FINANCE - GENERAL

1992

SEPT. - ~~OCT.~~ NOV.

BUSINESS DAY, Tuesday, September 1 1992

Standard discourages devaluation of rand

(58)

BIDAY 1/9/92

SHARON WOOD

A RAND devaluation was not necessary, given SA's current account surplus and comfortable debt management position, Standard Bank said in the latest issue of its Economic Review.

The bank was responding to the furious debate which has emerged in recent months about whether the Reserve Bank was following an appropriate exchange rate policy.

"Taking into account SA's generally improved export performance . . . and exemplary foreign debt management, it is hard to concur with the view that the trade-weighted value of the rand ought to be made to depreciate as a matter of policy," it said.

A realistic exchange rate policy was a key starting point for structural adjustment of the economy.

There were two exchange rate policy options available to the Reserve Bank.

The first was to facilitate export price competitiveness, with the nominal effective exchange rate depreciating by the full inflation differential between SA and its trading partner.

The second was exchange rate management aimed at containing inflation.

The Standard Bank argued the Reserve Bank had generally been able to achieve a balance between the two.

"Devaluation is a policy instrument used by seriously distorted developing economies to enhance export competitiveness and to ration imports, often drastically, because they cannot service or repay foreign debt obligations."

In addition, the bank said, if SA exporters felt short-changed by a strong-rand policy, they chose to ignore that this had been partly compensated, at the taxpayers' expense, through the general export incentive scheme (GEIS) and VAT exemptions on exports.

"Moreover, the policy was precisely designed to force exporters to become more efficient by improving their labour and capital productivity," it added.

Standard Bank set out two other key requirements to begin a structural adjustment programme.

These were monetary and fiscal restraint and the political will to undertake significant economic reform.

Challenge

Monetary restraint had been a success but fiscal policy remained too expansionary and was at odds with macroeconomic balance, it said.

Political consensus was necessary for the successful implementation of structural adjustment, it added. "The tepid support given by the government to economic reform and the ambivalent attitude of important political players — notably the ANC — to markets underscores the policy challenge facing the economy."

Standard Bank believed the Economic Forum could be a useful instrument for discussing and "marketing" policy recommendations.

Insurance could be the answer

STAR 1/9/92

THE proposed stokvel unit trust (see story alongside) will experience problems if a member of a particular stokvel suddenly passes away or becomes permanently disabled while owing the stokvel some money. How will the person's loan be repaid? This question has occupied Andrew Lukhele's mind for some time and the National Stokvels Association of SA (Nasasa) has emerged with a good answer for such an eventuality.

Says Mr Lukhele, the Nasasa president: "Financial institutions, including insurance companies, are beginning to take us seriously. We are currently involved in discussions with one of the insurance companies that has a specialised division catering for Credit Protection Insurance. We can buy insurance from this company to insure the saving club against death or diablement of members."

Premium

How will this work?

The stokvel will pay a single premium for the credit protection policy that will cover the total amount of members' loans granted to them by the saving club from the unit trust.

Mr Lukhele says the premiums and the extent of cover will be highly competitive and provide cover for the whole loan period. This will enhance the viability of the unit trust.

Here's the mechanics of the scheme: The stokvel will use a unit trust certificate as collateral to acquire a loan for a member from the bank. The loan will be in the club's name while contributions will be from the member, who will be under peer pressure to meet repayments. Then in the event of a member passing away or becoming disabled, the insurance company in question would pay out the total amount owing on the loan by that member to the club. The club would then remit the cash to the bank in settlement of the loan. No one would suffer. This is a nice clean deal, says Mr Lukhele.

Exciting plan to boost black home-ownership

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ANDREW Lukhele, president of the National Stokvel Association of South Africa (Nasasa), is disappointed about the Government's and formal businesses' role in alleviating the severe housing crisis in black communities.

As a result he has embarked on a misssion for stokvels to play a leading role in easing this plight.

He has in the pipeline exciting projects for the development of solutions to the housing problems in South Africa.

He offers a sensitive argument from the black community: "Financial institutions such as banks and building societies, which are mostly run by whites, have been sitting with million of rands invested by black people in the form of pension funds, savings, including stokvel accounts.

"Yet they haven't made efforts to extend credit to black people to enable them to be property owners. And Nasasa is going to correct this situation."

"Mr Stokvel" . . . Andrew Lukhele, founder member and president of the National Stokvels Association of SA.

Millions

He says because of the collateral requirement of financial institutions, this had the effect of excluding millions of blacks from the formal financial system. It also means that savings by blacks are largely used as loans to relatively affluent whites.

Very little, if any, of this money is ploughed back into the community which provides it and needs its most.

Thus these institutions offer little incentive for saving because there's little or no connection between individuals' saving effort and their ability to improve their housing conditions.

