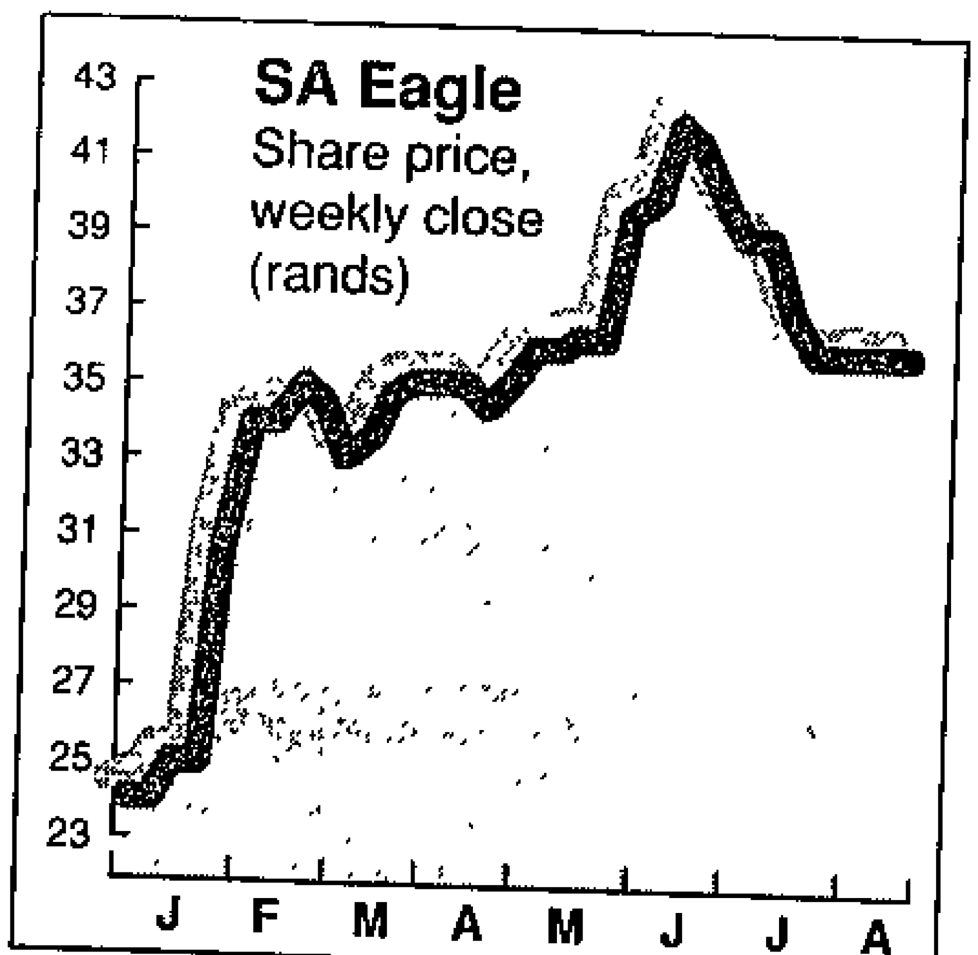
MD Peter Martin said the interim dividend had been increased to 75c from 60c a share to narrow the gap between the interim and final dividends.

Gross written premiums rose marginally to R464,8m for the half year from R452m in 1991. Martin said premium growth had been limited by the depressed economy and business closures, while many established firms and the unemployed had cancelled or cut back on insurance cover to curtail costs.

Reporting an underwriting surplus of R964 000, compared with a R9,95m loss in 1991, Martin said an improvement in underwriting results in the second half last year had continued into 1992. SA Eagle's domestic portfolio turned in a profit, but the commercial account was driven into a loss by many fires at small businesses, as well as crime losses.

58

Martin said the company's prospects for the next six months were difficult to forecast, but premium rates could be increased in the latter half of the year to counter the crime and inflation rates.



Graphics RUBY-GAY MARTIN Source: I-NET

Lift-off for Eagle dividend

(58)

STAR 11/8/92

By Sven Lünsche

Short-term insurer SA Eagle sharply improved its underwriting results in the six months to end-June, enabling the group to boost its interim dividend from 60c to 75c.

Gross premiums rose marginally from R452,4 million to R464,8 million, and investment income by 32,9 percent to R34,93 million (R26,29 million) as a result of substantially larger amounts held on deposits at interest, the directors say.

While underwriting results showed a strong turnaround from last year's deficit of R9,95 million to a R964 000 surplus, the directors say this was achieved despite the high levels of fire and crime claims, rising inflationary costs and severe competition.

"Market conditions remain extremely difficult and the present underwriting trends must be viewed with caution."

Earnings per share rose to 190,7c (106,1c) but again SA Eagle warns that this trend is not necessarily indicative of full-year results.

Outlook not all that gloomy, says BoE

STAR 11/8/92

(58)

The deep consumer and business pessimism prevailing in South Africa is an over-reaction typical of the end of recession, says the Board of Executors.

The SA Chamber of Business and Bureau for Economic Research surveys last week indicated confidence among businessmen and black consumers had fallen drastically, while the Afrikaanse Handelsinstituut warned the economy was in a "state of emergency".

The BoE does not take such a gloomy view.

Its August Investment Outlook says: "Although it is not literally true that 'it is darkest just before the dawn', this is certainly often true in terms of the consumer and especially the business mood."

The high probability of stronger international growth from next year onwards, the breaking of the drought next season, the rapid rise in foreign exchange reserves and low foreign debt, and a downward trend in the inflation rate, are all key forces in producing an upswing in 1993 and 1994.

Other favourable factors are an expected upturn in the inventory cycle, the short-term cushioning effect of increased government spendingand several large-scale investment projects like Columbus and Alusaf. — Sapa.

Unrest policy claims soar

BDAY 11/8/92

ADRIAN HADLAND (58)

INSURANCE claims related to unrest had doubled in the past six months to about R135m and were expected to rise further, SA Special Risk Insurance Association executive chairman Oosie Oosthuizen said yesterday.

Claims since March had risen by 25% compared with the preceding six months, while the amount claimed had doubled from R66m to R135m over the period, with indications of a continuing upward trend.

The bulk of the claims had been paid out for damaged or destroyed buildings, houses, buses, trucks and cars. Most of the incidents had happened in township areas.

Oosthuizen said premiums had been adjusted in April this year with increases affecting certain types of risk, including fire damage insurance. "Due to the recent spate of incidents, in certain black areas we also had to increase the premiums according to geographical criteria," he said.

Stokvels on brink of deal with 'major finance house'

(58) (1534) BDAY 11/8/92

WILSON ŻWANE

STOKVELS are expected to reach final agreement with a major financial institution soon on a joint venture aimed at developing a special investment product for stokvel members.

Sources said yesterday the National Stokvels Association of SA (Nasasa) and a major financial institution would probably clinch a deal next week.

Nasasa president Andrew Lukhele could not be reached yesterday to confirm this.

Negotiations between the financial institution and Nasasa began soon after it had become clear that Syfrets-administered unit trusts were not suitable for stokvel members, sources said.

But the sources insisted on keeping the name of the financial institution concerned under wraps for the time being.

Nasasa consultant and Tremsen Broker Services MD Stephen Japp recently said a number of companies in the US and Britain had signalled they would invest in a specially designed unit trust product for stokvel members, provided it yielded good returns and was "benefiting people on the ground".

The special unit trust product would be tailored to the needs of stokvel members.

Lukhele has said his organisation planned to alleviate the black housing crisis by diverting millions from banks to specially-designed unit trusts, which would serve as collateral for home loans.

The arrangement, Lukhele said, would allow black savings to be ploughed back into black communities rather than having the money lent to affluent whites.

He added that the recent De loor Commission report on housing vindicated Nasasa's belief that stokvels could play a role in addressing the black housing backlog.

The latest Markinor survey of informal financial sector indicates a 60% growth in money collected by stokvels in urban areas. In 1991, stokvels collected an estimated R83m a month compared with R52m in 1989.

It is also understood that stokvels are investing millions in club accounts of several major financial institutions.

Ferreira is named MD

5/DA1 12/8/92

(58)

HILARY GUSH

PRIMA BANK Holdings yesterday announced Clive Ferreira's appointment as new MD. Ferreira has been acting MD since founding MD Johan Belligan's death last month.

Ferreira, who has been with Prima since its inception in 1988, was formerly MD of Prima Property Trust Managers Ltd and executive director of Prima's corporate finance.

Speaking at a function last night Ferreira said he was determined to continue the legacy of entrepreneurship and innovation that had seen Prima post four years of consecutive growth.

"We have successfully positioned ourselves as an independent niche bank ... Our strong foundations and the entrepreneurial spirit built by Johan will continue to bear fruit."

Prima Bank consolidates, boosts its income by 27%

5/DA1 12/8/92

(58)

DUMA GQUBULE

INDEPENDENT merchant bank Prima Bank has reported a 27% increase in net income for the year to end-June, a performance new MD Clive Ferreira descibed as "one of consolidation" following the bank's involvement with the now liquidated Cape Investment Bank (CIB).

● FERREIRA

The bank had come out of this unhappy affair with no contingent or actual liabilities, a point which had been reiterated by the Reserve Bank, he said.

Net income increased to R3,8m (R3m), representing a 44% return on ordinary shareholders' funds.

Earnings a share advanced to 190c (150c) and a dividend of R200 000 (R150 000) or 10c a share (7,5c) was proposed.

Ferreira said the bank's short-term objective focused on strengthening an already healthy capital base: R3m preferential shares and R2m unsecured debentures had been issued during the year.

Ordinary shareholders' funds had increased by one half to R10,3m.

Keeping tabs on R1,2-billion

STAR 12/8/92

(58)

Controlling the costs on the R1,2 billion BankCity is a major challenge and there is no room for error.

Even a bank feels the pinch of finance charges on a large sum of money such as this. In addition, tenant charges are enormous.

First National Bank owns three of the four BankCity blocks and is meeting the construction costs out of its own resources. The fourth block is owned by Old Mutual and FNB will be a tenant.

Theo Swart, FNB chief manager, finance, is responsible for keeping tight control of the budget and yet ensuring the development meets the bank's high building standards and technology requirements

"Cost estimates are proving to be right on track," he says.

He believes the bank's accuracy in predicting the final cost has been due to the care it took in obtaining the right information and advice.

"The choice of the right consultants for the job was critical. Their forecasts have been spot on. Ove Arup, our time management and cost control consultants, have a sophisticated forecasting programme that allows for seasonal increases. For example, seasonal wage increases come through in December. We put through the tenders after these increases so we don't get landed with the added costs.

"The bank has worked closely with its auditors, Deloittes, and together we produced a very accurate escalation forecast."

The necessity of correct forecasting is highlighted when it is considered that when the BankCity project started, building costs were increasing by between 20 percent and 22 percent, and current increases are running at around 18 percent.

The decision to spend R1,2 billion is not one to take lightly and the bank took its projections across a 20-year period to determine the full effect on its balance sheet.

Says Mr Swart: "We went back to FNB's board of directors three times. The board required detailed feasibility studies before it felt comfortable with the decision to make this massive investment.

"All our studies and the progress to date show BankCity should have a positive impact on the Group's bottom line in the 1995/1996 financial year. This is when our last lease runs out and we will be moving the final division into BankCity.

"From 1996 onwards we will enjoy increasing profits from our investment."

The depressed state of the construction industry has helped keep costs down. There is some concern that, as construction will only be completed in 1995, costs could still spiral.

"However, we have built some flexibility into the programne and we will have to continue managing the project carefully," says Mr Swart.

He advises companies without experienced property development staff of their own to draw on the right kind of quality assistance. He says it is essential to find a good quantity surveyor, someone with whom the financial staff can work.

"The next consideration is that if the in-house project team is not able to supply time pro gramming and modelling skills, expertise must be acquired from outside."

Village Walk has teething problems

BIDAY 12/8/92 (58) (92)

Reports by PETER GALLI

THE R80m Village Walk retail centre in Sandton, Commercial Union's first retail investment, is not showing expected initial returns, although this is not unusual in the case of a new centre, says Commercial Union director Roger Schooling.

"While Village Walk is not doing as well as we might have liked, it is not performing any worse than most other new centres. They all have teething problems," Schooling said.

"Most centres lose a number of initial tenants and of the 14 000m² of retail space we have only 300m² vacant.

"Pick 'n Pay is the only major tenant, and present economic conditions are seeing some smaller shops struggling."

The leasing objective was not just to fill the centre but to create the right tenant mix, which includes a bank.

While an initial return of 9,5% has been targeted, only 6% is being achieved. This is mainly because of vacancies in the 6 500m² office component of the development.

"However, we expect to achieve a 9,5% return within the next year. While we are offering some concessions and new tenants are given a free settling-in period, we are not giving space away," Schooling says.

"Rentals of R22/m² plus R6,50/m² operating costs are being achieved, with annual escalations of 12% to 14% built in."

The development stretches from the Balalaika Protea Hotel in Maude Street to the Rebel building in Rivonia Road. The refurbished Balalaika is performing well and showing good occupancies. Its target is the business and conference market rather than the holiday market, he says.

Initial concern with the development was whether there was a market for another major retail development in the Rosebank/Hyde Park/Sandton triangle, with industry players saying the real test would be in 1992 after the festive season.

Certain market players still feel the centre is not performing as well as expected, but centre owners say it has continued to remain popular and will strengthen even further.

Commercial Union has a property portfolio of about R380m. This is 17% of its total investment portfolio.

The company took a strategic decision in mid-1991 not to hunt for for opportunities in the property field but to see what the market offered.

"Property will not be our greatest expansion area. As the bulk of our portfolio is located on the Reef, we are looking at acquisitions away from here, probably at the coast," Schooling says.

Traditionally, property investments outperform gilts but perform less well than equities. However, this has not happened in 1992 and shows the cyclical nature of the markets, he says.

Smaller enterprises increase market share

BIDA4 12/8/92

SMALLER businesses are apparently increasing their share of the building and construction markets as the recession continues to bite.

Property developers and owners are looking for the most cost effective and efficient means of developing their properties and in many cases the smaller company can offer as good a deal as the big one — and provide more personal service.

The R27m Alphen Square high-tech industrial development in Midrand is an example of this. A three-man operation, Devcon, was appointed developer and the construction was undertaken by recently-formed Tandem Construction.

The development was originally to be built by Langley Fox, but this was changed when Langley Fox Building Partnership was placed in provisional liquidation.

Devcon Properties, a newcomer to the scene, came up with all the required guarantees and met its obligations. It assumed the project management and administrative duties for the 7 000m² first-phase development, which offered office accommodation linked to warehouse and manufacturing space.

"One of the strengths of this development is that it can accommodate any needs for space from 245m² upwards. Once the first phase is 50% pre-let, work on the 7 000m² second phase will begin," says director John Greve.

The company had projects worth R45m on its books for the present year and had bought land which was being rezoned for development next year, he said.

(58) (5)

Tandem director Tom Donaldson said there were "lots of developers" in the market, but service was now becoming the issue. "The market is tight and we believe our edge is the high standards we maintain".

This meant using sub-contractors who were able to meet required standards and perform the work satisfactorily "the first time round".

The company was involved in a joint townhouse development in Glenvista and was considering cluster home projects for next year.

Institutions out to sideline developers

SOME major institutions are looking at property development opportunities and considering the prospects of doing the development themselves, says New Property Ventures (NPV) MD Chris Drummond.

Developers have traditionally identified opportunities and then sold the concept or development to the institutions.

"The fact that institutions have sometimes been ripped off in the past has seen them become increasingly disillusioned with the property development services market," Drummond said.

He said NPV had been formed because the market needed a different focus and approach to property development.

NPV — part of Sage Properties — was established last October to find market opportunities and to trade on these and not to feed unit trusts and Sage Life with investments, he said.

"Our brief is to become involved in entrepreneurial property development and trading, and to identify growth areas in the medium to long term."

58

He said many current transactions could be described as "musical chairs" rather than growth projects.

The development thrust in other countries was in "downtown regeneration". The local trend was to decentralise both business and residential accommodation, causing a population shift to outlying areas.

"This is not cost efficient as the infrastructure is all in place, and paid for, in the urban areas.

"We need to establish why people do not want to live in these areas, and then decide how they can be brought back.

"Opportunities for developers do not lie only in the CBD areas but also in those close by," Drummond said. This was the reason for NPV's acquisition of the former Chamber of Mines Sports Club site in Richmond, Johannesburg.

Rivalry 'leaves no place for comment'

ABSA has declined to comment on the recently announced decision by the National Association of Home Builders (NAHB) to support Comprehensive Property Services. Absa has acquired a 93% interest in rival computer property listing service, Multi Listing Service (MLS).

An Absa spokesman said the group had decided not to comment further about CPS because media coverage of the rivalry between the two services "was getting out of hand". BIDAY 12/8/92

NAHB executive director Daan Roelvert said his group and CPS had common goals, the most important of which was to assist both buyers and sellers to complete their property transactions in minimum time, and to save them money. 58

"The NAHB was formed 10 years ago and 22 housing and construction companies joined as founder members. Its aims are to improve the standard of professionalism of housing and construction companies."

COMPANIES

Low occupancies knock Hyprop

UNEXPECTEDLY high vacancies and a reduction in interest received saw property loan stock company Hyprop's turnover remain static at R12,1m in the six-months to end-June from R12,11m in the comparable period last year. BDAY 12/8/92

In spite of this, operating income improved to R8,5m from R8m due to increased cost control, but a 29% drop in interest received to R2,18m and an unchanged debenture interest payment of R10,07m resulted in pre-tax profit almost halving to R618 000 from R1,02m.

The total return a combined unit was unchanged at 32,95c. However, no tax was paid in the period under review compared with R488 000 previously, boosting taxed profits to R618 000 from R529 000.

"The company has performed well given present market conditions and, while there was renewed letting activity in the first quarter of the year, this has dropped following recent political developments," MD Peter Behrmann said yesterday.

Earnings would continue to be affected by reductions in cash holdings, interest rates and unexpected vacancies due to adverse economic conditions, he said.

PETER GALLI (58)

INSURING GROWTH

Six months to	Jun 30 '91	Dec 31 '91	Jun 30 '92
Attributable (Rm) ..	13,6	15,2	19,3
Earnings (c)	20,2	22,6	24,6
Dividends (c)	12,5	18,0	15,25

FEDSURE

Life's support

Fedsure's interim results show the advantage of having a strongly performing life company to provide steady income and a strong asset base as well as latitude to explore other opportunities in financial services. Benefits are apparent in Fedsure's maintaining the past eight years' average EPS growth of 22%, despite what might have been the retarding effect of nearly 8,1m 13,5% cumulative preference and 18m ordinary shares issued this year.

Life assurer Fedlife had a buoyant first half, pushing up gross premium income 55% to R600m, nearly 26 percentage points higher than in the same period last year. Group CE Arnold Basserabie says the improvement comes from a combination of factors, including the launch of new products, better service and a good investment performance.

The last, while increasing 15% to R248m, is however down on last year's 19% advance over the first-half, probably in line with the overall drop in the market and lower interest rates. Basserabie says investment strategy has shifted over the past six months from equities to the capital market. "We have become more exposed to the medium- and long-term fixed interest market, which should stand us in good stead."

Interests outside of life assurance are also starting to pay off for Fedsure. Last year's share-swap alliance with Investec, and the capital injection from the rights issue after the deal, brought in additional share capital of R222m, boosting net attributable income 42%. Fedsure's total assets have grown 35% to R6,1bn.

Basserabie says the group is exploring further opportunities with Investec, like offering the combined client base short- and long-term investments, joint computer development and rationalisation of the respective groups' unit trust administrations.

"We are also helping Investec to set up its own insurance brokerage division," he says.

Fedsure's other big associate, 34%-held Saambou, remains burdened with losses, though Basserabie maintains Fedsure is satisfied with the investment.

"We are getting operational benefits from Saambou. It has a 25% stake in our unit trust subsidiary and is marketing its products as well as other insurance products. This is one reason for our business having grown satisfactorily." Basserabie remains convinced Saambou's management can return the bank to profitability.

Fedgen, Fedlife's 70%-held short-term insurance subsidiary, returned to the black in the first-half with a profit of R3,3m, after making losses for the past few years Basserabie attributes this to premium increases, more effective cost control and better risk management.

At R7,90, the share price has stagnated over the six months. On a dividend yield of

continue — P

4,2, it still looks under-rated, compared with Southern's 3,3 and Liberty's 2,4, making it reasonable value in an expensive sector.

Shaun Harris

FM 14/8

CUSAF/SA EAGLE FM 14/8/92

Making it pay (58)

Interim results from Commercial Union of SA (Cusaf) and SA Eagle underscore the strong recovery many short-term insurers have been making since 1990, a year which cost the industry an estimated R250m in underwriting losses.

Both groups have turned their underwriting performances from losses to profits over the year: SA Eagle from the corresponding period's R9,6m deficit to a surplus of R964 000; Cusaf from a negative R3,6m to a profit of R10,9m.

For Cusaf the recovery came earlier, with the group showing a R5,3m surplus at year-end. SA Eagle still made a small underwriting loss of R831 000 at year-end and gave a cautious "maybe" when the *FM* suggested it would return to the black by the end of the current year. Its results have, therefore, beaten expectations by six months.

The anti-cyclical growth of short-term insurers is fortuitous and by design. Cusaf MD John Kinvig says the most important factor affecting the underwriting recovery has been the near absence of natural catastrophes over recent years.

But short-term insurers raised premium rates sharply last year, often by as much as 30%. It was with the risk of losing business but results now seem to show the increases are paying off. Similar increases are not likely over the next six months. SA Eagle chairman Fred Haslett notes competition remains keen, which should ensure rates don't get out of hand. Kinvig does not expect increases "in the immediate future."

That should mean, barring natural disasters, domestic premium increases will not exceed inflation for the rest of the year, bringing some relief to businesses and individuals who have little choice but to keep insurance cover due to the high level of crime.

ON THE REBOUND

SA Eagle Six months to	Jun '91	Dec '91	Jun '92
Underwrit prof (Rm)	(9,96)	9,12	0,96
Investment inc (Rm)	26,3	28,5	34,9
Attributable inc (Rm)	12,9	22,0	23,2
Earnings (c)	106,1	181,1	190,7
Dividends (c)	60	105	75
Cusaf			
Net prem inc (Rm)	395,1	318,0	433,8
Attributable inc (Rm)	17,0	31,9	30,5
Earnings (c)	169,6	318,8	304,9
Dividends (c)	42	100	50

SA Eagle shows strong growth in investment income, up 33%. Haslett says this comes from the group's improved cash flow and high interest rates, which has seen an adjustment in the investment portfolio from equities to higher yielding cash on call.

Both groups remain cautious about the next six months but, apart from serious hail storms or floods, there is no reason why Cusaf and SA Eagle, based on these results, should not remain on the track to recovery.

Cusaf has the added advantage of a strong life company, which pulled in R330,6m in total premium and investment income, as well as contributions from its trade finance company. Kinvig notes that all areas of business have contributed to the sound interim results.

After its strong climb last year, Cusaf's share price has settled at R38, which, on a yield of 3,7, is reasonable relative to the sector, making the price attractive on latest results. SA Eagle, at R36, looks even better value on its dividend yield of 4,6%, though, being only in the short-term business, it carries more risk.

Shaun Harris

BANKING FM 14/8/92

A cold shoulder (58)

Nine Nedcor group companies congratulated Syfrets Growth Fund on its fifth birthday through an advertisement in *Business Day* last week. Only Finansbank was missing.

Nedcor company secretary Willem Kruger said it was an oversight. Finansbank CE Isak Botha said: "I have no comment to make."

All this may, of course, be connected to speculation in the marketplace that Finansbank is to close its doors at the end of September. Nedcor CE Chris Liebenberg was not available to comment on this. Botha again had "no comment to make."

In the 1991 financial year Finansbank "produced a net income of R14m, which is down on last year." This lends strength to stories that Finansbank is to be restructured.

Nedcor executive director Leon Porter says the group made it clear in 1991 that it intended to look closely at its financial services division, which includes UAL, Syfrets, Cape of Good Hope Bank and Finansbank. The study has been completed and there will be some restructuring, details of which will be announced later. But Porter says: "It's untrue that Finansbank will close its doors. Its brand name and operations will be retained in the new organisation." ■

Two banks set to drop bond rates

58

DEREK TOMMEY

STAR 15/8/92

GOOD news for home loan borrowers is that both Standard Bank and First National Bank announced yesterday that they will reduce the rate of interest on their mortgage bonds by 0,75 percent, from 18 percent to 17,25 percent, from September 1.

Other banks have not yet announced a reduction in their mortgage rates.

However, they are expected to follow suit — or else run the risk of losing market share in what is about the only growth area for bank lending at the moment.

The reduction will lower the repayments of a borrower with a R100 000 bond by about R750 a year or about R62,50 a month.

Standard Bank senior general manager Dennis Matfield said it was hoped the cut would ease the pressure on home owners as well as help re-stimulate the housing market and the property industry as a whole.

Lose out

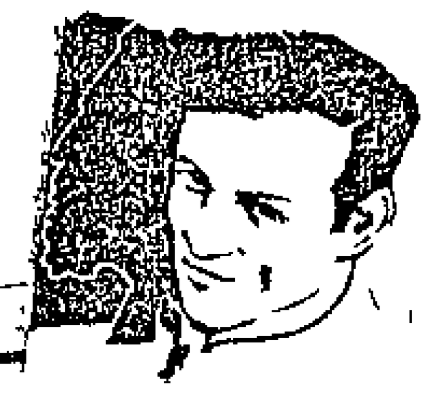
South Africans owe about R60 billion on house mortgages. This means that a 0,75 percent reduction in the mortgage rate will save them about R450 million a year, or about R38 million a month.

On the other hand, savers will lose out as the rate of interest they receive on their deposits is also likely to be reduced.

But there are far fewer savers than buyers of homes, which means that more people will gain than lose by the rate cut, and the overall effect should be to inject a large sum of money into the economy.

This could help to give the retail trade the boost it so sorely needs and possibly help stimulate the depressed manufacturing sector as well.

yesterday said the ANC na-



Bond rate battle hots up

58

STAR 17/8/92

Home-owners were given further relief at the weekend with the announcement of a 0,75 percent drop in its bond rate by Standard Bank, a move followed so far by First National Bank, Nedbank and the Perm.

Other banks are expected to follow, with the third cut this year bringing most rates down to 17,25 percent from September 1.

The reduction in monthly repayments for home-owners is a further R85 a month in respect of a 20-year loan of R150 000.

This brings the total reduction this year on loans of that amount to R319 a month. — Staff Reporter.

'Millions will flee to PWV area'

Bank warns of drought's huge exodus

B/DAY 17/8/92.

RAY HARTLEY

DROUGHT in the northern Transvaal could force between 1-million and 3-million people to move to the PWV area this year, according to the Development Bank of SA (DBSA).

The homelands of Gazankulu, Lebowa and Venda are already under pressure from jobless labourers and from thousands of refugees pouring in from drought-ravaged Mozambique.

Farmers with no crops to harvest are dismissing workers. Most farmers are seeking alternative income and many have already put their farms up for sale.

DBSA senior project leader Hannes Sauermann said 1,2-million people from the far northern Transvaal were expected to move to the PWV this winter.

Between 2,5-million and 3-million people could desert the homelands for the PWV if no rain fell there by November this year, leading to serious overcrowding in the urban areas and the mushrooming of squatter camps, he said.

More than a third of the workforce on farms in the far Northern Transvaal — about 70 000 people — have been dismissed and sent to nearby homelands as a result of the drought.

About 200 000 refugees have fled drought-devastated Mozambique and poured into Gazankulu, Lebowa and Venda in search of food and water, saidSauermann.

The area, the Development Bank's region G, could be categorised as a major disaster area, rural development experts said at the weekend.

A confidential report by a development agency working in the area said 90% of farmers surveyed had reported harvests of 5% or less.

About 10% of farmers had left the area and 80% were making a living by alternative means.

The 270 000 jobless people are putting great pressure on the Venda, Gazankulu and Lebowa homelands, which have already been declared drought disaster areas.

Crop failure and the sudden population shifts have brought widespread malnutrition to the homelands.

Rural Foundation northern Transvaal regional manager Santa Bossert said farmers had been left with no choice but to fire all seasonal and part-time workers, as well as many permanent employees, following a disastrous fruit farming season.

Most of the remaining farm workers were working half-days, she said.

The development agency report said: "The last eight dry years have placed farmers in a position from which they cannot recover.

"The northern Transvaal's total development initiative has come to a halt as a result of the drought and its economic consequences," the report said.

"All existing development projects have come to a halt and will take at least two

☐ To Page 2

Drought

B/DAY 17/8/92.

years to restart if the economy recovers."

An expected maize harvest of 2-million tons had only yielded 252 000 tons while only 10 000 tons of an expected 65 000-ton wheat harvest had materialised

Fruit orchards were dying and could take up to seven years to revive. They were being maintained by substantially reduced staff who were working half-days in many cases, Bossert said

"There's no natural water whatsoever and farmers have only had a 3% success rate in drilling for fresh water," she said.

She added that she knew of some farmers who had spent as much as R80 000 in the search for new water sources.

Visiting British engineer Ian Johnson described the situation in some areas of Venda as worse than Iraq and Somalia, where he had worked on drought relief programmes.

Johnson is a field worker for the British relief agency Registered Engineers for Disaster Relief (Red R) which has sent four volunteers to assist with emergency water provision.

At least 300 villages in the affected homelands are now totally dependent on water tankers for water, according to official homeland drought committee reports to the Development Bank.

The homeland reports also said:

☐ Almost 100% of the dry-land crops plant-

☐ From Page 1

ed in Venda and Gazankulu this season had failed;

☐ A quarter of the total population in Venda was destitute and depended on food begged from friends and neighbours;

☐ Eleven percent of the children under the age of five in Venda were malnourished;

☐ Some 90 000 cattle — three quarters of the total for the area — were expected to die in Venda due to the drought, while those that did survive would not be fit for commercial sale;

☐ Nutritional diseases had increased by 337% in Gazankulu since June 1991.

The DBSA was taking several steps in an effort to minimise the damage caused by the disaster, including feeding schemes and speeding up the implementation of several drought relief projects, Sauermann said.

An emergency pipeline to the Vondo dam which supplies large areas of Venda was being built and soft loans were being given to homeland governments for the recruitment of technical expertise needed to deal with the drought, he said.

A joint financial adjustment committee was looking into the total budget of the homelands with a view to shifting funds into emergency drought relief. Consultants were being employed to develop strategies to cope with the drought, he said.

Bank puts damper on rate cut hopes

BDAY 17/8/92 (58)

HILARY GUSH

RENEWED rumours of a drop in official interest rates following home loan cuts by the major commercial banks on Friday have been scotched by the Reserve Bank.

Standard Bank was the first to fire in the latest bond war, dropping their mortgage rate by three-quarters of a percentage point from 18% to 17,25% effective September 1. First National Bank, Nedbank and Perm were quick to match the move.

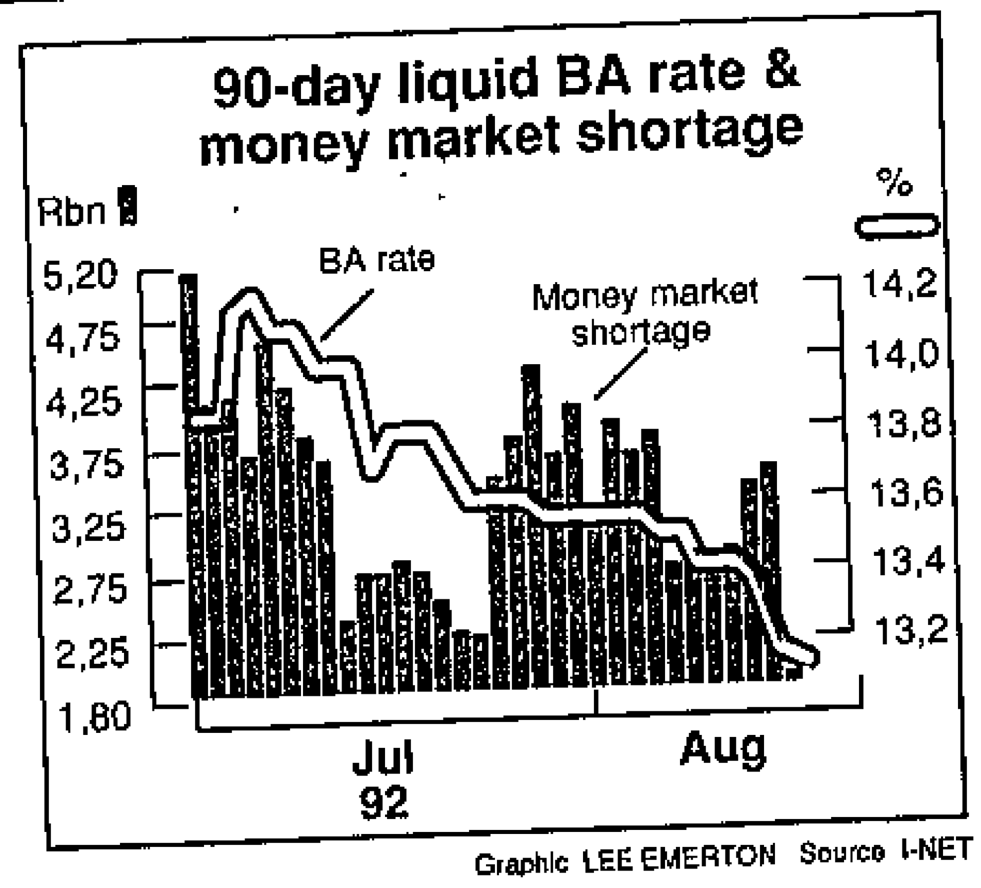
The cut fuelled already rampant rumours of an imminent drop in the Bank rate which has stood at 15% since the last one-point reduction at the end of June.

Reserve Bank deputy governor Chris de Swardt said, however, that the bank was not considering a Bank rate cut.

Nedbank divisional director Mike Leeming said a drop in mortgage rates had previously led to a drop in the Bank rate. "In all probability this will recur."

He added: "we have decided to drop the bond rate to remain competitive in the market place."

FNB Banking GM Bob Wood said the cut was made in view of an easing money market. Current home loan demand was poor and affordability was "slipping away". He expected a positive market response to the move.



Graphic LEE EMERTON Source I-NET

Bond rate cuts by Absa, Saambou

(58)

HILARY GUSH

ABSA and Saambou yesterday matched last week's move by major commercial banks by announcing a 0,75 percentage point cut in mortgage bond rates to 17,25%.

And on the back of sharp increases in market liquidity, money market rates continued to soften. BDAY 18/8/92.

Unlike the other banks, whose cut is effective on September 1, Absa's rate drop for new clients takes effect immediately, although existing clients will enjoy lower costs only from September 1.

According to DI 900 returns — which outline each bank's total receivables — Absa holds the largest share in the home loans market, with 49% of total mortgage advances. Nedcor, Standard and First National Bank hold 24%, 15% and 11% of the market respectively.

□ To Page 2

Absa

BDAY 18/8/92.

(58)

□ From Page 1

Anderson Wilson banking analyst Doug Ellish said with Absa's total mortgage advances of about R29bn, the bond rate cut would cost the group an approximate annualised R220m in lost revenues from interest earned.

He cautioned, however, this was a simplistic calculation which assumed that funding costs were not adjusted.

Comparable costs of the rate cut to the three other banks straddled R60m.

Edey Rogers banking analyst David Southey said in order to maintain its market share, Absa had been under pressure to equal the mortgage rate cuts. He said the banking group was substantially less dependent on home lending as a form of revenue than it had once been.

Before Absa's acquisition of Volkskas and Bankorp, 80% of United Building Society's total lending book had been in home loans. Following the merger, the lending portfolio had been diversified and housing bonds currently accounted for about one third of Absa's total lending book, he said.

Absa deputy CE Danie Cronje said: "The formation of Absa has cut our costs and has given us the leverage of an asset base of some R89bn.

"We are now starting to pass these benefits on to clients by way of more affordable banking and we expect to maintain our cost leadership in the marketplace."

He added that home loans clients would qualify for a further 0,25 percentage point bond rate reduction if they made use of a cheque account and two other banking services in addition to the bond.

Absa would also pay the transfer costs incurred by new clients transferring their bonds from any other financial institution to Volkskas, United, TrustBank or the Allied.

Money market rates continued their downward drift yesterday following large government stock maturities on Saturday, which saw the shortage dip sharply.

The shortage — the total accommodation granted by the Reserve Bank to commercial banks and discount houses — almost halved on Saturday to R1,81bn from Friday's R3,48bn.

The 90-day liquid BA rate fell to trade in a range of 13,10% to 13,15% from a 13,15% to 13,30% band late last week. The rate on one-year NCDs was also down to about 11,95% from Friday's 12,05%.

Dealers expected rates to soften further today as banks took advantage of current market liquidity and revised call and fixed deposit rates downwards.

Traders said the recent drop in home loan rates by major commercial banks had added to the downward pressure on money market rates.

7 years of growth

HILARY GUSH (58)

HIGH interest rates, a stagnating economy and political unrest did not prevent Securities Discount House (Sechold) from increasing earnings for the seventh successive year, outgoing chairman Jack Kearney said in his annual report. BDAY 18/8/92

Kearney said analysis of the group's four deposit-taking institutions reflected an overall improvement in profits.

Group MD Arthur Kelly said Sechold continued to research and investigate foreign investment opportunities.

The group reported a 21,3% growth in earnings a share in the year to June. Attributable income rose 21,5%, to R17,4m from R14,4m during the period.

Investec chief slams controls

(58)

ANDREW KRUMM

RECENT research shows that countries with an independent central bank have a lower and more stable inflation rate, says Investec Holdings chairman Ian Kantor in his chairman's review for the year ended March 1992.

B\DAY 19\8\92.

"Furthermore, central bank credit to government and government budget deficits are lower."

Kantor said as politics followed economics, economics was the single most important issue which would determine the future of SA.

He noted that exchange controls were inefficient and distorted capital allocation which was harmful to the country's economy.

Capital was becoming increasingly relevant. This was because of stepped-up requirements of authorities worldwide — including SA — as well as changes in the country in terms of financial conglomeration and concentration of capital.

"Investec cannot ignore this while itself becoming of a size where capital, volume and cost control become key themes in areas of the bank."

Kantor said although capital growth was increasing in importance, Investec's objective was to emphasise earnings per share rather than size.

However, "as the majority of shares in the Investec group are held by Investec Bank management and staff — together with Fedsure — the appropriateness of diluting their interest will continue to be very carefully assessed," he said.

Old Mutual sets income record

BDAY 19/8/92 (58)

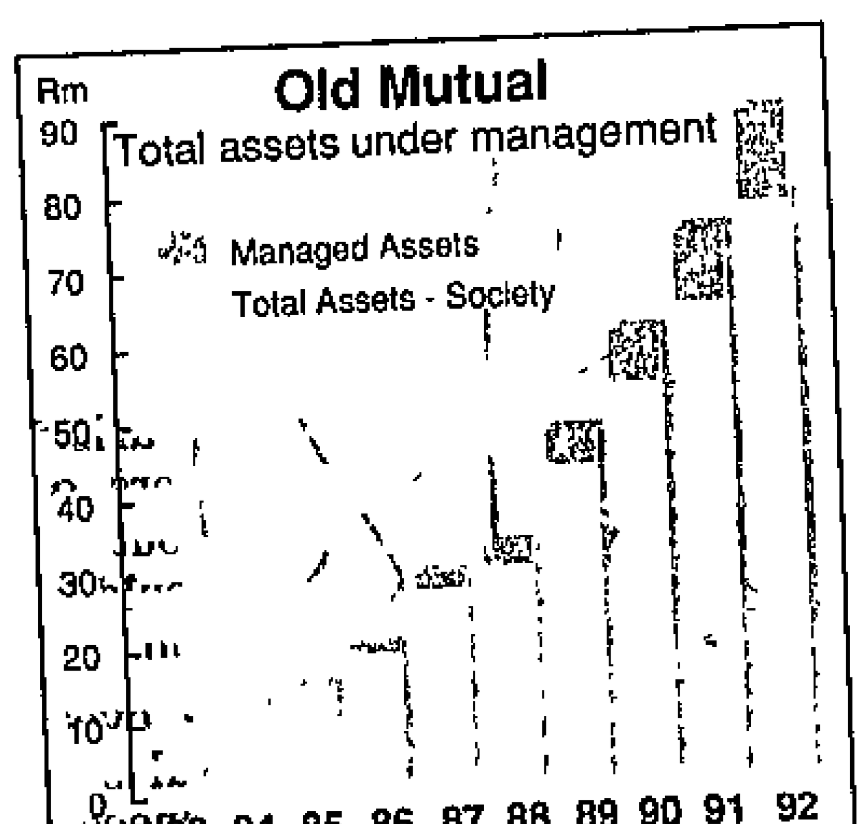
DUMA GQUBULE

OLD Mutual has reported a 22,6% increase in total income (investment and premium income) to R14,9bn for the year to end-June.

Total managed assets grew by 21% to R87,3bn, making Old Mutual the world's 38th largest assurer and the sixth largest outside the US, the UK and Japan.