"We have come up with a partial answer to the housing problem. Taking a lead from the highly successful Resident Management Committees (RMCs) in the United States, whose task it is to transform public housing into decent and affordable homes for the poor, Nasasa has, in conjunction with Tremsen Brokers Services, launched a number of building material depots in Soweto and the East Rand to provide cheap material to residents.

"We have entered into an agreement with building material manufacturers and expect this venture to be a substantial money-spinner and so contribute to the funding of other ventures."

Mr Lukhele believes the housing crisis could be alleviated by innovative approaches to financing housing projects.

And he has a big spectacular project on the cards to support his assertion. The stokvel association is planning to divest a sizeable proportion of stokvel money from commercial banks and building societies to unit trust certificates that can be used as collateral for home loans from such institutions.

This is not only to meet the security requirement, but to beat inflation that has been steadily eroding stokvel monies over past years.

Unit trusts are preferred because their returns have consistently outstripped inflation.

"Because poor people have no conventional collateral an adequate substitute would be a personal credit history offered with a stokvel's guarantee.

"A key feature of this unit trust concept is that the financial risk will be moved away from the bank and assumed by the stokvel.

"The bank will be lending money to the stokvel rather than individuals. Stokvel members will, in turm, ensure loan repayments by means of peer pressure," he says

And this idea is already getting support from financial institutions.

First National Bank general manager Jimmy McKenzie is quoted as saying the plan was excellent and his bank supported it. The bank would certainly consider accepting unit trust certificates as collateral for home loans.

"Should the scheme get off the ground, it would make low-income earners 'bankable' by enabling them to acquire assets and build up a track record of payment."

Johan Kruger, GM at the Development Bank of South Africa, said any move to divert funding into black housing was to be welcomed from a development perspective and represented a praiseworthy use of the stokvels' financial clout.

He added: "The initiative will create an interface between sophisticated financial institutions and the less sophisticated community in a way that is financially acceptable."

This new scheme, says Mr Lukhele, will be co-ordinated by stokvels, which will determine the credit status of members and then ensure they meet their repayments. A borrower's ability to pay, rather than collateral, will be taken into account. Even the unemployed may be granted loans provided the total household income is sufficient to meet repayments.

A number of investment companies in the US and Europe have signalled they would invest in the unit trust if it yielded good returns and benefited the people on the ground, says Mr Lukhele.

This will enhance the investment capability of the unit trust and ensure good capital injection from overseas investors. And Nasasa will be lobbying hard to get this capital.

It pains Mr Lukhele that the Government has not taken any meaningful steps in easing the housing shortage. For instance, while billions are set aside by the Government for black housing, only 10 000 houses have been built in 1991.

He believes little or no progress will be made in the construction of the country and development of its communities until the housing crisis is addressd and resolved

Everyone must be involved in the provision of shelter. This may range from private entrepreneurs in the formal and informal sectors, to non-governmental organisations, and co-operatives, community groups and individual households.

This issue of collateral for loans has long been a talking point between black and white businessmen, with the latter claiming it is a proven method of reducing the risk of non-payment and the former saying it excludes many people who have been denied the chance to accumulate resources to fully participate in the formal economy.

Praise

Mr Lukhele praises Professor Mohammed Yunus, of Bangladesh's Grameen Bank, who criticised the notion that credit should be the exclusive privilege of the rich because they can provide conventional collateral. The professor said: "If collateral can provide the basis for the banking business, then society should mark out the banks as harmful engines for creating economic, social and political inequality by making the rich richer and the poor poorer."

Bumper dividend payout for Libvest shareholders

DUMA GQUBULE (58)

LIBERTY Investors (Libvest), which reported a 35% jump in profit to R27m for the half year to August, is to give its shareholders dividends totalling R52m from the dividends declared in the Liberty Life group.

The bumper payout includes a normal dividend of 8c (6,2c) a share — out of earnings of 13,2c (9,8c) a share — and a special dividend of R35,8m or 17,5c a share based on Libvest's 50% interest in Liblife Corporation, the Liberty group's ultimate holding company.

Liberty Life recently declared a 35th anniversary special dividend of 100c a share, while Liberty Holdings' 25th year in existence was marked with a special payout of 300c a share. BDAY 2/9/92

Libvest's only other investment is in 1-million Standard Bank Investment Corporation (SBIC) shares. SBIC recently increased its attributable earnings by a quarter to R253m.

Libvest's results were in line with those of Liberty Life and Liberty Holdings which recently reported earnings increases of 32% and 34% for the half year to June.

Metlife pays maiden div

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Finance Staff STAR 2/9/92

Metropolitan Life Unit Trust (Metlife) yesterday declared its maiden income distribution of 7,90c (3,64c interest and a 4,26c dividend) per unit.

Payment will be made on September 30 to all unitholders registered on August 31.

Managing director Eric Turner said: "About 22,1 percent of the fund is still being held in liquid assets in anticipation of opportunities to buy on the stock exchange."