Chairman Mike Levett said assets represented, on average, more than R2 300 for every South African.

Investment income advanced 14% to R4,6bn (R4,1bn). But a highlight of the past year had been a 27% increase in premium income to more than R10bn — a new record for the industry, Levett said.



Graphic: RUBY-GAY MARTIN Source: OLD MUTUAL

He said the achievement had been driven by a 54% increase in single premium business to R3,7bn, which reflected the assurer's ability to produce excellent long-term investment performance.

Individual premium business showed a 20% growth to R6,1bn. Group premium business rose 40% to R4,1bn (from nearly R3bn) due to a 130% increase in single premiums.

Old Mutual paid out nearly R7bn in benefits, a sharp increase over the previous year's R4,5bn. Operating expenses were up 15% to R1,5bn (R1,3bn) and R6,3bn was transferred to policyholders' reserves.

Of the assurer's investments of R72,2bn, 60% (R43bn) was in equities. Short term investments fell sharply to R1,8bn (R5,7bn) due to falling interest rates as the investment profile changed to favour Government and parastatal stocks, which increased to R16,2bn from R11bn.

Liberty celebrates as earnings leap

BDAY 20/8/92 (58)

DUMA GQUBULE

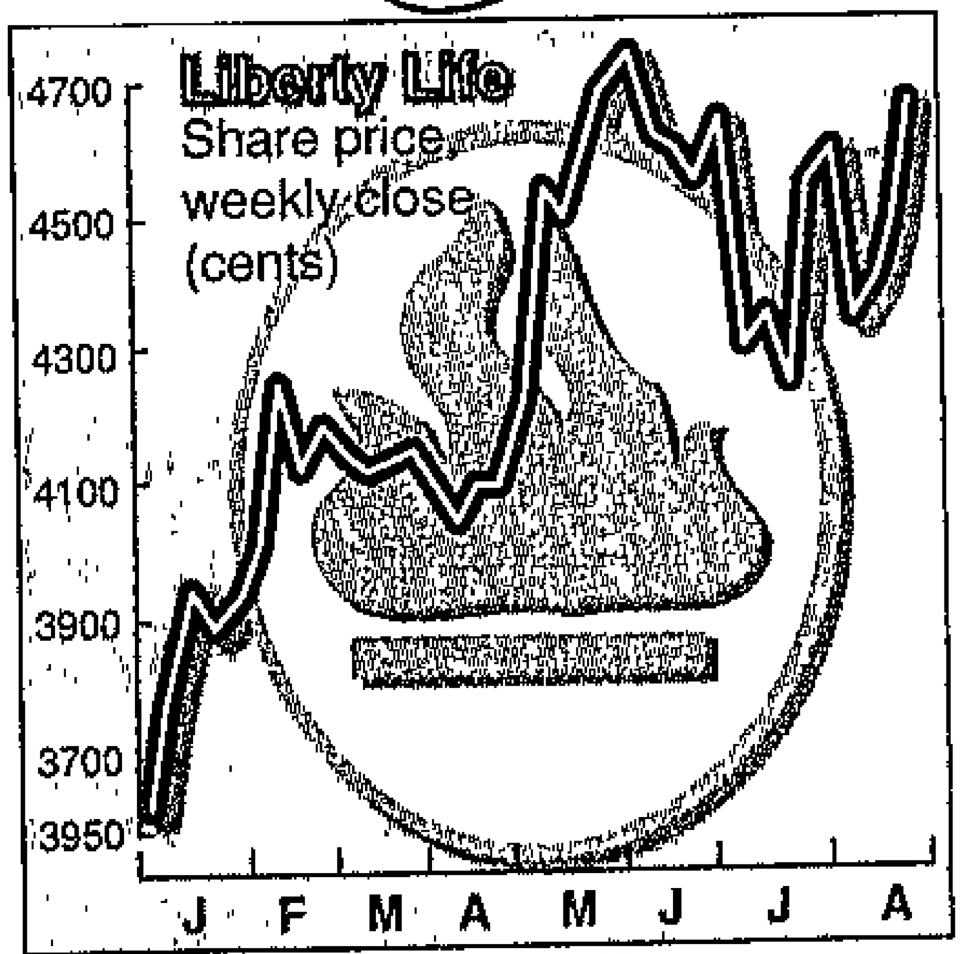
INSURANCE giant Liberty Life, which today reports a 32% increase in attributable earnings to R144m for the half year to June, is to give shareholders an extra R228m special dividend to mark its 35th anniversary.

Earnings a share, diluted by a larger capital base, advanced 24% to 63,5c (51,1c). The interim dividend increased by a similar amount to 54c (43c) a share, and the special dividend was 100c a share.

Chairman Donny Gordon said yesterday the results, achieved despite the devastating recession, had been exceptional and reflected the traditional return to quality by consumers in difficult times.

He said the momentum that had taken Liberty Life from a tiny company 35 years ago to the highest capitalised life assurer in the Western world, was continuing. Earnings and dividends a share for the full year were expected to continue to show a satisfactory increase despite the special dividend payout.

When the last special dividend was paid a decade ago, Liberty's total assets were less than R2bn and shareholders' equity was about R200m. The asset base had now increased to R36,4bn and shareholders' equity to R5bn.



Graphic RUBY-GAY MARTIN Source I-NET

During the six-month period Liberty's annualised new business premiums rose 37% to R278m (R203m), reflecting the success of a new Medical Lifestyle product

☐ To Page 2

Liberty BDAY 20/8/92

(58) ☐ From Page 1

launched in the second half of 1991. Single premiums and annuity considerations advanced 25% to R427,5m from R343m.

Gordon said the flow of new life and pension business this year had substantially exceeded any previous achievement, while demand for investment services had reached unprecedented levels.

The new business success had also been facilitated by the excellent performance of the group's investment portfolios.

Holding company Liberty Holdings reported a 34% increase in attributable earnings to R97,8m (R73,2m), which translated into 214c (161c) a share. The interim dividend came to 142c (110c).

Shareholders also receive a special dividend based on the company's 55% holding in Liberty Life, equivalent to 263c a share, which is being augmented to a total of 300c a share. Total assets increased slightly to R36,9bn from R34,8bn at the 1991 year-end

Protea posts strong return to profit

BDAY 19/8/92 (58)

LINDA ENSOR

CAPE TOWN — Protea Assurance made a strong return to profitability in the six months to end-June, posting an attributable income of R12m compared with the loss of R8,7m in the same period last year.

An interim dividend of 25c has been declared on earnings of 154c (nil loss) a share.

An improved underwriting performance, which reached a profit of R992 000 from a loss of R18m, was the main reason for the turnaround, although there were also increased contributions from life profits and investment income.

The improvement in underwriting was due to a decision taken 18 months ago to eliminate the unprofitable business from the portfolio, which also, however, meant that there was a slowdown in the growth of net premium income.

Net premiums slid to R141,4m (R144,3m) but investment income rose to R13,3m (R11,4m). Income from the life division increased to R430 000 (R375 000).

MD Andrew Tainton said the turnaround began in the second half of 1991 when the interim loss of R8,73m was reduced to R944 000 on the back of improved underwriting.

Protea has increased its reserves to R285,9m (R241m) and its insurance funds to R187,3m (R174,4m). The life fund increased to R288,5m (R233,4m). Tainton said the growth in the market value of Protea's investments strengthened its asset base, with the result that the solvency margin improved to 101,3% from the end-December figure of 90,4%.

He expected business conditions to remain difficult, with competition set to intensify.

The going gets tougher for life assurers

B DAY 20/8/92 (58)

LINDA ENSOR

CAPE TOWN — Life assurers were finding it increasingly difficult to find people with sufficient disposable incomes to buy their products in these difficult economic times, Southern Life chairman Neal Chapman said at the life office's AGM yesterday.

The battle in the marketplace had not been eased by the unrest and the relative collapse in share prices had not been good for investment performance either.

But he said there was no need for him to alter his statement in the annual report that shareholders could expect an increase in earnings this year.

"I cannot see how this country can get back to good and successful business until we are back on track in terms of the constitutional and political battle," he said.

He hoped the mass action had cleared the path for discussion and negotiation.

Chapman said Southern Life was well capitalised and in a financially strong enough position to weather the present political turmoil. Surprisingly, lapse and surrender rates had remained within tolerable limits.

SA Shareholders' Association chairman Issy Goldberg questioned Chapman about his view on the call by Old Mutual chairman Mike Levett this week for the rand to be devalued.

Chapman said that the disparity between the SA inflation rate and that of its major trading partners meant that the rand would have to depreciate in value over time.

It was no longer a case of the Minister of Finance actively embarking on a process of devaluation. Until SA's inflation rate was addressed, the rand would continue to devalue.

Goldberg called on life assurers to do more about investing in social projects such as housing and job creation.

He said if life assurers invested 5% of their annual cash flow, this would generate about R2bn in funds for investment. Government could provide a guarantee of a return of 6%, which was the current return on investments at present.

Liberty Life riding high

STAR 20/8/92

By Stephen Cranston

58

Liberty Life has the highest capital base of any insurer in the Western world, claims chairman Donald Gordon.

Commenting on the group's interim results for the six months to June, Mr Gordon says there has been a combined growth rate of more than 40 percent over the last ten years in assets and shareholders' reserves.

Shareholders' interest in Liberty Life increased to R4,98 billion and total assets to R36,4 billion.

When the interests of minority shareholders are included, shareholders' funds increase to R8,99 billion.

The net taxed surplus increased by 32,1 percent to R144,7 million, and the net taxed surplus per share by 24,3 percent to 63,5c.

Liberty Life has raised its interim dividend by 25,6 percent to 54c.

New annualised premiums rose by 36,8 percent to R278,2 million, largely reflecting the success of the Medical Lifestyle product launched in 1991.

Single premium and annuity considerations increased by 24,6 percent to R427,5 million.

Mr Gordon says policyholders enjoyed R2,87 billion in 1991 from income and capital appreciation applicable to linked policyholders — 2,6 times the 1990 level. He predicts equal success this year.

Liberty Life has declared a special dividend of 100c to celebrate its 35th anniversary. Its holding company Liberty Holdings has declared a 300c special dividend.

Mr Gordon says the market capitalisation of Liberty Life exceeds R10 billion, making it the fifth-largest listed group by market capitalisation after Anglo/De Beers, Rembrandt/Richemont, SA Breweries and Gencor.

The wider Liberty Life/Standard Bank group now has a combined market capitalisation of R17 billion.

The demand for investment services from pension fund trustees at Liberty Life and Liberty Asset Management has reached the level where R9,5 billion is managed by Libam, apart from the investments of Liberty Life itself.

Liberty Holdings' attributable profit rose by 33,6 percent to R97,8 million and its earnings per share by 33,2 percent to 214,1c. The dividend per share is up 29,1 percent to 142c.

Bond boycott hinges on meeting

STAR 20/8/92

By Kaizer Nyatsumba
Political Reporter

The South African National Civic Organisation's proposed bond boycott will start at the end of this month if the organisation's demands are not met at a meeting to be held today, according to Sanco president Moses Mayekiso.

The meeting — to be attended by Sanco, the Government and financial institutions — will discuss the organisation's demands for a national housing policy — which includes the reduction of interest rates on housing loans, easier home loans, and reduced purchase prices and land costs. 58

Manpower, Local Government and National Housing Minister Leon Wessels's office yesterday confirmed that the minister would be meeting Sanco today.

Mr Mayekiso said that if Sanco's demands were not met, the proposed boycott would begin at the end of August as scheduled.

He said Sanco also demanded a statement in support of peace and democracy from the financial institutions.

These institutions were also expected to pressure the Government to accede to the 14 demands put forward by the ANC before negotiations could resume.

ANC president Nelson Mandela has opposed the proposed boycott, saying it would lead to financial institutions refusing home loans to blacks.

Rightwinger on day 61 of fast 'satisfactory'

By Philip Zoio

Orde Boerevolk (OB) chief of staff Leonard

OB leader Nic Strydom said Mr Veenendaal, who has been under police guard at Pre-

to fast until death unless Justice Minister Kobie Coetsee blocked his extradition to Namibia.

relating to an attack on a UN base in 1989.

● Diepkloof prisoner Stephan van den Berg, who

Forum to lobby for variable VAT rates

(SAO) (56) (58) B ID A9 20/8/92.

LINDA ENSOR

CAPE TOWN — The Food Logistics Forum is to lobby for a differentiated scale of rates for VAT on different goods, Pick 'n Pay chairman Raymond Ackerman said yesterday.

A forum delegation is to present its proposals to Finance Minister Derek Keys in about 10 days.

Ackerman said the forum — which met last week — wanted all food to be zero rated, or alternatively wanted basic foodstuffs to be zero rated and other food rated at 5%.

Basic items such as clothing should be rated at 10% and luxury goods at 20%. He said this would reduce food price inflation to 10%.

Calculations on the effect of these proposals on total VAT revenue were being undertaken. However, Ackerman conceded that in the past government had opposed the idea of differentiated rates as this would make it easier to avoid paying VAT.

He also disclosed that Central Statistical Service (CSS) head Treurnicht du Toit had agreed to publish two rates of food inflation in future — one for the chain stores and one for smaller retailers.

He said independent consultant Louis Heyl had calculated that the food inflation rate at the chain stores, which sold about 55% of all food in SA, was 15,6% plus 6% for VAT which gave a rate of 21,6%.

This compared with the CSS rate of 28,5% for food inflation which Ackerman said meant that the smaller outlets were charging excessive markups of as high as 100%.

He said a differentiation of food inflation rates would open the way for joint ventures between the chain stores and the smaller retailers with the aim of bringing down food prices. Ackerman said the larger chains could take a minority stake in the smaller outlets.

Comment: Page 8

BAs set to be stripped of liquid asset status

BIDAY 20/8/92 HILARY GUSH (58)

COMMERCIAL paper is set to become a true short-term funding instrument if the recommendation that the BA loses its liquid asset status becomes a reality, says the Association of Corporate Treasurers of SA (ACTSA).

ACTSA has shown support for Reserve Bank discussion documents released in June which proposed that bankers' acceptances (BAs), self-liquidating bills and promissory notes should no longer qualify as liquid assets.

The Bank suggested liquid assets should consist "of a buffer stock of high quality, truly liquid assets at a level amounting to 12% (from a current 20%) of adjusted short-term liabilities".

ACTSA technical committee chairman Tom Makinson said that BAs would probably lose their liquid asset status within a year.

There would have to be a replacement benchmark instrument by which other derivative instruments in the money market could be measured. He suggested a new form of bankers acceptances, commercial paper carrying a bank endorsement, or an interbank offer rate — a local equivalent of Libor (London interbank offered rate).

"The sudden removal of banks as investors in and marketers of BAs would cause disruption. There would be a need for proper notice and if possible a phased change over. However, the market would quickly re-establish its own level, with little impact on the rates," he said.

He expected some banks, comfortable with the market's structure, to resist the proposed change.

A spokesman for one of the major commercial banks, however, welcomed the move, saying there had long been controversy over the definition of liquid and non-liquid assets.

A spokesman for another large bank expected Treasury and Land Bank bills to become the most popular liquid assets. Indicative of increased demand, rates on these instruments were already falling, with the average rate on Friday's weekly three-month TB down 44 points to 12,77% from 13,21%.

mium business better reflects the growth of a life office.

Chief operating officer Gerhard van Niekerk says that, for 10 years, real growth in assets has exceeded inflation by more than 11% annually. Expense ratios have been kept lean, with clerical staff numbers remaining virtually constant during the year.

He adds that there has been a major shift out of long-term investments, towards those Old Mutual expects to hold for four to seven years. Of the dip in JSE prices, he notes: "It gives us the opportunity to buy value."

Levett says Old Mutual paid out R6,8bn in policyholder benefits. "Most satisfying was that the largest portion of these benefits was paid to members during their lifetimes."

Old Mutual's interests outside SA had a difficult year. Levett says UK-based Providence Capitol maintained its position in a difficult life market where prospects are influenced by the UK housing market, which is depressed. The Kenyan office is still awaiting the official go-ahead to write new business and the Zimbabwean operation is dealing in a currency which has depreciated 40% in a year. ■

GDP FM 21/8/92

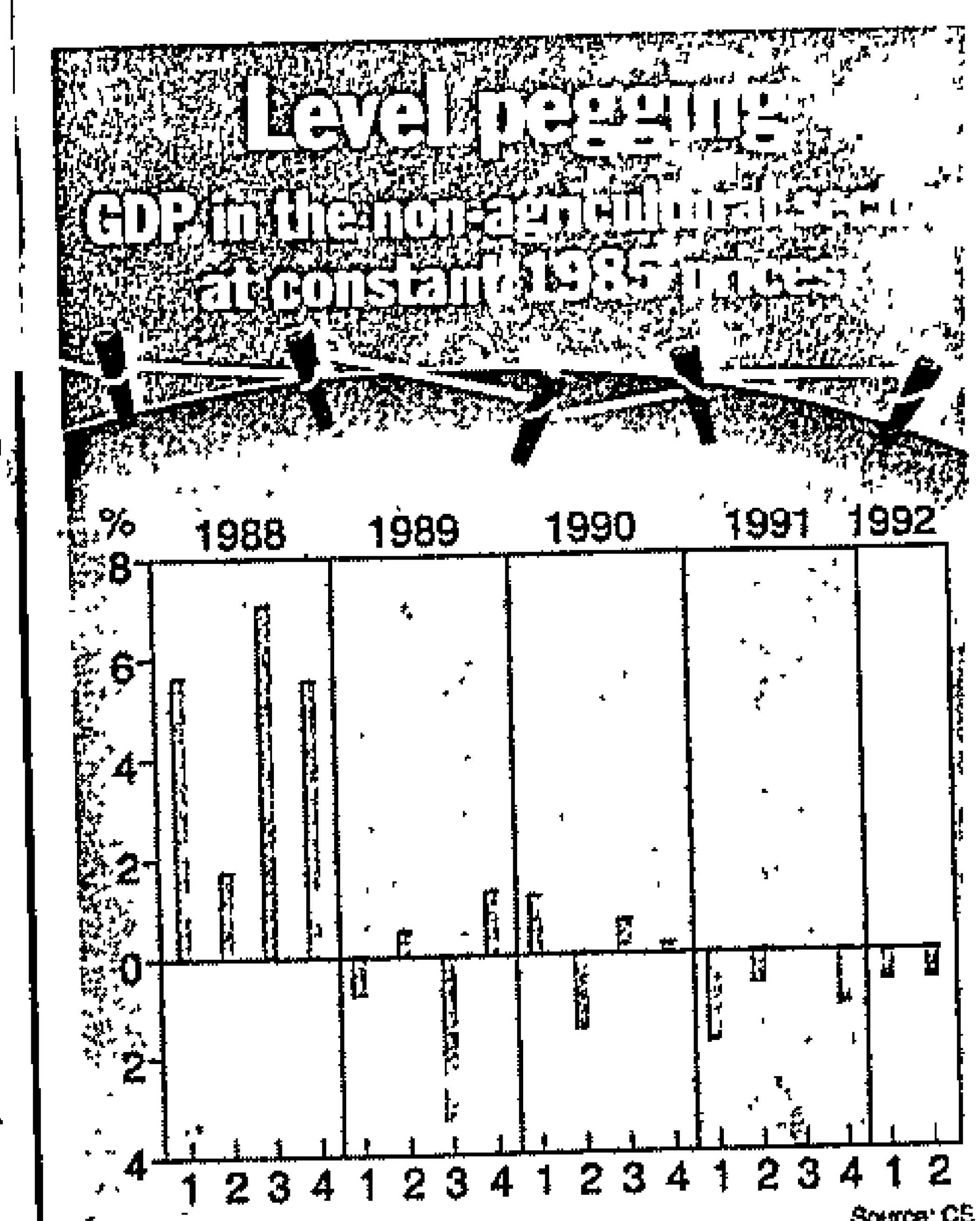
Matching the metaphor

Second-quarter GDP figures, released by Central Statistical Service (CSS), show a further sharp decline in economic activity of 2,6%. This follows a fall of 2% (revised from -1,9%) in the first quarter. These are seasonally adjusted and annualised figures, as are all other quarterly changes referred to below.

The most important factor was a drought-induced decline in agricultural output of 28% (-17% in the first quarter) — which was in line with expectations considering the poor

performance in the maize crop. Maize output for the 1992 season is estimated at 2,9 Mt, according to the Department of Agriculture, compared with 7,8 Mt last year. "Given the early harvesting of the crop (all of it by June) this year," says SA Agricultural Union economist Johan Pienaar, "much of this decline is still to be reflected in third-quarter figures."

If agriculture is stripped from the official statistics, the GDP decline in the second quarter is only 0,7% (as in quarter one).



continue →

While most economic activity depends on the economic cycle, agricultural GDP is influenced largely by weather patterns. So the big drop in overall GDP does not indicate we are about to tumble over an economic precipice. A comparison of quarterly growth figures (see graph on p37) in the nonagricultural sector shows a more accurate metaphor would be bumping along the bottom of an economic trough. Normal rainfall in the coming summer will mean a substantial improvement in GDP — though the full effects will not be felt until the second quarter of next year.

After publication of CSS's latest figures, Old Mutual chief economist Dave Mohr is forecasting economic shrinkage of 1%-1,5% for the year. The more favourable outcome will depend on a return of normal rainfall which would allow for some production in the wheat-growing areas of the Free State. Nedcor's economic unit points out the unexpected rise in GDP, of 0,5%, in the third quarter of last year, came on the back of a 6,2% rise in value added in the agricultural sector that quarter.

A sectoral breakdown for the second quarter shows:

- ☐ Mining & quarrying 1,3% (1,7% in quarter one);
- ☐ Manufacturing -1,8% (-2,5%);
- ☐ Electricity -1,9% (1,2%);
- ☐ Construction -9% (-8,2%);
- ☐ Trade & catering -2,3% (-2,7%);
- ☐ Transport & communications 1% (1,1%);
- ☐ Finance & real estate 0,6% (0,6%); and
- ☐ General government 0,3% (0,5%).

The growth in mining is "largely the result of greater efficiency in the sector at a time when commodity prices continue to be depressed by poor economic growth in the industrialised world," says Chamber of Mines senior economist Francois Viruly. On gold mines, for instance, working costs rose only 1,6% in nominal terms in 1991 and he believes that mines are continuing to "contain working costs and increase productivity." ■

Old Mutual juggernaut rolls on

(58)

PREMIUM income — the amount of new money attracted and an key indicator of peformance in the insurance business — of South African assurance giant Old Mutual rose this week by 27 percent to more than R10-billion for the year ended June.

OM increased assets under

W|Mail 21|8-27|8|92

·AROMETER

(58)

administration by 20,5 percent to R87,3-billion. Single premium investment income — lump sum investments as opposed to regular monthly premiums — rose 54 percent.

Total income during the year — premium and investment income — rose to R14,8-billion, 22,6 percent higher than the previous year.

During the year Old Mutual paid out more than R27-million every working day or R6,8-billion for the year in benefits to policy holders — 51 percent more than the previous year. W|Mail 21|8-27|8|92

OM has around 2,5 million individual policy holders.

REINSURANCE FM 21/8/92

Charting flows

(58)

Latest reinsurance figures suggest the outflow of funds to overseas markets, a cause for concern in the late Eighties, has been curbed. The outflow led to the Melamet Commission in 1989 looking at the flow of premiums and the competitive roles of local and foreign reinsurers.

Melamet calculated that on 1987/1988 figures, R1 065m was routed each year to overseas insurers and reinsurers. That represented 18,8% of the gross premium income of SA's nonlife insurers. A further R240m left the country to reach captive insurers registered overseas and for direct placements in foreign markets.

MIB technical services director Rod Pearson says analysis of the recently released 1990 figures shows that, while R1 305m was sent abroad in that year, this was only 15,9% of gross premiums.

"Notably, direct insurers are now reinsuring less overseas, only 7,2% compared with the 10,3% reported by Melamet. That means they either hold more for their own account or are making more use of the capacity in the local reinsurance market."

Also, the six SA reinsurers are retaining more within the local professional market: the proportion of premiums sent abroad fell from 50% to 45%.

FM 21/8/92 (58)

Pearson says: "Before the report, there was some concern about reinsurance premiums feeding overseas parent companies. At 7,2% of gross premiums, this can no longer be of such concern." Total premiums received in the industry in 1990 were R8,194bn. This year's figure, including reinsurance, will approach R10bn. ■

INVESTEC FM 21/8/92

In a profitable niche (58)

Activities: *Financial services, including merchant banking, portfolio management, property trading and management.*
Control: *Invhold 75,7%.*
Chairman: *B Kardol; MD: S Koseff.*
Capital structure: *27,4m ords. Market capitalisation: R450m.*
Share market: *Price: 2 250c. Yields: 3,1% on dividend; 6,5% on earnings; p:e ratio, 14,8; cover, 2,1. 12-month high, 2 300c; low, 1 850c. Trading volume last quarter, 900 000 shares.*

Year to Mar 31	'89	'90	'91	'92
Advances (Rm)	604	982	1 911	2 327
Total assets (Rbn) ...	1,91	1,26	2,88	3,61
Attrib profit (Rm)	14	17,5	24	33,2
Return on ave equity (%)	22,4	23,5	22,4	19,9
Return on ave total assets (%)	1,7	1,6	1,3	1,2
Earnings (c)	70	87,5	117,6	145,4
Dividends (c)	32	40	56	70
Net worth (c)	331,5	413,2	676	1 126,9

The market is starting to take Investec Bank more seriously after consistent earnings growth. EPS have almost trebled since 1988 and the staff has more than doubled to 806. However, there is room for fuller disclosure, which would further enhance credibility. Chairman Bas Kardol does say, however, that disclosure will improve this year.

Investec's success lies in the fact that it is a niche player, seeking business from high network individuals, such as professionals, and the middle-to-upper corporate market.

General banking continues to dominate activities, increasing its contribution to 38% (1991: 32%) of group profit before tax in 1992, partially through the poor showing of the property division, which made a loss last year.

As with other banks that have recently reported significant profit growth, Investec's wholesale-to-retail rate margin has widened.

Through its exposure to high network individuals, bad and doubtful debt provisions, though up at R19,1m (1991: R8,8m), remain low in the context of the R106m net interest income, which was well up on 1991's R59m.

Year-end deposits jumped to R3,1bn (R2,7bn) and advances increased to R2,3bn (R1,9bn), again indicating Investec's entry into the bigger league.

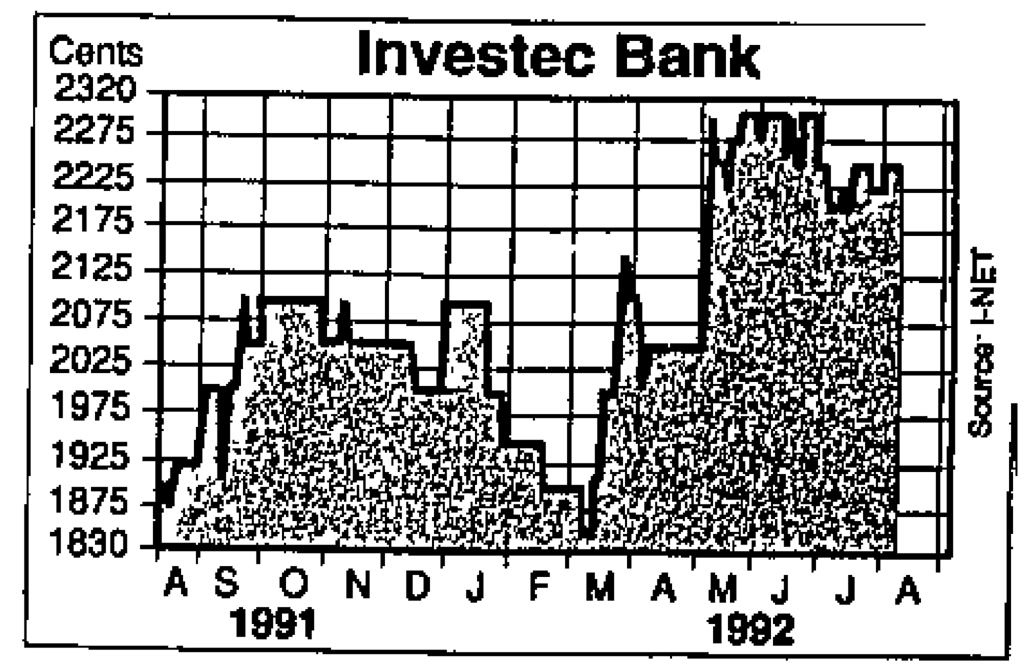
Merchant banking, encompassing domestic and international treasury activities, project and corporate finance and a trading desk for gilts and options, remains the next largest contributor, with 29% (24%).

Metboard, the trust company specialising in the management of other people's money, is the third largest, with 19%. These three divisions contributed 86% of group profit before tax.

Admittedly, 1992's divisional contributions are misleading owing to losses recorded by the property division, which contributed 18% in 1991. Kardol says the division made losses largely because of the scarcity of suitable properties for syndication.

He adds all syndication properties must be triple A, as the group will severely jeopardise its relationship with any clients who burn their fingers through syndications going wrong. Property trading and administration are the division's other activities.

FM 21/8/92



(58) COMPANIES

Significant trends are beginning to surface; first, deal-driven fees are declining substantially as a percentage of total fees, in line with a decision to increase Investec's annuity-type income. The split, about even in 1991, moved to 41%-59% last year, and is expected to be 35%-65% in 1993.

Second, international earnings, comprising trade finance group Reichmans, a 30% stake in Integro (equity accounted) and foreign deals, are taking a larger part of the group pie, having increased to 32% in 1992. This will rise further if negotiations concerning a possible foreign acquisition, speculated to be a London-based corporate finance busi-

continued →

COMPANIES FM 21/8/92 (58)

ness, are successful.

Though Investec's capital:asset ratio has improved, rising to 14,1% from 1991's 7,6% and is within the Deposit-Taking Institution Act's requirement of 5% now and 8% by 1995, other motivations also prompted the marriage. There has been a strong trend, particularly abroad, towards the "finassuranz" concept, whereby the full spectrum of an individual's banking, financial and insurance need is being marketed under one roof.

The close relationship forged between Investec and Fedsure last year opens the door for both to extend the financial services they offer to their respective clients.

Kardol says activities in Zambia, where the group has been granted the status "preferential bank," are progressing well.

Kardol is confident EPS growth of around 23% will be achieved this year. The 14,8 p:e, higher than FNB's 10 and SBIC's 12,1, suggests the bullish outlook has been discounted in the share price. *William Gilfillan*

No bond rate boom

58

THE latest cut in home loan rates by major financial institutions is unlikely to push up either house sales or prices, believe estate agents, developers and analysts. All the "Big Five" banks — ABSA, First National, Standard, Nedbank and the Perm — have now reduced rates to 17,25 percent.

W/Mail 21/8 - 27/8/92

Big guns sign up to join battle for devaluation

B|DAY 21|8|92

SIMON WILLSON

58

OF ALL the remedies available to governments looking for a quick way to end a recession, devaluation is one of the easiest to adopt. As the economy faces a third successive year of contraction, devaluation's advocates are breaking cover to promote a strategy that, only a year ago, was widely discredited.

After being mounted on bricks and shut away for nearly three years, the devaluationist bandwagon has been rolled out, polished and prepared for a new parade. After starting out more in hope than expectation with a motley band of supporters, the campaign is beginning to develop appreciable momentum.

The decision this week by Old Mutual to endorse the devaluationist ticket may finally have converted the bandwagon into a serious body of opinion that economic policymakers will now have to counter with solid argument and hard evidence.

The devaluation campaign has developed authority and respectability at a critical moment: next week the Reserve Bank, vested with responsibility for exchange rate policy, holds its annual meeting. It is an occasion when, in theory at least, the Bank is at its most vulnerable on policy issues, being answerable to its stockholders in the same way as any other public company.

The Bank has been able to use recent annual meetings as platforms for the dogmatic restatement of its established exchange rate policy. Its annual economic report, presented as background to the chairman's address delivered by the Bank Governor, has for the past two years, presented a solid, constant and self-assured stance on the rand to an initially sceptical public.

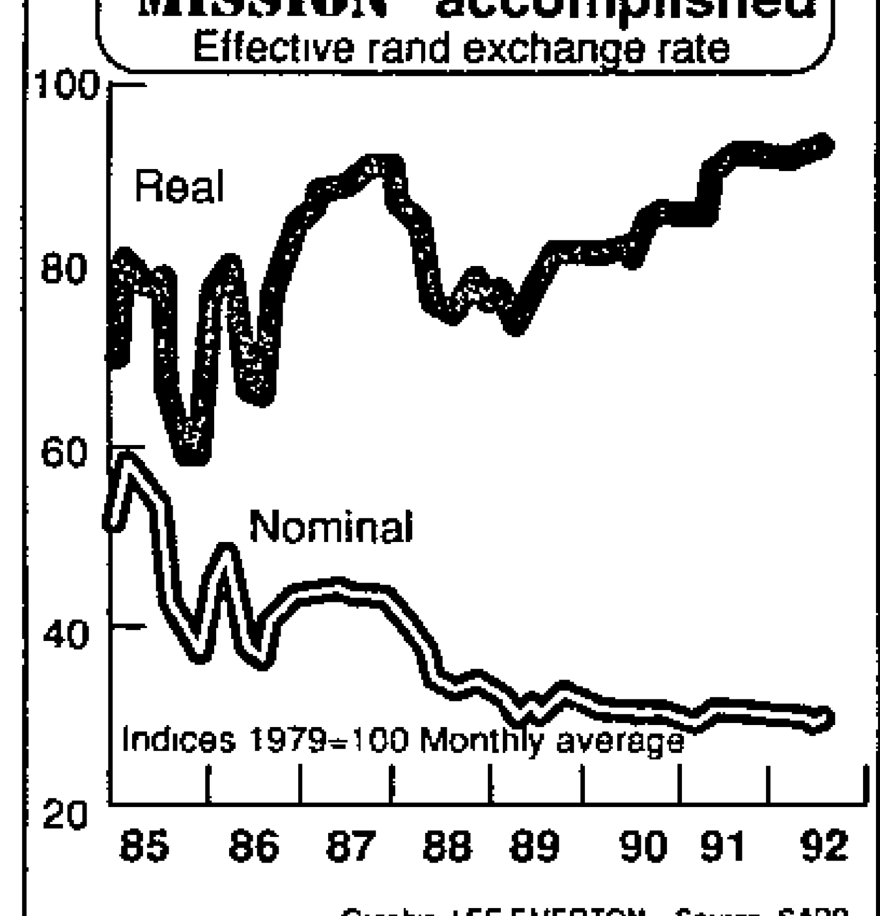
The Bank will no doubt seek to deliver the same package at next week's annual meeting. But will the economy at large buy it this year? Given the sudden groundswell of pro-devaluationist sentiment, Chris Stals could be facing his toughest assignment yet in the Governor's chair: successfully selling another year of his stable-rand exchange rate policy.

The 1990 annual meetin' — the first over which Stals had full influence as Governor after succeeding Gerhard de Kock the previous year — was the first at which the Bank set out what has proved to be a forceful and determined policy. The annual economic report presented in August 1990 told how, four months earlier, the Bank's board had "formulated and adopted a clearly defined 'mission' in terms of which the protection of the domestic and external value of the rand was accepted as the prime objective of the Bank".

As the chart shows, the results of the Bank's "mission" did not take long to show through. The precipitate falls and wild volatility that frequently characterised the rand's performance in the mid-'80s have smoothed out into stability. Looked at another way, that nominal stability actually becomes rand strength — an unfamiliar term for one of the world's foremost basket-case currencies of the mid-'80s. The chart shows the stable nominal trade-weighted rand is actually a strong real trade-weighted rand. Under the zealous guidance of its central bank defender and guardian, the rand has been depreciating against a basket of SA trading partners' currencies by less than the inflation differential between SA and those partners.

The chart indicates that the Bank's mission is being rigorously adhered to. For a time after the 1990 formulation of its mission, the Bank enjoyed a honeymoon period in enacting its strong-rand policy. But, as exporters began to be denied their traditional rise in rand proceeds, the mines were the first to grumble about the steady rand. Then the rest of the export sector joined in.

But moans from exporters about the strength of the exchange rate are common throughout the world and, in isolation, represented no material challenge to the Bank's rand policy. A steep fall in producer inflation in the second half of last year helped vindicate the Bank's stance. The rapid slowing in the rise of the producer price index between July 1991 and January 1992 was mainly attributable to intermittently falling import prices — a direct result of the strong real effective exchange rate.



"MISSION" accomplished
Effective rand exchange rate

As SA's longest post-war recession drew out, however, the mood turned. Suddenly it was no longer only the exporters complaining about the rand's failure to fall. Domestic commercial enterprises, desperate for any adjustment that would inject some life into the moribund economy, joined the bandwagon. Then leading analysts lent their weight to what was becoming a cause.

In June Absa stressed in a paper on economic growth the importance, through the indirect multiplier, of the export sector's domestic spending on private and corporate incomes: "The current level of the commercial rand exchange rate is probably too strong to generate a really dramatic boom in goods exports, and the possibility of allowing a once-off exchange rate depreciation ... should be investigated."

What had previously been insurrectionist backtalk in analytical corridors then burst out into the open as devaluationists took comfort from each other's frankness. In July the Economic Advisory Council's revised long-term strategy document warmed to Absa's theme. "The Reserve Bank will have to mana'e the exchange rate in accordance with changes in inflation differentials, even though a depreciation may also contribute to inflation by itself. An exchange rate depreciation may be necessary to tide SA's manufacturing sector over the lifting of import protection," the document warned.

It is notable that, in general, proponents of a lower exchange rate instinctively avoid the term "devaluation". A relic of the years of fixed exchange rates 20 years ago, "devaluation" is one of the most instant negative-association terms yet conceived, casting doubts on a nation's strength and security and on its leader's machismo and virility (as applicable)

Strictly, floating currencies such as the rand — and, indeed, the dollar and the yen — do not devalue as they are not fixed to any particular parity. They depreciate, or float downwards, and that sounds more acceptable to countries with delicate sensibilities about the worth of their currencies. But a depreciating currency is also a devalued currency, and the term has to be accepted in the end.

The Board of Executors had few qualms about terms when it jumped aboard the bandwagon at the beginning of the month BoE's quarterly investment review bluntly proposed devaluation of the rand as part of an export programme to lead the economy out of recession.

Finally, Old Mutual added its considerable weight to the devaluationist cause this week when its chairman's statement declaimed that international inflation differentials had to be taken into account in ensuring a competitive exchange rate.

As the devaluationist chorus swells around him, will Stals be able to retain his core strong-rand support in commerce and government and persuade the uncommitted of the rectitude of his mission? Or is he, like his predecessor, more likely to be overwhelmed by pressure for expediency in exchange rate management? A chance for Stals to challenge the devaluationists is immediately at hand, in the form of his address at next week's annual meeting. It is a challenge he cannot [illegible]

Mortgages may tumble to 16%

STAR 22/8/92 (58)

A GOOD rainy season will help push down bond rates as inflation — especially food price inflation — will stabilise, MAGNUS HEYSTEK writes.

PRAY for rain, because if the heavens open up this summer, further drops in bond rates can be expected. As it is, bond rates are expected to decline to as low as 16 percent before the end of the year.

This will come as welcome relief for cash-strapped South African households.

While good summer rains will speed up the process, economists predict that a decline in the inflation rate could see bond rates as low as 14 percent some time next year.

Still falling

But for the inflation rate to fall drastically, it will have to rain well in the next couple of months to relieve the upward pressure that higher food prices are exerting on the consumer price index.

If food is taken out of the CPI basket, it shows that the underlying inflation rate is at 10,9 percent and still falling.

Good rains would lead a slowdown in the surge in food prices and have a positive effect on the overall inflation rate.

Most economists and financial analysts expect the inflation rate to decline substantially in the next couple of months.

The recession has forced cost-cutting in almost all sectors of the economy, which is good news for inflation.

All the major banks have now announced a further drop of 0,75 percent to 17,25 percent in mortgage bond rates.

This is the fourth time that bond rates have been lowered since mortgage rates peaked at 20,75 percent last year, exerting a very positive effect on the financial position of home-owners whose bonds have been kept at the same levels.

A person with a bond of R150 000 has this year already seen his mimimum monthly repayments decline from R2 548 a month to R2 314. And from September 1 the repayments will drop to R2 229 a month. At 16 percent — a fair bet at this stage — the repayments will be down to R2 087. This is R416 a month less than at the beginning of the year, or nearly R5 000 a year — equivalent to a 10 percent increase in salary for a person earning R50 000 a year.

The latest cut in the bond rate is expected to release about R450 million into the economy.

However, property analysts do not agree that the cut in bond rates will necessarily be good for residential property prices.

Opportunity

While it will make housing more affordable for more people, agents do not think it will lead to higher prices yet.

For housing prices to rise, the growth rate and political confidence will both have to pick up.

The further reduction in bond rates offers yet another exceptional opportunity for homeowners to repay their homes quickly. Someone who took out a bond of R150 000 at 20 percent and has kept up the original payments will pay off his house in 136 months instead of 240, with a total saving of R293 020 on interest.

You'll score if you hang on to unit trusts

58

STAR 22/8/92

UNIT trusts continue to be one of the best ways to provide for someone's future education, but the key to using this method is discipline. All too often people investing in unit trusts are tempted by mouth-watering capital gains, and cash in some units.

If unit trusts are to be used to fund a future education, they should be left alone for as long as possible. The longer the investment period, the better the overall return. That is when one obtains the maximum returns from compound interest and the power of rand-cost averaging.

Let's look at how the general-equity unit trusts have performed over periods ranging from one to 15 years. The specialist funds, by their nature, have been far too volatile to recommend for education funding.

Only eight equity funds have been in existence for longer than 15 years. This is what their performance figures look like, based on the latest Unit Trust Survey compiled by Professor Hugo Lambrecht from the University of Pretoria. The figures relate to monthly investments with dividend reinvested:

Guardbank Growth: 26,92 percent; Old Mutual Investors' Fund: 26,85 percent; Sage Fund: 24,85 percent; Sanlam Index Trust: 24,51 percent; Sanlam Dividend Trust: 20,74 percent; Sanlam Trust: 22,86 percent; Standard Bank: 24,03 percent; UAL: 24,29 percent.

To put these figures into perspective, the overall market showed an average compound growth of 21,54 percent, while the CPI-inflation average was 14,56 percent.

Outperformed

Over a five-year period the performances look like this: Guardbank Growth: 21,22 percent; Old Mutual Investors' Fund: 20,41 percent; Sage Fund: 20,77 percent; Sanlam Index Fund: 20,62 percent; Sanlam Dividend Trust: 18,82 percent; Sanlam Trust: 19,60 percent; Standard Bank Mutual: 20,80 percent; Syfrets Growth: 26,25 percent; UAL: 21,04 percent. JSE overall market: 17,31 percent. CPI inflation: 14,66 percent.

Over a three-year period the picture looks somewhat different. As I wrote in this column three weeks ago, the repayment of your mortgage bond would have outperformed most unit trusts. But here are the figures anyway: Guardbank Growth: 15,80 percent; Metfund: 15,29 percent; Momentum (now Absa): 16,56 percent; NBS Hallmark: 13,68 percent; Norwich: 11,73 percent; Old Mutual Investors': 15,22 percent; Sage Fund: 16,79 percent; Sanlam Index Trust: 15,24 percent; Sanlam Dividend Trust: 18,71 percent; Sanlam Trust: 16,23 percent; Standard Bank Mutual: 17,23 percent; Southern Equity: 16,97 percent; Syfrets Growth: 22,82 percent; UAL: 16,05 percent. JSE overall market: 14,36 percent. CPI inflation: 14,73 percent.

In addition to these inflation-beating returns, what I like about unit trusts is that one has a fairly good idea of how one's investment is doing. With the high visibility of these investments (the prices are published daily) one can determine early on whether one needs to make additional investments or not.

And secondly, the idea of actively managing one's unit trust(s) is appealing to more and more people. In theory this could lead to much higher returns than the figures quoted above.

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New watchdog

THE Government and the banking industry have stepped up efforts to protect the public from excessive finance charges. (58)

The Government has formed a directorate to handle complaints about Usury Act contraventions. It will investigate excessive charges on personal loans, bank overdrafts, leasing transactions and instalment sales agreements. The Clearing Bankers Association is investigating ways to deal with complaints. This could involve the appointment of an ombudsman. Customers should refer queries to their bank managers.

S/Times (Buss) 23/8/92

Old Mutual sticks to its equity guns

SI Times (BUSS) 23/8/92 (58)

OLD Mutual, the biggest player on the JSE, believes it would be irresponsible to sell its equity investment portfolios.

General manager of investments Johannes van der Horst is the first to acknowledge that the return from interest-bearing securities in the Old Mutual's year to June was superior to that from equities.

The all-bond index rose by 23% and the all-share index by 14%.

"But this market can turn on a tickey," says Dr Van der Horst, "and the cost of missing the opportunity when the market does rally is much higher."

About two-thirds of Old Mutual's investment portfolio is in equities, a quarter in bonds and a tenth in property.

The South African portfolio value grew by 24% to R81-billion at June 30 this year. All three classes of investment increased in value by more than 22% in that time.

Dr Van der Horst says: "People have to get away from this idea that the Old Mutual is a monolith. It doesn't have any money of its own but handles investments on behalf of almost 3-million policy holders, pensioners and investors — widows and orphans if you'll excuse the cliche.

"Individual business accounts for close to half the investment assets and pension and other managed funds the rest. The trustees of pension funds can remove their business within days if the investment returns we achieve are not good enough. It is a highly competitive business."

Dr Van der Horst has held his current position for seven years, during which trade on the JSE has narrowed to a handful of triple-A shares. Financial institutions dominate the market and Old Mutual is the undoubted leader.

The weight of funds theory pertains — cash flows in and must go somewhere. If Old Mutual is a buyer on the JSE, it goes up. If it buys bonds, they too go up as yields fall.

The market has become confined to relying on the movements of the handful of index stocks. The concentration of power and control over these companies is a political hotbed.

So I was keen to ask whether the Old Mutual will support the JSE and to interpret Dr Van der Horst's answer. It was a lengthy one.

There are 200 employees in the investment division and 300 in property. Subject to board policy, the investment team determines philosophy (broad outlook) and strategy (timing). It studies the managements of listed companies and decides which will give the best returns.

Old Mutual has holdings in nearly 150 listed companies, the other 500-plus being either too small or too tightly held to bother with.

Old Mutual handles its customers' interests in a few dozen different portfolio baskets. As regards conventional insurance business, the actuaries annually recommend bonus declarations based on underlying investment returns.

Pension fund trustees might have different requirements. Some want security before growth, some specifically ban the inclusion of certain types of investment.

Some existing portfolios given to Old Mutual for management are far from ideal structurally.

Dr Van der Horst says: "We might be a buyer of equity for certain portfolios while selling for others, depending on the weighting. Equity has given by far the best investment returns over time.

"Our task is to select those companies that will be the best relative wealth preservers in tough economic times."

Yet Old Mutual's top 10 equity holdings at June 30 performed relatively weakly in the past year.

Using the rise in share price only for the year ending this week, Stanbic is the best of the Old Mutual's top 10, being the 62nd best riser. Safren is the 123rd best, Nedcor 173rd, Richemont 208th and Barlows 218th.

The other five — De Beers, Anglos, Gencor, SA Breweries and Rembrandt — are down on a year ago.

The share portfolios of the other big financial institutions look remarkably similar.

Dr Van der Horst says good equity structures and selection generally enabled Old Mutual to outperform the JSE all-share index, which produced a total return of 14,1% over the year. The pooled pension fund achieved a total equity return of 19,3% and the main unit trust 18,8%.

He warns that prudential investment guidelines offer a spurious sense of security.

"I learned many years ago that there's no safety in numbers, or in anything else.

"Several years ago SA's financial authorities realised that the prescribed asset requirements bedevilled monetary policy. They were nothing more than a means of cheap government borrowing.

"It is commendable that the requirements were scrapped, but the new guidelines do not necessarily add value together. What is sensible today might be ridiculous tomorrow."

Old Mutual remains positive about the JSE.

"Notwithstanding the current negative sentiment about equities we remain optimistic about the long-term prospects for well-managed corporations. Historically, declining interest rates have been positive for equities. This factor combined with a gradual improvement in the world economy will ultimately provide support for company profits and share-market ratings.

"Provided South Africa can turn the political corner the equity market will remain a prime area for institutional wealth preservation and growth."

So there we have it. Having piled into the triple As, Old Mutual is not obliged to relinquish its holdings for the sake of superior returns because all the competing institutions are in the same boat.

JOHANNES VAN DER HORST: This market can turn on a tickey

Nedcor Bank forms new arm

(58)

SHARON WOOD

NEDCOR Bank yesterday formed a new division which merges the corporate, international and treasury arms of Nedcor Bank and Finansbank. BDAY 25/8/92

The new Financial Services Division will carry the Finansbank brand name.

The division has been created after six months of detailed investigation and in response to a perceived need in the market for wider and more comprehensive services to the corporate market, CE Chris Liebenberg said.

It would boost the growth prospects of Finansbank, previously a small, boutique corporate financing bank, because it would now be better capitalised and would be able to finance larger projects.

Liebenberg said the products and services supplied would include the full range of traditional corporate banking products and non-traditional banking products, such as local and international corporate finance, project finance and structuring.

While there would be staff reductions in the new division these would occur through natural attrition and through absorption into Nedcor Bank itself, Liebenberg said. He stressed there would be no retrenchments.

There would be significant cost savings because there would no longer be a duplication of functions and technology, he added.

The restructuring would not affect UAL, which would continue to operate in its target market using its specialist services.

Nedcor Bank had not considered UAL as a division of the group because it had a very distinct culture.

Bond boycott 'will go ahead'

STAR 25/8/93

By Stan Hlophe

The South African National Civic Organisation (Sanco) yesterday vowed to go ahead with a bond boycott coupled by mass action if the Government and financial institutions failed to address the housing crisis.

Sanco president Moses Mayekiso, speaking at a press conference in Johannesburg, said the civic organisation would embark on mass action in mid-September pending the outcome of talks between the financial institutions and Sanco.

Actions would include sit-ins, pickets and blockades of the major banks and Government offices, Mr Mayekiso said.

He said the action would culminate in mass marches and "the occupation" of all banks.

International and local organisations would be consulted on the action.

If the mass action failed to have the desired effect, Mr Mayekiso said, a campaign for international isolation of South African banks would be intensified.

He said the Government and banks had two weeks in which to provide a positive response to Sanco's demands, which include:

- Housing and electricity for all;
- Scrapping of arrears on services;
- Interim financing and subsidisation of services;
- Affordable tariffs for services rendered.

Meanwhile the National Union of Metal Workers of South Africa has dismissed recent reports that Mr Mayekiso, who is also Numsa secretary general, had his bond and rent paid in advance as propaganda.

Numsa spokesman Alfred Woodington said this was part of the State harassment which had started in 1986.

Numsa denied that Mr Mayekiso occupied a spacious Ponte City flat in Johannesburg which he rented for R2 800 a month.

Mr Woodington said:

- In 1988, financial assistance was received from overseas donors with regard to the security of Mr Mayekiso and four co-accused in the "Alex trial" in 1986.
- At no stage did Mr Mayekiso occupy a flat at Ponte City.
- Mr Mayekiso does not own two houses in Alexandra and is trying to secure a house of his own.

Banks reject call for ban on credit

BIDAY 26/8/92

WILSON ZWANE (58)

BANKERS told the SA National Civics' Organisation in no uncertain terms yesterday that they would not be bludgeoned into refusing to lend to government.

Council of SA Bankers (Cosab) director-general Tony Norton said a demand by Sanco that banks should exclude government from "the internal transfer and payments mechanism, foreign exchange and capital market operations" would lead to economic anarchy.

Sanco president Moses Mayekiso said at the weekend banks should stop lending money to government until it was clear democratisation was irreversible. Unless banks acceded to that demand and changed their lending policies towards blacks, Sanco would embark on large-scale mass action, including the bond boycott.

Norton said the banks could not be co-opted on to the civics' political agenda, which would not only damage the economy but "render us liable to pressure from all future political agendas".

The banking sector provided "very limited" facilities to government "outside of legal requirements for prudential purposes". Its role was to operate an efficient system "for channelling savings of the nation to the productive users of finance at the lowest cost to the latter. We have also to operate an efficient payments mechanism and provide a wide range of sophisticated financial services. This agenda is non-political, non-racist and non-sexist."

Safety net suggested to protect depositors

STAR 26/8/92

By Sven Lünsche (58)

The Reserve Bank is investigating the introduction of a limited deposit insurance scheme for private investors to protect them from the loss of their savings.

Governor Dr Chris Stals told the Reserve Bank's annual meeting yesterday that the Bank was questioning the five-year-old "marriage" of the Bank and the Office of the Registrar of Deposit-taking Institutions (DTIs).

Dr Stals said the Registrar of DTIs was responsible for supervising banks and had recently compensated small depositors for losses arising at three banks, which were either liquidated or placed under curatorship.

This assistance had given rise to a perception that the Reserve Bank had a duty to protect the interests of a wide range of investors who entrusted their funds indiscriminately to unregulated undertakings.

"The Reserve Bank can only promote the stability of the banking and financial systems, and cannot protect investors against the results of their own poor investment decisions," Dr Stals said.

Chris Stals . . . time-consuming and costly litigation

"Unwarranted claims by investors for financial assistance from the Bank, which have received unjustified support in the financial press, have forced the Bank into the position of being a defendant in time-consuming and costly litigation."

He said the extent to which the credibility of the Bank had been undermined by its involvement in commercial bank supervision had led it to question whether it should continue in this function and whether it should be expected to act as financial supporter of last resort.

Dr Stals said while a firm decision could only be expected over the next few months, the following preliminary conclusions had been drawn:

- The function of bank supervision and financial supporter of last resort should be separated.
- Practical ways of establishing an arm's-length relationship with the Office for DTIs and the Reserve Bank should be devised.
- The provision of support to DTIs in financial distress should be aimed solely at preserving the stability of the banking system.
- Attention should be given to the feasibility of introducing a limited deposit insurance scheme for private depositors in SA and to finding ways and means of funding such a scheme.

He reiterated the Reserve Bank's policy of lowering nominal interest rates only when it was justified by a lower inflation rate.

He said: "As a first step towards lower interest rates, the basic causes of inflation should be identified and eliminated because low nominal interest rates can only become sustainable in an environment of low inflation.

"The Reserve Bank's preoccupation with a policy of fighting inflation is therefore indeed a policy of striving for lower interest rates and it is in SA's interest to persist in the fight against inflation."

Dr Stals said progress made in reducing monetary support for rising prices should make it possible to bring down inflation to a much lower level over the next 12 months.

He also warned of "the ominous signals from government finance", which were, to some extent, counter-cyclical and provided a stimulus to a very depressed economy.

"There is the danger that because of a ratchet effect, the situation will not be easily corrected again when private sec tor spending starts moving up," Dr Stals said, adding, though, that the Department of Finance was acutely aware of the danger.

Scheme to protect savings mooted

58

STAR 26/8/92.

By Sven Lünsche

The Reserve Bank is investigating the introduction of a limited-deposit insurance scheme for private depositors to protect them from the loss of their savings.

Governor Dr Chris Stals told the Reserve Bank's annual general meeting yesterday, however, that the Bank could not protect investors against their "own poor investment decisions".

The Office of the Registrar of Deposit-taking Institutions (DTIs) had recently compensated small depositors for losses arising at three banks, which had been either liquidated or placed under curatorship.

The Registrar of DTIs is part of the Reserve Bank, supervising general banking.

Dr Stals said that while a firm decision could be expected only in the next few months, the Bank was looking at introducing a limited-deposit insurance scheme for private depositors and investigating ways of funding such a scheme.

Council for Southern African Banks director-general Tony Norton said such a scheme would be feasible if it were up to the depositor to pay the fee.

"We would, however, resist the move if banks were held responsible for paying the fees, as is the case in the US, as this protects weaker banks at the expense of efficient institutions," he said.

● Report — Page 23

Mutual & Federal profit leaps 29%

B\DAY 26/8/92

58

DUMA GQUBULE

SHORT-term insurer Mutual & Federal (M & F) reported a 29% increase in profit for the year to end-June, despite a modest 7% advance in gross premium income to nearly R1,3bn and the creation of a new R60m catastrophe reserve.

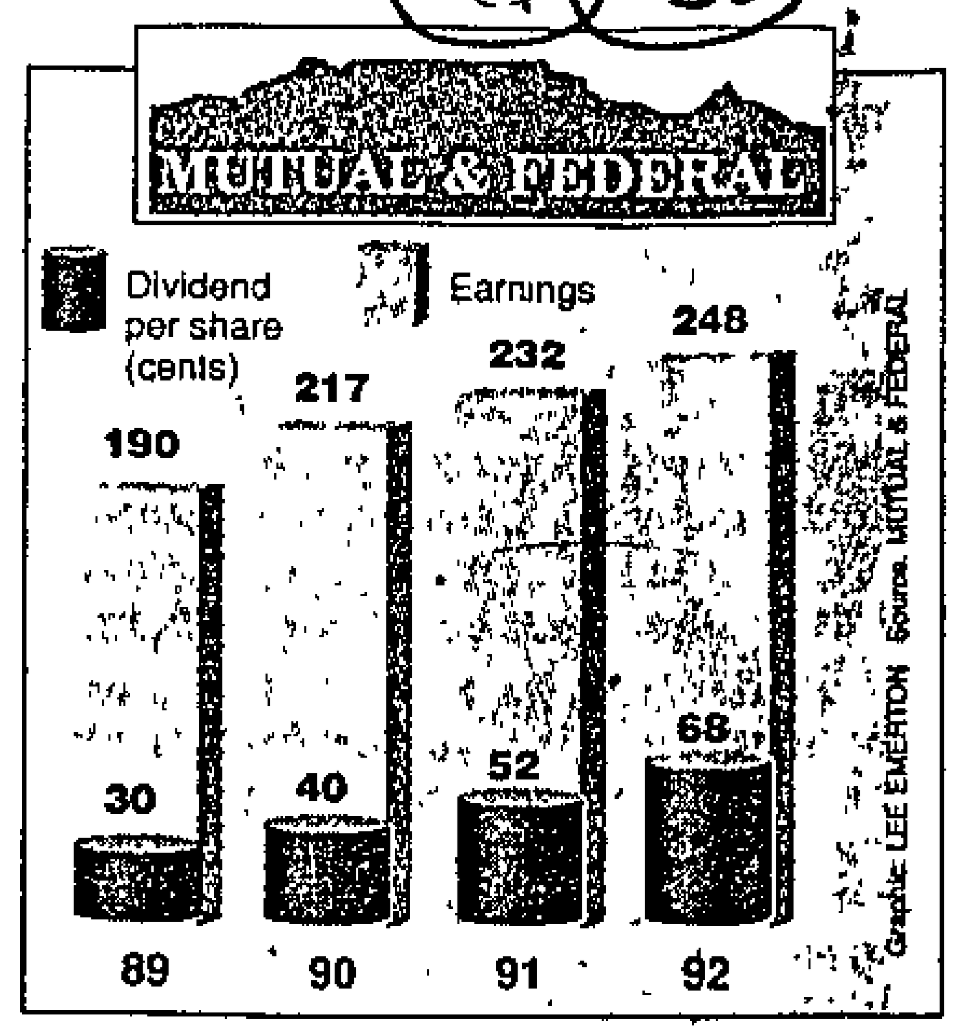
MD Ken Saggers said yesterday the most important factor behind the improved profit figure had been an unusual absence of natural catastrophes. The drought had assisted the group as there had been a significantly reduced number of storm, hail and flood-related losses.

Considering the effect of changes in weather patterns on foreign insurers' results, Saggers said M & F directors had deemed it prudent to create from profits the R60m catastrophe reserve to provide for abnormal claims.

Prudent underwriting standards and diligent expense management had also contributed to the group's sharply higher underwriting surplus for the year.

M & F wrote business worth R1,29bn, which translated into net premium income of R1,1bn (R1bn). The underwriting surplus for the year more than doubled to R53m from R19m after undisclosed deductions for claims, expenses and commissions.

Investment income advanced 15% to R145m (R126m) and pre-tax profit (investment income and underwriting surplus) came to R198m (R145m). The tax rate rose to 29% from 26% and net income jumped



29% to R139,6m, equivalent to 298c (232c) a share. The dividend payout for the year increased to 68c (52c) a share.

Saggers attributed the modest growth in premium income to the introduction of VAT. Growth in premium income would have been 9% higher had the company not decided to absorb most of the costs associated with the introduction of the tax.

He did not expect increases in personal insurance premiums for the next year, but commercial and industrial markets continued to be characterised by fierce competition and uneconomic ratings.

M & F's asset base advanced by a fifth to R2,5bn and the group's solvency margin (net assets to net premiums) was 140%.

Risk in townships 'can be discounted'

B1DA1 26/8/92 (58)(39)

Reports by
ANDREW KRUMM

RETAIL developers can discount political risks and enter township retail markets by consulting the communities concerned, says entrepreneur and shopping centre owner Gray Thathane.

Speaking at an SA Property Owners' Association (Sapoa) congress on African shopping centres this week, Thathane said the perceived high risk of entry into black areas could not be resolved by politicians alone.

"In our negotiations for the establishment of shopping centres in black areas, it has become clear that no major developments can be undertaken without consulting and involving the communities concerned," he said.

"While the provision of retail facilities is close to saturation point in white areas, the opposite is the case in black areas."

This would change as national retail chains — prompted by a declining formal market, growing informal sector competition and the rise of black purchasing power, became more broadly represented in black areas.

"If one accepts that African spending power has risen significantly and is continuing to do so, one should accept that black townships must start attracting retail developments," Thathane said.

In his address to the Sun City congress, Sanlam Properties GM Fanie Lategan said the retail industry's future included changes in buyer composition and affluence.

He said retail sales were showing a softening trend, on which the change in purchasing power could have an impact.

"Black purchasing power has exceeded white purchasing power in categories such as food and groceries, and footware and clothing in recent years. If mass electrification of black areas goes ahead, blacks will soon dominate the furniture and appliance market as well."

Value for money would become a major factor in a shopper's decision-making process. This would create new markets, although some shopping centres — in white areas — would get hurt in the process.

He added that the informal sector had entered the market in a big way and was in a position to adapt rapidly to change.

"They do not have the buying power of the big institutions but also do not have the overheads. Small black traders will group together and eventually formalise, creating a growing threat to the existing establishment."

Lategan said opportunities for retail development in black areas would grow as affluence and mobility increased. However, SA's CBDs would remain the dominant shopping centres for blacks over the medium term.

Demand for bank loans

Sowetan 27/8/92

■ **Mayekiso says he will be in forefront of boycott:**

By Joshua Raboroko

THE South African National Civics Organisation has threatened to take mass action to the banks and the Government if they do not give blacks housing loans.

Sanco president Mr Moses Mayekiso said they would look at possibilities of marches, protests, occupation of buildings and an intensification of the bond boycott.

He was addressing delegates at a conference on "Housing Finance in the New South Africa" held at Nasrec, near Johannesburg yesterday.

The conference, organised by the Marketing Builders Services, took place during South Africa's 13th International building and construction exhibition, Interbou '92.

Mayekiso said he was going to be the first person to boycott because "I want to take the lead in this mass move".

"I will not pay my bond until the financial institutions and the Government give aid to black housing," he later told *Sowetan* in an interview following his eviction from his Johannesburg flat this week.

Call for community bank system

Bi DAY 27/8/92

THEO RAWANA

SA NEEDED a community-based banking system because formal sector banking was not integrated into the community, former Perm MD Bob Tucker said yesterday.

Addressing a builders' conference at Nasrec on Housing Finance in the New SA, Tucker said SA had the resources to tackle the housing backlog of 3-million families.

"If an extra R7,5bn was spent on housing, the backlog would be wiped out in five years.

"But the system is not working because we have an ultra-sophisticated formal sector banking system that is not integrated into the community; people simply have no access to it."

He said the community's money was routed in the current banking system from the employer to the formal sector and on to the retailers.

"So the community has lost control of and interest in its own money. That is why it is easy to say: 'Let's boycott'. It's time money was brought back to the community." (58)

Tucker said the problem was Africa had been subject to colonialism and therefore the banking system was wholly paternalistic and frustrating the development of the community's own institutional arrangements.

But he warned that action against the formal sector would not be the solution because it would result in unemployment.

"Any action would break the fibre of the formal sector and there are 8-million people in there," he said.

...ed ads for our business and entrepreneurial seminar

Funding of small man a big issue

58

Sowetan 28/8/92

The existing banking and financial structures are hopelessly inadequate, says Gaby Magomola:

THE financing of small business is one of the subjects expected to evoke a keen response from delegates at the Business and Entrepreneurial Conference to be held on September 13-15.

Mr Gaby Magomola, executive chairman of the Inter-Africa group and a director of Future Bank, will be one of the speakers

He believes that existing banking and financial structures are "hopelessly inadequate" for small black businessmen.

"Years of apartheid and exclusion from economic activities have prevented potential black businessmen from securing the type of collateral required by existing structures in order to obtain financial assistance," says Magomola.

There had been little attempt to create specialised financial deals geared specifically for small businessmen found so readily in economically sound countries, he said.

Both the public and private sector need to come together and reorganise financial structures to ensure a facility which provides greater credit to this group

Their economic success would have a domino effect on the rest of the economy and their participation in the economic activities must be encouraged and nurtured, Magomola said.

Gaby Magomola ... a speaker

Business sense & brains

Venue:

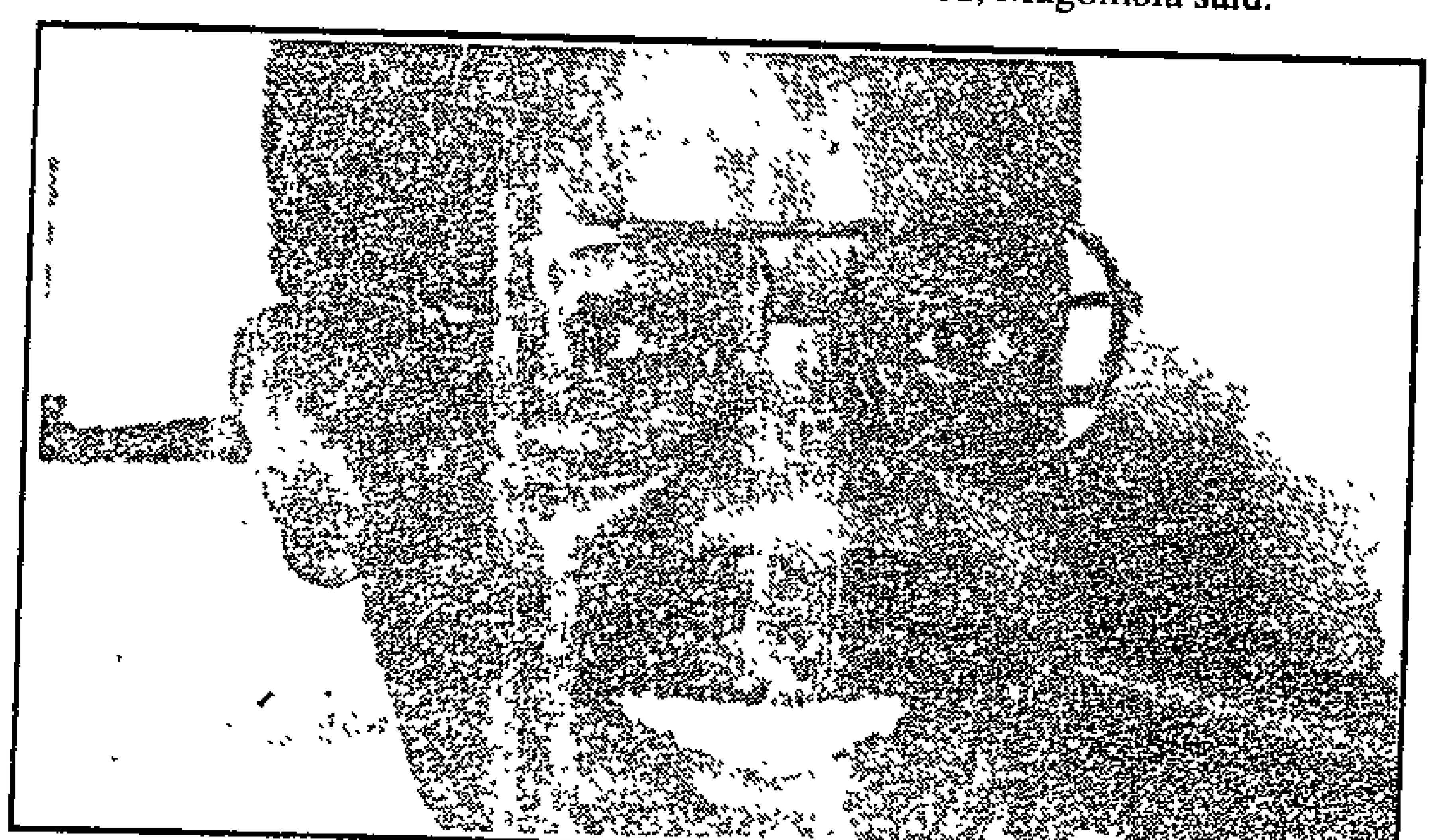
Eskom Training College, Midrand.

Who should attend:

- Executives of major companies and those managers dealing with small business and entrepreneurial development.
- Officials of business associations;
- Officials of chambers of commerce and industry:
- Officials of financial institutions and funding organisations;
- Small businessmen from all sections of the community who want to grow into sizeable units;
- Officials of development agencies;
- All interested in getting an insight into the challenges ahead, and how some of these can be overcome.

Themes:

- Role of Government in transforming small business into medium sized enterprises;
- Financing of small business;
- Role of big business in developing small business;
- Women in business;
- Looking into the future.



Sowetan Day Editor Thami Mazwai ... organising the conference.

Internationally famed two to speak at our conference

Africa Development Facility chief discusses the continent:

TWO officials of the International Finance Corporation will take part in our business and entrepreneurial development conference.

The two are Mr Alexander Keyserlingk, general manager of the Africa Development Facility, and Mr Omarri Issa, regional manager for Southern Africa.

The two experts have been involved in entrepreneurial development in many parts of the world, including the now booming Far East. They will cite many examples of the success story of the East in their presentations at the conference.

Keyserlingk, who is the guest speaker, will speak on: Entrepreneurial development - lessons from Africa. He will discuss what has succeeded in Africa and what has not.

Another of the overseas speakers will talk on the development of external trade.

Local speakers are Dr Nthato Motlana, Sipho Shabalala, Professor Jakes Gerwel and Gaby Magomola.

Civics draw up lenders' code

BDAY 28/8/92

THEO RAWANA

THE SA National Civic Organisation (Sanco) submitted proposals this week to the Mortgage Lenders' Association for a code of conduct for investment in "disadvantaged communities", Sanco president Moses Mayekiso said yesterday.

He said the two parties had met for the third time on Wednesday in a bid to avoid a bond repayment boycott.

Mayekiso said the talks were progressing "positively" and another meeting was set for September 4.

(58)

Sanco said in its proposal the code would provide a framework for financial services "within a democratic SA".

Among the objectives of the code were the enhancement of relationships between the financial institutions and the disadvantaged communities, and the establishment of guidelines which would promote non-discriminatory banking practices "within the context of a future, democratic SA".

Under the proposed code, financial institutions would be required to commit themselves to adopting non-discriminatory lending policies under which "red lining" of certain areas would be undesirable. Areas which have been "red lined", such as Hillbrow and Joubert Park in Johannesburg, are those deemed by financial institutions to be unsuitable for loans.

"More specifically, financial institutions may be required to adopt a more positive approach to the provisions of finance in disadvantaged communities and this could require affirmative action on their part, such as active support for the introduction of community financing mechanisms, community financial empowerment and the reinvestment of monies drawn from disadvantaged communities," Sanco said.

It recommended that financial institutions should, through education, ensure that borrowers understood the nature and effect of all agreements concluded and their contractual obligations.

The code of conduct would provide guidelines on interest rate increases and insurance procedures.

It would also provide guidelines for the adoption of mechanisms to deal with defaults in an effort to avoid foreclosures. This would include direct communication with defaulters and "relevant community structures", the rolling over of loans and the conversion of ownership rights.

FM 28/8/92 (58)

BRISTOL INDUSTRIAL FM 28/8/92

Still at a discount

(58)

Activities: *Property holding and trading.*
Control: *Directors 62%.*
MD: *A Sher.*
Capital structure: *10,3m ords. Market capitalisation: R11,3m.*
Share market: *Price: 110c. Yields: 3,6% on dividend; 14,4% on earnings; p:e ratio, 7,0; cover, 4,0. 12-month high, 120c; low, 105c. Trading volume last quarter, 16 000 shares.*

Year to Feb 29	**'89**	**'90**	**'91**	**'92**
LT debt (Rm)	0,46	0,46	0,46	0,46
Shareholders' interest	0,89	0,91	0,91	0,93
Return on cap (%) ..	2,8	3,3	3,8	4,0
Turnover (Rm)	2,6	3,5	4,8	5,8
Pre-int profit (Rm) ..	0,46	0,59	0,74	0,84
Pre-int margin (%) ..	16,1	15,5	13,9	2,2
Earnings (c)	6,4	10,9	12,9	15,8
Dividends (c)	2	3	3	4
Net worth (c)	142	160	171	191

Bristol merits attention for its asset base rather than its profit performance. The bulk of 1992's R3m gross profit was received as interest income (R1,7m).

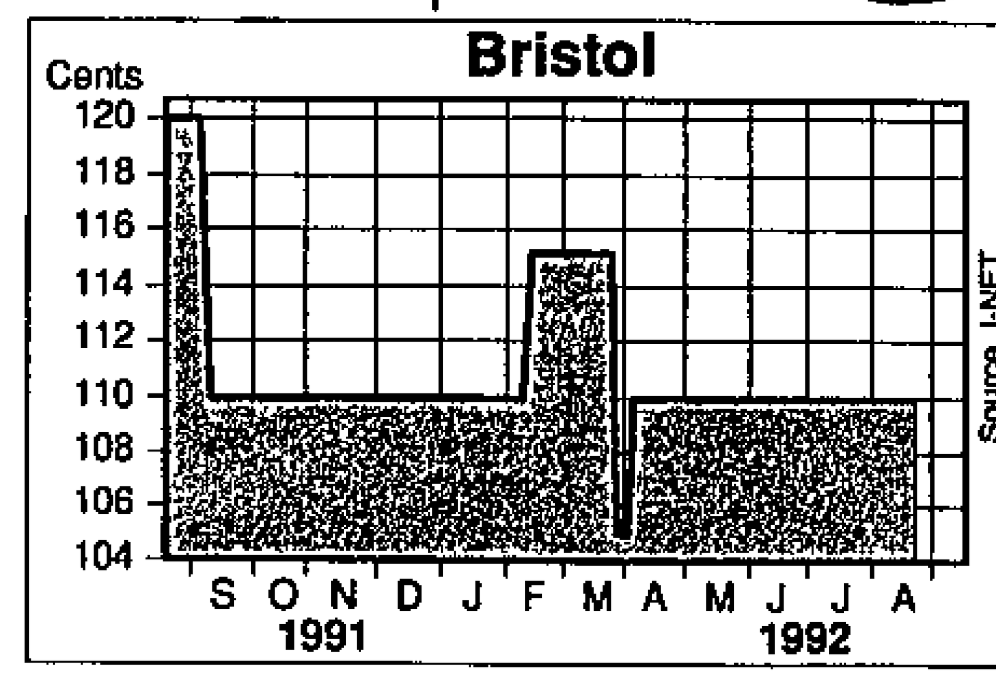
An unusually high dividend income of R0,7m (1991: 0,07m) resulted from certain investments distributing all their reserves before being incorporated in a variable loan stock company.

The R460 000 long-term liability is matched by R3,9m cash. The loan is described as an amount received in anticipation of the liquidation of an unlisted investment.

MD Allan Sher says it's unlikely 1992's profit level will be maintained, given the declining availability of property suitable for conversion to sectional title and falling interest rates. But he says Bristol has had many of its tenants for a long time and so he does not expect significant vacancies for at least the rest of this financial year.

Bristol's cash resources have been reduced because about R700 000 from the sale of a shareblock scheme has not yet arrived in the group's bank account. Additions were made to the portfolio of listed shares, which has a diverse spread of mainly quality companies.

At year-end, NAV was 191c — not as much as the share portfolio given in the



annual report suggests; 1 000 shares were acquired in Charter Cons, not the 10 000 stated in the report. When calculated accordingly, and with the inclusion of the 1 838 Sanlam Index Trust units, which the annual report omits from the market value of investments, that still puts NAV at 73% higher than the present share price. Based on this week's prices of the listed shares, NAV has fallen slightly to 189c.

The share, moving between 105c and 120c for the past three years, is thinly traded but the assets could eventually realise substantial value for shareholders. The stock has long-term potential. *Kate Rushton*

Continued from page 87

owned by Liberty Life.

Gordon says it is not an objective to increase Liberty's holding in SBIC "at this stage." This goes against market expectations, which assumed Liberty would try to increase its holding in SBIC as banking legislation permitted, up to the maximum 49%. But Gordon says this is not necessarily Liberty's strategy, and for now "a 40%-holding is quite adequate for our purposes."

The large dividend distribution will probably refuel speculation that succession from within the Gordon family is not planned, as will Gordon's comments that Liberty is not now trying to increase its holding in SBIC.

However, Liberty continues to get an excellent return on shareholders' funds, which with reserves having risen 11,2% to nearly R9bn since year-end. Policyholders have also enjoyed bonus distributions of R2,9bn over financial 1991, 2,6 times higher than the previous year.

Gordon is pleased with the strong contribution from Liberty Life's non-life insurance activities, which helped increase Libhold's interim dividend by 29,1%, 3,5 percentage points higher than the operating company.

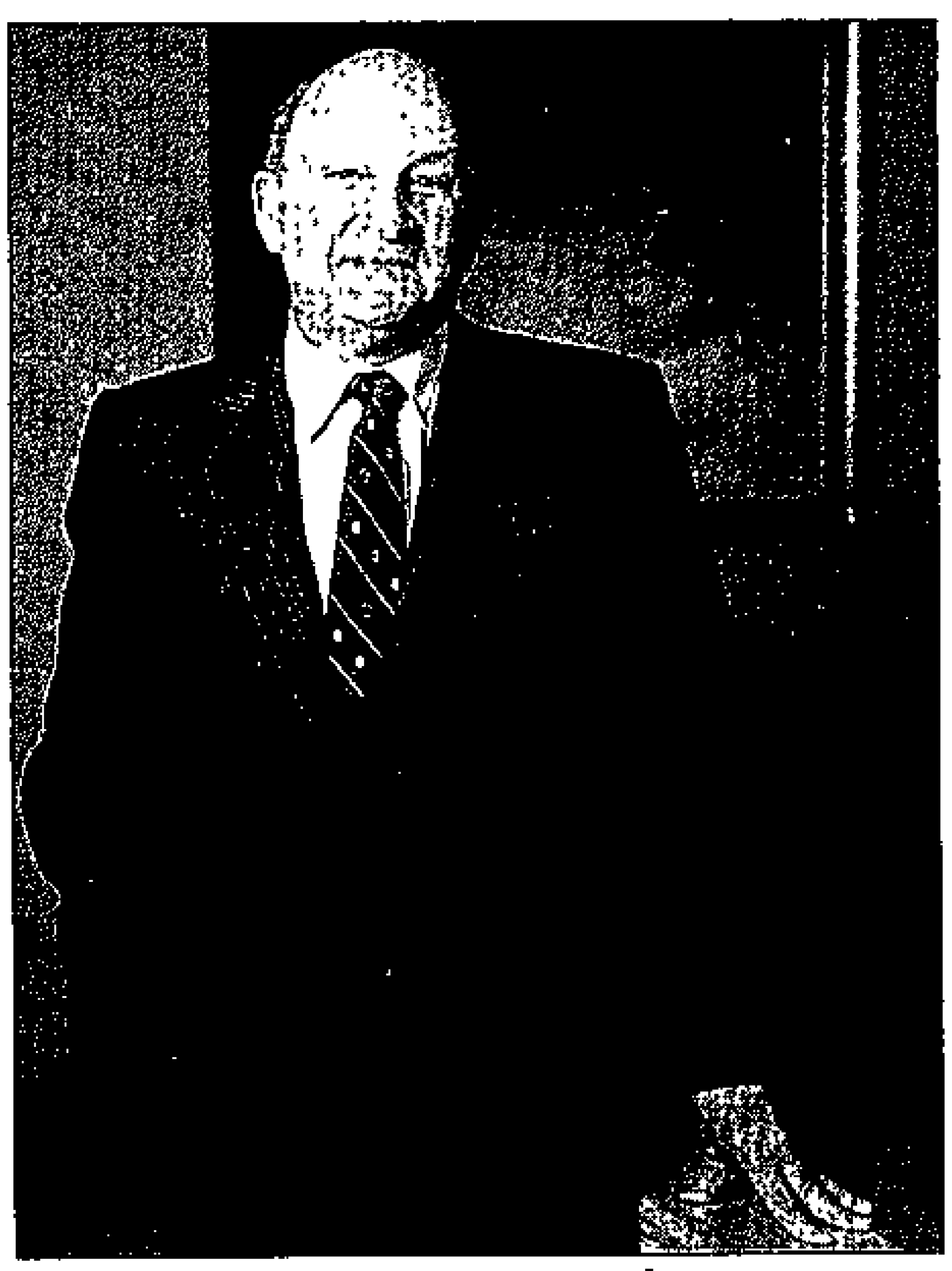
New business growth, largely from Liberty's Medical Lifestyle product, has raised new annualised premiums 37% to R278m over the six months, while single premium and annuity business has risen by 25% to R427,5m.

Liberty's core local investments, which include SBIC, Premier, SA Breweries and Gold Fields, remain one of the group's strengths. Offshore investments represented by the merger of TransAtlantic Holdings and Capital & Counties, expose Liberty to the UK property and insurance industry.

Despite the recession in the UK, Gordon says the investments offer many opportunities. "We've improved the debt profile of our property interests, getting the debt:equity ratio down to about 35%, very good by UK standards.

"But essentially our business is insurance and together with French insurance group UAP (joint owner of Sun Life Plc with TransAtlantic), we will be looking at expanding our overseas insurance interests."

At R49,50, Liberty Life's share is expensive. Yet it was considered dear four months ago at R40 and remains resilent and sought-after. Its appreciation since the beginning of the year and Liberty's latest results make it worth considering as a medium- to long-term investment. *Shaun Harris*



Liberty's Gordon . . . *expanding overseas insurance interests*

PROSURE/GUARDIAN FM

Turning upwards

28/8/92 58

Turnaround interim results continue to come through from companies in the short-term insurance industry, largely on the back of last year's steep premium increases and the fortunate absence of any major natural disasters.

But there are other factors at work, as is apparent from the latest results from composite insurer Protea Assurance (Prosure) and short-term Guardian National. Both have moved from underwriting losses a year ago to profits, with Prosure now showing a R992 000 surplus, compared to an R18m loss in the first-half last year, while Guardian has turned last year's R4,7m underwriting loss into a R3,2m profit.

Prosure MD Andrew Tainton says his company's turnaround can basically be put down to getting rid of unprofitable, mainly institution scheme business, a process started 18 months ago and which is now showing results.

"Last year's growth needed a lot of financing," he says. "Many of our competitors slowed their growth earlier than we did, which is probably why it has taken us longer to return to an underwriting profit."

Prosure has been badly hit by fire and accident claims over the past three years, costing the company R75m on those accounts, with nearly half the loss recorded last year. Unprofitable business has reduced net written premiums 4,2%, from R144,3m to R141,3m.

But a useful 14,7% increase in income from the life division, to R430 000, as well as a healthy 16% increase in investment income, to R13m, helped push earnings to R12m, against a year-ago loss of nearly R9m.

Guardian's strong return to underwriting profit has been helped by improved personal lines, with net written premiums climbing 23% from the first-half last year to R236m.

LATE BLOOM

Six months to	Jun '91	Dec '91	Jun '92
Protea Assurance			
Net written prem (Rm)	144,3	142,9	141,3
Underwriting profit (Rm)	(18,0)	(13,1)	1,0
Solvency margin (%)	99,1	90,4	101,3
Earnings (c)	(111)	(12)	154
Dividends (c)	nil	53	25
Guardian National			
Net written prem (Rm)	192,5	205,7	236,1
Underwriting profit (Rm)	(4,7)	6,3	3,2
Earnings (c)	170,1	225,1	233,5
Dividends (c)	651	90	77,5

GM Chris Wakeham says rate increases put in place last year in response to soaring crime-related claims will probably be held — and in some cases even come off — this year as the crime rate appears to have flattened.

Investment income improved only 9,1%, to R25,9m, mainly because of falling interest rates. Still, the improvement in personal lines helped push pre-tax profit up 53%, to R29,2m.

Prosure's slower recovery has led some analysts to feel the company has not been achieving the full potential of its strong asset base. NAV, at 3 660c per share, is more than double the share price of 1 650c.

But the market has supported the share through the company's loss-making period, with the price advancing steadily through 1991. It is up 27% since the December year-end. Prosure's profit turnaround helps to vindicate the price trend.

Guardian's share price has gained 29% since year-end and, on a dividend yield of 5,2 and earnings yield of 13,2, is rated roughly in line with other short-term insurers. *Shaun Harris*

LIBERTY LIFE

Something to celebrate

With Liberty Life continuing to record solid growth, one could almost forget that SA and most leading Western nations are in recession. In line with the most optimistic market expectations, SA's biggest listed life assurer has advanced earnings 24,3% and raised its dividend 25,6% over the first-half. On top of that, it is paying a special 35th anniversary dividend of R1 per share.

Sceptics will no doubt see the anniversary motive as spurious, arguing that the special dividend is a useful, tax-free way of distributing capital from the cash-rich operating company, more than half of which will make its way up the Liberty pyramid. Chairman Donald Gordon disputes this: "Liberty Life," he says, "with an asset base of R36,4bn and shareholders' capital and reserves of R5bn, probably has the highest capital base of any life assurer in the Western world.

"We paid an anniversary dividend 10 years ago," he adds. "Liberty Life's 35th anniversary was a good opportunity to redress our highly capitalised situation and give shareholders a little extra."

Shareholders at all levels must be smiling — Liberty Holdings (Libhold), 53%-shareholder in Liberty Life, is to receive 263c per share from Liberty Life and is itself distributing a R3 per share special dividend (to mark its 25th anniversary later this year).

Just over 52% of this payout will go to top pyramid Liblife, giving joint controllers Liberty Investors and Standard Bank Investment Corp (SBIC) about R36m apiece, which with the ordinary dividend increases to around R53m each. SBIC is about 40%-

Continued on page 90

Continue →

BANKING SUPERVISION (58)

Fine line FM 28/8/92

After five years in which banking supervision has been implemented by a department of the Reserve Bank, Governor Chris Stals has advanced a number of reasons for regulators to operate independently.

In his address to the Bank's annual general meeting on Tuesday, he said: "In reappraising its position, the Bank will have to be guided by several considerations." These include the:

☐ Extent to which its credibility as a monetary authority could be undermined by its involvement in bank supervision;

☐ Likelihood that it will attract a moral obligation to provide financial assistance to a deposit-taking institution under its supervision;

☐ Implications for supervision of the international trend towards integration of financial services; and

☐ Validity of the assumption that supervision is a logical extension of the central bank's day-to-day relationship with the banking sector.

These concerns obviously arise from the problems surrounding the failed Cape Investment Bank (CIB).

The bank was taken over by Prima Bank in December 1990, when it was already in trouble. Because the takeover was allowed by Hennie van Greuning, Registrar of Deposit-Taking Institutions, it was generally assumed that the Reserve Bank would stand behind CIB. In the event the Bank covered deposits of up to R5m, but a major casualty was the Commuter Corp which lost its deposit of R249m.

There has been much criticism of the role of the Bank which withdrew its own R300m deposit from CIB shortly before its collapse. Perhaps to avoid a repetition of this episode, Reserve Bank Governor Chris Stals has suggested separating the functions of bank supervision and lender of last resort.

A number of other preliminary conclusions have been reached:

☐ Practical ways of establishing an arm's-length relationship between the Office for Deposit-Taking Institutions and the Bank should be devised;

☐ Provision of financial support to deposit-taking institutions should be aimed solely at preserving the stability of the banking system and of the broader financial system;

☐ Attention should be devoted to the feasibility of introducing a limited deposit insurance scheme for private depositors; and

☐ The effect on the future structure of financial regulation, of an integrated approach to the provision of financial services, should be investigated.

"SA's system is now modelled on that of

continue →

Continued from page 34 (58)

the Bank of England," says Deloitte Pim Goldby's financial regulations specialist Tim Store, "which informally supervises the banking system.

In Germany, supervision falls outside the ambit of the Bundesbank and is carried out by a government agency, the Bundesaufsichtsamt.

"In the US, three federal supervisory agencies are responsible: the Federal Reserve Board, the Federal Deposit Insurance Corp and the Comptroller of the Currency. And each state has a supervisor.

"In Australia and New Zealand, the central bank is responsible for supervision.

"But recently a paper leaked to the New Zealand press contained much the same kind of suggestions now being made by Dr Stals.

"Based on its track record, the German system is most desirable. It is certainly regarded as the best model in Europe."

☐ The topic will be discussed at a conference on Thursday this week titled *Depositor and Investor Protection*. The keynote address will be delivered by David Llewellyn, professor of money and banking at Loughborough University in the UK. ■

NEDCOR BANK FM 28/8/92

Bigger deals

58

The decision to absorb Finansbank into Nedcor Bank's newly formed financial services division follows a disappointing performance in the last financial year — and six months of both boards' investigation into market needs.

In the year to September 1991, assets shrank from R1,8bn to R1,5bn, its contribution to 1991 group earnings fell by 22% and its net income, at R14m, was down 28,5%.

But its interim results for the current year were up 14% and Nedcor CE Chris Liebenberg rates Finansbank's performance as "satisfactory." Nevertheless, as of Nedcor's next financial year, starting October 1, the new financial services division — with Finansbank forming an integral part of it — will come into being. The division will offer the products and services of Nedcor's international, treasury and corporate banking divisions, as well as those of Finansbank's merchant banking activities. They will be marketed under the Nedbank and Finansbank brand names — to retain the goodwill established by both.

The restructuring allows Finansbank the potential to clear one of its major operating hurdles: that its capitalisation restricted the size of deals it could undertake. "Entrepreneurial boutique operations in the corporate market run the risk of trying to write deals that are too big for their balance sheets," says Liebenberg, "but now Finansbank won't have to try to sell the financing to other institutions or limit its involvement in projects to that of a fee-based consultant."

The advantages for the group include elimination of duplication, transfusion of additional expertise from Finansbank to Nedcor and the redeployment of staff (where necessary) so that retrenchments can be avoided altogether.

Finansbank CEO Izak Botha will head the financial services division.

UAL — Nedcor's other, more specialised, merchant banking operation — is not affected by the "merger". ■

MUTUAL & FEDERAL FM 28/8/92

(58)

New catastrophe reserve

Year-end results from SA's biggest short-term insurer, Mutual and Federal (M&F), confirm the turnaround in the industry shown in recent interim results from competitors. And, like most competitors, M&F lists the usual reasons — *except* last year's sharp premium increases — for its improved underwriting performance.

That advanced 176% to R52,5m, on a meagre 8,3% growth in net premiums, to R1,1bn. MD Ken Saggers puts this down to M&F absorbing VAT costs when the tax was introduced last year. Without VAT costs, premium growth would have been about 9% better, he says. It suggests rates can't be as unrealistic as the industry claims, despite the apparent fierce competition.

M&F has created a new R60m catastrophe reserve because of the "abnormally favourable weather conditions," which have spared the industry major disaster claims and which M&F clearly does not believe will last. This is in addition to its R123m contin-

FM 28/8/c

gency reserve and R1,1bn investment fluctuation reserve. With such a healthy reserve cushion, M&F looks as though it plans to do its own re-insurance.

At R30, the share price has stagnated for most of the year, after climbing about 114% last year. On these results it trades at a 14% discount to net worth, suggesting the price is fair in an expensive sector.

Shaun Harris

FM 28/8/92 (58)

INSURANCE (58) FM 28/8/92.

Dodgy scheme

The police have launched a full investigation into payments allegedly made to former Santambank (now Bankfin) officials in connection with insurance policies. It is estimated that the amount in policy premiums could be between R10m and R18m, but it is not clear what proportion of this amount is being investigated.

Absa CE Piet Badenhorst reacted quickly and one senior Bankfin official, Joe Kirsten, has been suspended. Kirsten was not available for comment.

Colonel Louis Esterhuizen, head of John Vorster Square's commercial branch, confirmed the investigation to the *FM* on Tuesday. "It is still at a very sensitive stage," he said, adding that the police have confiscated certain documents.

The investigation was launched after police were informed about possible irregularities involving an insurance scheme. The scheme was devised to allow for an incentive to be received by bank agents for marketing the product. Santambank became Bankfin with the merger of TrustBank, Senbank and Santambank to form Bankorp, which earlier this year became part of the Absa group. Bankfin recently merged with Absa Motorbank.

The insurance policy was initially called the National Underwriting Managers Mechanical Breakdown policy, covering vehicle owners in cases of mechanical breakdowns. It was first proposed that R21 of the monthly premium be used as a bonus, payable to marketing agents employed by the former Santambank. However, Santambank's top management decided against this proposal and ordered that no bonus be paid for this purpose to agents.

Information leaked to the police, however, indicated that individuals continued to receive incentives to market the product. According to the information, these incentives are said to include windbreakers, entertainment, rugby tickets, trips and, allegedly, hard cash.

A team of detectives, led by Captain Piet Welgemoed of John Vorster Square, recently visited the Bedfordview head office of Sherre Underwriting Managers, the company which has been underwriting certain insurance policies marketed by the former Santambank and removed various documents. Sherre chairman Richard Barkhuizen confirmed this to the *FM*: "However, I do not believe that we are involved."

Barkhuizen explains that the scheme was nothing more than a "sponsorship scheme through which advertising novelties were distributed as part of a marketing strategy." He says he is aware that the former Santambank management had forbade the giving of cash incentives to their staff. "No cash ever changed hands as far as I am aware."

The *FM* has learnt that Absa's Badenhorst immediately took certain steps after details of the police investigation were made available to him. An internal investigator, Roy Simpson, was instructed to personally investigate the matter and assist the police. Simpson would not comment this week. "The matter is still very sensitive," he told the *FM*.

Eddie Botha

War over 'promised land'

58 STAR 29/8/92

THIS week's skirmishes over land raised quite a bit of dust.

The attempt to auction off 53 pieces of Government land on the Reef was stopped by ANC pressure, and Deputy Minister of Land Affairs Johan Scheepers, verbally pelted by his critics, issued persistent denials that self-governing homelands were to get giant "gifts" of land

Between partial retreats and coded messages, it was hard to make out precisely where the battle was going

Were these controversial Government moves, involving privatisation and homeland control of land, simply blunders due to the lack of a coherent land strategy?

Or were they purposeful, if risky, steps taken in pursuit of a land strategy intended to underpin the National Party's political/negotiating position?

Incorporation

Scheepers made it clear that, while the Government was avoiding full-blown incorporation of land into the homelands, it was not going to deny homeland governments some say over what he called their "promised land"

The land in question, totalling about a million hectares, belonged to the now-defunct South African Development Trust It was part of the infamous "13 percent" earmarked under the old Land Acts for black settlement and eventual incorporation into the homelands.

As Scheepers refined his denials of an outright gift of this land to the homelands, it became clear that the Government would probably share administration of these areas with the homeland governments.

To give the homelands ownership or sole control of the land would be to flout the White Paper on Land Reform, the Deputy Minister said

"We are not shifting aside the White Paper; it is still a working document But when you investigate possibilities, you go beyond the White Paper"

Joint administration would, in all likelihood, be accompanied by the sale of this land — effectively State land — to individuals or communities, Scheepers indicated

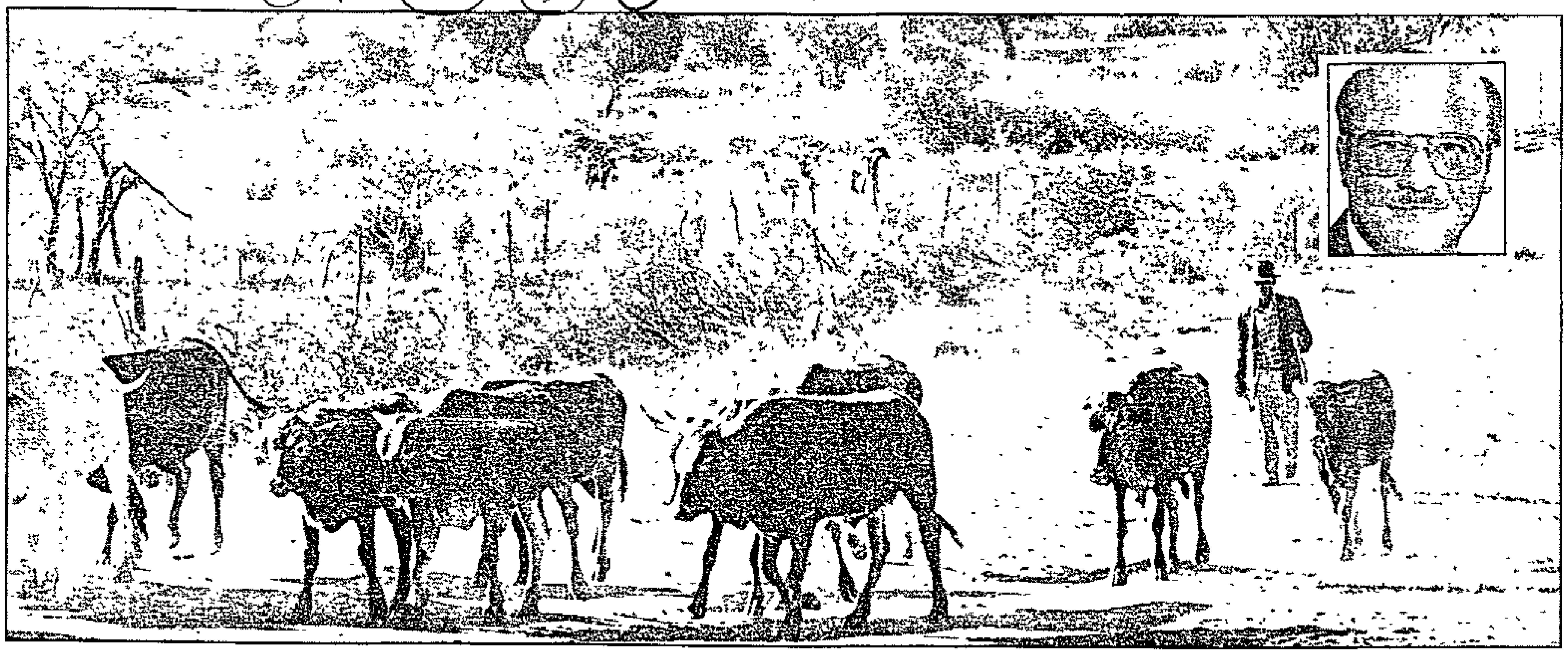
Land rights groups, such as the Natal-based Association for Rural Advancement and the National Land Committee (NLC), have stated plainly that joint administration is as bad as outright homeland control, which is in turn as unacceptable as transferring ownership to the homelands

Memories of incorporation are recent and bloody — in Moutse, Braklaagte and Leeuwfontein in the Transvaal, where resistance to the new administration gave rise to brutal vigilantism and security force repression. The Moutse land grab lit the fuse to virtual civil war in KwaNdebele in 1986

Even the extension of homeland administration of areas beyond its borders has been resisted For instance, the Border village of Mgwali brought a successful court action to have the arrangement declared unlawful

The pointers from the past are unequivocal: by introducing even an element of homeland rule, the Government has chosen a path which runs a high risk of conflict It seems strange that it should do this when political parties across the spectrum accept the imminent demise of the self-governing homelands.

THE Government found itself in a bit of hot water this week over its attempt to auction off land earmarked for black settlement. The question JO-ANNE COLLINGE asks is: what did it think it was playing at?



TUG-OF-WAR COUNTRY: A herdsman goes about his work in Leeuwfontein, one of the "incorporation hotspots". INSET: Deputy Minister of Land Affairs Johan Scheepers.

The very obvious problem of landlessness and overpopulation in the homelands is the spur, says Scheepers. "We see the main issue as landless people, people in need of land adjacent to self-governing territories. When we talk to self-governing territories, they say 'Our people need more land'."

Although a considerable proportion of the 1 million hectares is already heavily populated, a fair chunk constitutes agricultural land currently being leased to white farmers, he points out.

The NLC's Joanne Yawitch asks Why this sudden about-face? And ANC sources point out that it is entirely feasible to offer land to the landless without drawing homelands into the solution.

While squatter settlements mushroom, the Transvaal Provincial Administration, for one, has been less than adept at finding land to give the homeless secure tenure

Earlier this month a Transvaal Supreme Court judge attempted to nudge the TPA into securing land for the people of Welverdiend, a community left high and dry on a deproclaimed diamond digging in the western Transvaal

Postponing a hearing which could feasibly end in eviction, Mr Justice Mynhardt ordered that a copy of his judgment be sent to the TPA to urge it to find a real answer for Welverdiend. The court heard that TPA negotiations over about a year had been fruitless

The extremely limitec powers given to the State Pre sident's Advisory Commissior on Land Allocation, set up t redress some of the injustice of forced removal is regarde as a further comment on th depth of the Government s re concern with landlessness

These factors suggest tha the land deal is at least as im portant to improving relation between the homeland goverr ments and the NP Governmen as it is to relieving populatio pressure To the NP's politica opponents it appears more tha coincidental that homelan governments are being consult ed about land just as Presiden de Klerk's meeting with partie interested in strong regiona government comes into view

ANC sources charge tha State resources are being use quite crudely by the NP fo the party-political purpose o alliance-building How far thi will succeed remains to b seen The six self-governin homelands are divided dow the middle politically — Le bowa, KaNgwane and KwaNde bele falling into the pro-AN Patriotic Front camp an QwaQwa, KwaZulu and Gazan kulu siding with the NP

Pre-empting

The ANC's local affairs chie Billy Cobbett describes it as "cautious scorched earth strategy, while the NLC ob serves that the NP is intent o "pre-empting the possibility a new government implemen ing a coherent and carefu planned process of allocatin State land"

The land policies of the AN and the Government differ fun damentally

But during the period of ne gotiations, many believed, th policy differences were almos academic as implementatio would remain suspended a least until the first democrat elections were held

However, there is now som evidence that the Governmer has a land strategy in additio to a policy, and how the AN and its supporters will match remains to be seen

Bank will not help Masterbond victims, says Stals

STAR 29/8/92 (58)

BRENDAN TEMPLETON

MASTERBOND victims cannot expect the Reserve Bank to provide them with financial relief, says Bank Governor Dr Chris Stals.

He announced during the Bank's annual meeting this week that the Bank was investigating the possibility of introducing a limited deposit insurance scheme for private investors to protect them from loss of savings.

When Saturday Star asked him whether this could include Masterbond victims who invested through banks, the answer was a firm no"

Banks acted as agents for Masterbond, taking millions of rands from thousands of pensioners even though this was illegal in terms of the Deposit Taking Institutions Act

Stals said the registrar of deposit-taking institutions — who was answerable to the Bank — had paid out certain investors who suffered when some small banks were liquidated recently This threatened to create the false impression that the Bank was a lender of last resort.

To clarify the situation, the Bank intended to determine exactly when it would be willing to pay out private investors The only guideline the Bank would use was whether such payouts were in the interests of the banking industry as a whole. Masterbond fell outside the Bank's ambit as it was not a registered deposit-taking institution Stals said

Others differed with him They believed the registrar should have forced Masterbond to register because it was taking deposits from the public

The registrar claimed Masterbond fell outside the ambit of deposit-taking institutions legislation as it accepted deposits on behalf of property development schemes and therefore acted only as an agent

However, Masterbond also had shares in some of the properties, and Don MacKenzie, of the Masterbond Victims Disaster Fund believed this meant it could not claim to have been merely an agent

Stals said he wished to end th five-year "marriage" between th registrar and the Bank

The registrar had a regulator role to play which could bedevil th Bank's proper function — the cor trol of monetary supply

"The registrar does not really b long in the Reserve Bank" he said

MISSION: To give banking ...

A big day for the little man

STAR 29/8/92 (58)

DEREK TOMMEY talks to Tony Norton, new head of the Clearing Bankers' Association, on ways to help aggrieved bank customers.

SOUTH African banks want to be more accessible to their customers so as to avoid the sort of mistakes which recently give rise to overcharging complaints.

One bank client said his bank had overcharged him some R2 million in interest payments.

Tony Norton, newly appointed head of the Clearing Bankers' Association, said one of his assignments was to find ways to enable aggrieved customers and especially "the small man" to quickly and easily bring any complaints they might have to the attention of someone in authority. This could possibly indicate the need for an ombudsman, he added.

This would bring the banking industry in line with the life assurance industry, which employed a retired judge as ombudsman to investigate complaints.

Norton said his exercise was primarily aimed at helping the small man in his dealings with the banks, as the big corporations could look after themselves.

He said there was intense competition between the banks. And in this situation, overcharging a client would be the last thing they would want to happen.

He said many of the recent reports about overcharging were untested and were not taken up with the banks. Past experience suggested that the factual basis of the allegations could well be incorrect.

It was the banks' policy to totally oppose overcharging, intentional or not. "It is central to the principles of good banking that both sides of a banking relationship observe their obligations."

Should overcharging occur and it was found to be through unauthorised conduct by officials, they would be liable to severe disciplinary action. Bankers regarded themselves as people of integrity and would be appalled.

Norton said established cases of overcharging in the past had been rectified and would be similarly rectified in the future.

A banker said some of the recent complaints had arisen because of uncertainty about the application of the Usury Act.

The maximum rates of interest specified by the Act — 31 percent on sums of less than R6 000 and 28 percent on sums of more than R6 000 — were nominal rates.

As these rates could be charged on a daily basis — though booked monthly — the effective rate was higher than the nominal rates. This was legal, but some said the banks were exceeding Usury Act rates.

He said it was possible the Usury Act could be changed next year to specify the maximum effective rates of interest on various sums. Some bankers believed that specifying a maximum rate of interest was not a help but a hindrance to the small man.

These rates were not profitable enough to encourage the banks to lend to the small, struggling entrepreneur. The result was that he had to turn to money lenders where he might have to pay R10 a week on R100 — equal to a nominal rate of interest of 521 percent a year.

If the usury rates were abolished, the person in this situation could probably borrow money far more cheaply than he was able to do so today.

Another cause for misconception was that, in the case of overdrafts, banks could capitalise outstanding payments and charge interest on them. But this was not allowed in most other instances of consumer debt.

Another cause of complaint was the rate of interest charged on credit cards.

Hang on to properties

Cash in you

How to pay for your new home

STAR 29/8/92

FINANCE STAFF

58

PRECISELY what additional costs have to be taken into account when buying a house and how can you raise additional cash to help you over the financial hump?

Camdon's Group MD Scott McRae identifies a number of crucial elements, including deposit, closing costs and bond payments.

The deposit, by law, is usually 10 percent for a new home and 25 percent for a second-hand home, although, in practice, the institutions do sometimes issue 100 percent bonds.

The closing costs include items such as valuation fees, bond registration, transfer fees and duties, electricity and water deposits, rates and taxes, and occupational rents.

When considering a bond, McRae points out that the monthly repayments should not be more than 30 percent of your gross monthly income according to norms laid down by the lending institutions.

As to how to raise additional cash, McRae suggests the following:

- Cash value on life insurance
- Stocks and bonds.
- Advance on wages.
- Future bonuses, commissions — borrow against them.
- Second mortgage on other real estate.
- Refinancing of other real estate.
- Loan from bank (secured or unsecured).
- Borrow against a pension or trust fund.
- Outright sale of assets or personal property.

FNB may buy UK bank

STAR 29/8/92

BRUCE WILLAN

(58)

FIRST National Bank, formerly an associate of Britain's Barclays Plc, is said to be planning the takeover of an offshore bank, based in London.

South African banking circles believe that FNB, one of the country's three largest banks, has been planning the takeover for some time.

If the speculation is true, the deal would fit in well with an announcement made earlier this year by FNB on its "internationalisation" plans. The [illegible] raised a considerable sum of money with a rights issue.

Approached for comment, an FNB spokesman said a statement would be issued "at an appropriate time". — Sapa.

FNB in hunt for UK bank

S Times (Buss) 30/8/92 (58)

By CIARAN RYAN

FIRST National Bank is set to announce a foreign acquisition.

This follows publication of an FNB warning on Friday.

Analysts suggest a London bank would be FNB's choice.

After Barclays sold its stake in FNB in the mid-1980s, the SA bank lost its foothold in London and was forced to maintain correspondence links with its former parent.

This caused a considerable loss of income to FNB, says an analyst.

Acquiring a UK bank would overcome the difficulty of obtaining a banking licence to operate in London.

FNB raised R550-million through a rights issue in February.

Senior general manager and chief finance officer Viv Bartlett indicated at the time that the bank might use the capital to open a UK subsidiary.

Proceeds of the rights issue were also to be used to recapitalise FNB's Swiss finance subsidiary, leading to speculation that it might expand in Switzerland. But this has since been discounted.

Market sources suggest the target of the takeover will be a relatively small bank, given FNB's available funds of R550-million — £100-million.

Standard Bank London was granted a UK banking licence this year. It also acquired the Jersey and Isle of Man interests of UK merchant bank Brown Shipley's.

JSE analysts have discounted the possibility of a long-rumoured link with Nedcor, whose share price dropped from 1 625c to 1 550c this week. No warning was issued this week by Nedcor — it would have been obliged to do so if negotiations were under way.

One of the most serious barriers to a Nedcor-FNB merger is the difficulty in accommodating two life companies. Old Mutual is Nedcor's major shareholder and FNB is an associate of Southern Life.

It was also speculated that FNB was negotiating to buy London-based ANZ Grindlays' African interests. This has been discounted because Stanbic has been talking to ANZ Grindlays.

Improved performance from Protea

SI Times (CM) 30/8/92.

CAPE-BASED Protea Assurance announced it was showing a major improvement in performance for the six months to June 30, with attributable profits of R12,08-million against the loss of R8,73-million posted for the corresponding period last year.

(58)

Main reason for the turnaround is the underwriting result which has leaped from a loss of R18,01-million at the 1991 half year to a profit of R992 000.

The underwriting improvement results from a decision taken 18 months ago to eliminate unprofitable business from the portfolio, which also meant there was slowdown in growth of net premium income, from R144,3-million to R141,3-million.

Contributing to the improved interim results was an increase from R11,44-million to R13,28-million in investment income. Life division income rose from R375 000 to R430 000.

An interim dividend of 25c has been declared on earnings of 154c a share.

Henry Ansbacher being wooed

FNB is set to clinch deal for London bank

BDAY 31/8/92 (58)

GRETA STEYN

FIRST National Bank is negotiating to buy British merchant bank Henry Ansbacher in a deal worth about R300m.

FNB senior GM Viv Bartlett yesterday confirmed the name of the merchant bank. This followed cautionary announcements at the weekend in Johannesburg and London.

Ansbacher's announcement said discussions were at an advanced stage and might lead to an offer.

Bartlett said FNB was not specifically looking for a merchant bank, but wanted a London banking licence and infrastructure. Ansbacher would give FNB access to offshore deposits.

"We would become virtually self-funding in sterling and dollars. Ansbacher is a net provider of funds to the London markets."

FNB's move follows Standard Bank's acquisition of a London banking licence. Absa has two banking licences in London and Nedcor also has a branch in the city. Ansbacher has a 100-year history in the city.

FNB MD Barry Swart was quoted in the London Financial Times at the weekend as saying the bank had found it was unable to service its multinational clients without a European presence.

He said the bank also wanted to trade SA securities in London.

London merchant bank Singer & Friedlander had been looking at buying Ansbacher, but the deal fell through.

The Independent newspaper reported in London at the weekend that Ansbacher had said the price Singer had been prepared to offer was between £50m and £60m. The bank's management believed this undervalued the bank and was unfair to minority shareholders.

Ansbacher, which specialises in Third World and SA debt, made a pre-tax loss for 1991 but turned profitable again in the half-year to June.

The Independent said Ansbacher management was likely to be relieved at the appearance of a new suitor. The worry about Singer was that the two banks were so similar in structure that Ansbacher was likely to be dismantled with heavy job losses in a takeover. A foreign, non-merchant bank acquirer might be less likely to break it up and more likely to invest in its expansion.

The report quotes Singer chairman Anthony Solomons saying: "We gave them price parameters.... We think it is worth doing at a certain price and no more."

The outcome of the discussions with FNB would be known by October.

Ansbacher's shares are 62% held by Swiss investment group Pargesa Holdings.

Pargesa indicated 18 months ago that it wanted to sell its bank shareholdings. Its Ansbacher stake has fallen sharply in value as the shares have slumped to the current 26p from 90p in 1990.

The shares were unchanged at 26p on Friday.

Bond threat hits Nedcor's shares

BIDAY 31/8/92

58

GRETA STEYN

NEDCOR shares took a beating last week as the threat of a bond boycott led investors to take a dim view of the Perm's prospects.

The share shed 6% in a week to close at R15,25 — a sharp fall at a time when bank margins are comfortable and competitors Stanbic and First National are favoured by the market.

Nedcor's shares have been on a downward trend since its March interim results, which disclosed a 22,6% jump in bad debt provisions. The Perm accounted for the largest single increase in risk provisions.

Nedcor spokesman Mike Leeming said he believed last week's threats by SA National Civics Organisation leader Moses Mayekiso of a large scale bond boycott had put pressure on the share.

"We have been in contact with the civics and believe the probability of a bond boycott was exaggerated," Leeming said.

Perm divisional chief Hugh Maclachlan said the Perm was probably in a better position to deal with any boycotts than other lending institutions because of its longstanding relationship with the civics. Other banks had larger township exposure in rand terms than the Perm, although the latter's portion of exposure was the highest at about 26%.

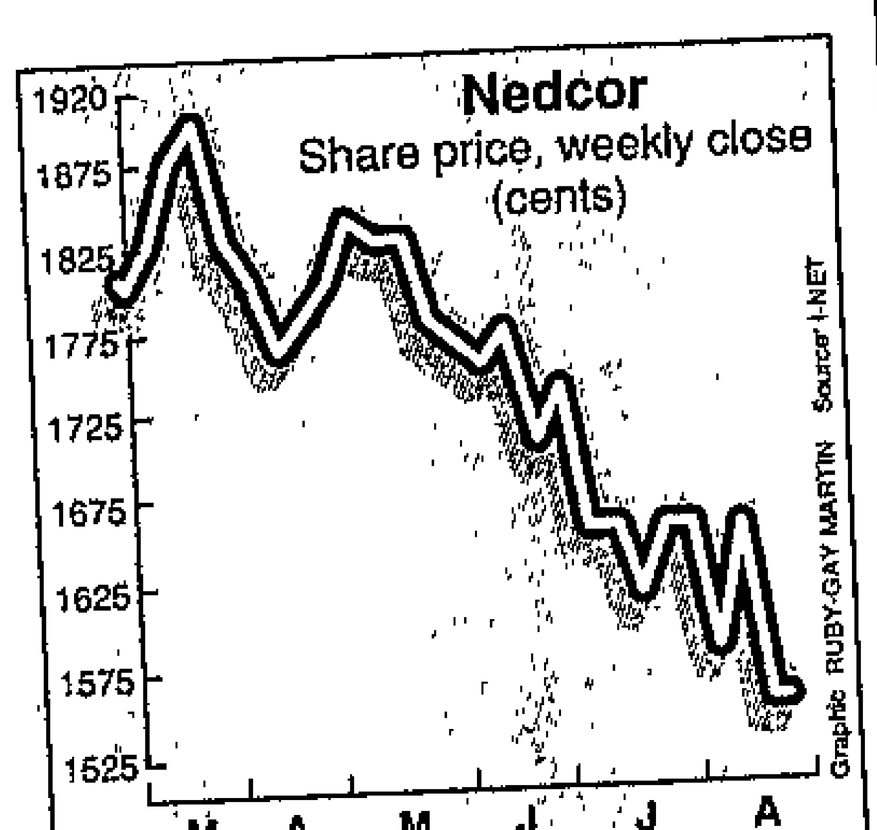
Asked whether the Perm was cutting back on its township lending, he said: "We are looking at our exposure and at our risk profiles. In some areas, we would not like to see an increase in our exposure. This obviously does not only apply to townships. There are some white areas in the Free State that are also not a good risk at the moment."

He said the Perm's township exposure was still rising, but not at as rapid a pace as three years ago.

The biggest mortgage lender, Absa, has also seen its shares come under pressure, reflecting the market's concerns over Absa's takeover of Bankorp.

Absa also is not actively seeking increases in its mortgage book as it wants to concentrate on increasing its share of the corporate market.

● See Page 4



Bankers must take a stand

BDay 31/8/92 58

MOSES MAYEKISO

PERSUADING the bankers is no easy job. The SA National Civic Organisation (Sanco) has been meeting with bankers for a few weeks, and we are having a frustrating time trying to put across the big picture.

The Council of SA Banks (Cosab) has not treated seriously a simple request: help the democratic forces pressure the current government to discard its racist stance on the nature of reform and the future constitution. The bankers say they oppose violence and support negotiations, but are unwilling to prove it.

Just as Cosatu attempted to reach a mutually beneficial arrangement with Saccola to avert the general strike, Sanco is now saying to Cosab: "Put your money where your mouth is. Stop funding apartheid. Stop providing financial services to homelands, the black local authorities and the police, army and Armscor."

Cosab responds that "banking is internationally neutral in such matters" and that in any case "the banking sector provides very limited facilities to government outside of legal requirements for prudential purposes". Moreover, "government can service the accommodation needed for itself and its related organs from its traditional sources".

All these statements are banal. If the state is self-financing, how is this year's R15bn budget deficit to be paid for? In reality, the bankers have more than R13bn in loans to the state on their books, and carry out crucial activities in transferring money between corrupt divisions.

Are international banks "neutral" when it comes to these sorts of activities? Bank of America has a policy in opposition to SA's "systematic racial discrimination and disenfranchisement of the majoriy of its population" and backs this up by refusing to deal not only with the SA government, but with Cosab members as well. Citibank vows not to return to SA "until apartheid is ended," while J P Morgan pulled out of a $100m loan to the Independent Development Trust last year when it learned of opposition to breaking financial sanctions.

So it appears that Cosab is out of touch with a unique international reality: the present undemocratic regime remains a pariah in civilised financial circles.

This is not the case only because ANC leaders threaten to renegotiate foreign loans taken on prior to the establishment of an interim government, but rather because international banks actually have a relatively long-term view, and know that it is only with democracy that the SA economy can grow.

How do we make this case any clearer? Sanco has tried talking to Cosab, and we have also opened some potentially productive lines of communication with the Mortgage Lenders' Association (especially the Perm).

It is our hope that people in arrears on housing bonds — as well as future borrowers — will gain relief from a proposed banking code of conduct, based on the premise that bankers must radically change their operating procedures in order to do business in the new SA. This does not mean throwing money away.

The bond boycott is one of a number of tactics that is being used to sharpen the banks' sensitivity to our problems. True, it has the potential to be painful to the banks, and we also understand the implications for communities. However, we know that bankers were already pulling out of disadvantaged communities anyway. And we know that tens of thousands of bondholders are unable to repay the bankers as it stands.

The repayment problem was especially severe after interest rates on bonds soared from 14% to 21% within 18 months. Because of inflation and unprecedented unemployment, the situation is still unbearable to many bondholders.

Some people who are repaying the bankers are doing so at a tremendous cost to their families. Some live in houses near hostels, which are often now uninhabitable. Some live in houses that have terrible structural defects. And some bondholders live far from central cities, in apartheid townships that should never have been built.

Though the banks granted loans to only the top-earning 10% of the black population, billions of rands are at stake, and the banks have a legitimate claim to repayment. It is primarily because of this that we want to avert a confrontation.

But a confrontation is inevitable if people who are unable to pay are forced to vacate their houses. As a tactic — not a strategy nor a principle — the bond boycott may be the only hope that people on the ground have to redress their problems. We hope this is not the case, and that Cosab, and the mortgage lenders in particular, see our point of view.

☐ **Mayekiso is Sanco president.**

BOOKS

First National Bank joins rush overseas

STAR 31/8/92

By Derek Tommey (SB)

The rush to operate overseas is on.

This is highlighted by reports that First National Bank (FNB) is soon expected to announce that it has bought a British merchant bank.

The purchase should enable FNB to follow its clients abroad, which it cannot now do, and provide them with loans and back-up services and so maintain close connections.

FNB will be following in the footsteps of the Standard Bank, which got a UK banking licence earlier this year.

The move reflects the fact that SA companies are increasingly looking overseas for profit growth in the 1990s.

Unless local banks go with them, they could lose heavily.

Hans Smith, MD of Samancor, the world's larger producer of ferrochrome and a major investor in the huge Columbus stainless steel project, succinctly puts the case for SA companies.

Hans Smith . . . no choice but to develop overseas

He told a press conference last week that if his company was to maintain the momentum it had enjoyed in the past 10 years, it had no choice but to develop overseas.

Murray & Roberts, the giant construction and manufacturing group, is also looking hard for business opportunities abroad.

Part of its business plan, which it reported last week, is to:

- Ensure that its existing export-oriented companies will continue to expand into world markets;
- Establish permanent operations in selected countries;
- Buy suitable foreign companies; and
- Look for joint venture projects through alliances with SA companies and foreign partners.

The desire by SA companies to develop overseas should not be interpreted as a flight from the local political situation. All the companies intend maintaining major operations at home.

It merely reflects the view that these companies, with their particular skills, can achieve greater growth overseas than they can at home.

Suggestions that SA's major companies are already too big and should be dismembered — surprisingly, a view apparently supported by Minister of Foreign Affairs Pik Botha — could be a minor contributory factor.

There could be considerable gains for SA. If the new ventures prove profitable, they could result in a useful flow of dividends and profits.

They could make SA companies more powerful and open the door to up-to-date foreign technology.

The other side of the coin is that with their attention focused on overseas developments, they might overlook local developments.

A contributory factor in FNB's move is the existence of exchange control, which means that companies going abroad have to use overseas capital.

By acquiring a British bank, FNB should be able to continue to play a part in this process.

It is also hoped that an FNB operation in London could help assuage foreigners' fears about SA, thereby leading to increased investment.

The market will be looking closely to see what FNB will be paying for this bank. With an overvalued pound, an under-valued rand and a depressed finrand, it might not initially be a bargain.