He said earnings were relatively high when compared with those of other general funds because of the fund's high liquidity.

Estate agents 'need further education'

8159 2/9/92

THE need for continuing compulsory education in the real estate industry after the estate agents board exam is an issue newly elected president of the SA Institute of Estate Agents Ian Taylor intends to pursue.

"Many courses are available for people in the industry but, except for the board exam, none of these is compulsory, he said.

The main reason for continued education was to improve the quality of estate agents and protect the public, he said.

The institute would discuss the matter with the Estate Agents Board, but Taylor said the first moves would be to establish the groundwork for changes.

A lack of education among estate agents rather than a deliberate misleading of clients was the main reason behind most cases in which people had lost money or not received the best advice.

He said the quickest way to upgrade the level of education in the real estate industry was to have an examination for principals — estate agent owners or managers.

"This course should be compulsory before an agent is allowed to manage an estate agency office. A principal who is fully trained can better advise his agents, and that in turn will protect clients' interests more fully."

In the US, which has been the world leader in real estate for some time, an estate agent has to complete a minimum number of courses a year before being re-issued with an operating licence.

While the institute already holds various annual seminars at its branches countrywide, and the National Property Academy holds formal courses, these needed to be extended, Taylor said.

Banks give agents incentive

The banks are playing a key role in getting residential property on the move — all to the benefit of the buyer and seller by circulating many more millions throughout the system by paying estate agents upfront commissions.

Previously, agents had to await transfer of property before collecting their dues, but Absa took the lead with early payments on a signed deal, thus helping to giving the real estate industry a much healthier cash flow.

Now the Perm has followed suit and one wonders how much longer the other major institutions can hold off from taking similar action so as not to lose out in the massive home loans market share.

Confirming the Perm's decision at the Institute of Estate Agents' convention at Sun City recently, Neels Oosthuizen, national manager of estate agencies, said all commissions would be fully paid.

"Unlike the Absa scheme, however, we are not confining the concession to selected agents but opening it up across the board," he said.

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STAR 27/9/92

Recovery will see big price rise

There is consensus among estate agents that although market conditions are far from satisfactory and the time taken to sell property continues to lengthen, there must come a correction and market recovery will eventually see home prices surge.

Property values in SA are generally regarded to be out of step with world trends and once the economy gets back into gear, on the strength of a more stable political scenario, a "catching up" must be expected.

One leading agent, Scott McRae, managing dirctor of the Camdon's Group, has no doubt that "today's buy in property is tomorow's bargain", taking into account the inflation rate alone.

"It's just possible that one might never have such an ideal opportunity as now to secure a home and to delay on a decision is to risk missing out on what is most certainly a long-term investment gain."

Mr McRae has no doubt that the banks will move again on a downward adjustment on the mortgage rate and a decision by the Reserve Bank on the Bank Rate — confidently expected within weeks — could prompt additional relief for home owners.

The highly competitiveness of bond business today makes it imperative by the banking fraternity not to be caught napping and miss out on market share when rates drop.

The Camdon's MD also lists these other positive factors for today's home buyer:

- Sellers' asking prices have fallen as much as a third compared with the peak prices achieved during the last property boom.
- The availability of stock. There is, in fact, an oversupply of homes, which gives the buyer the option to pick and choose
- The market is at the bottom of the trough — the time when the "smart money" moves in and secures property acquisitions.
- The builders are "sharpening their pencils" with a view to costs, so it is an ideal time to secure their services.

"Developers, too, have become market wise," he says, "and are bringing to the market more reasonably priced property and well within the reach of first-time buyers.

"There are also plenty of attractive home-financing methods from the lending institutions from endowment-linked bonds to flexi-bond type schemes."

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Star 2/9/92

Rate cut boosts buyers' confidence

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STAR 2/9/92

It's bond cheer time again as the rate drops another one percentage point from yesterday, to 17,25 percent.

The likelihood, too, of additional reductions in the coming months to a possible 15 percent is bringing a much needed spark back to the residential market. Collectively, the three bond rate cuts so far this year must help to make people's commitment to property ownership that much easier.

As one real estate source says: "Every little helps to bring a home a little nearer to a lot of people."

Amid the joy, though, we might ponder the heady days when a succession of mortgage reductions would have immediately stimulated residential property, resulting in a sales spurt in all sectors, with sustained demand pushing up prices of homes.

Progress

Such a situation is a distant memory today as the persistent economic drag impinges on the financial capability of the majority of home buyers to such an extent that any relief in bond repayments has made little or no difference to market conditions.

The real estate industry, in line with all other economic sectors, requires signs of progress towards political settlement before buoyancy returns to the property scene and until that happens, the general sluggish sales performance along with "wait and see" attitudes among potential buyers are bound to remain.

Meanwhile, the market, which, for so long, has favoured the buyer, will continue to attract the more astute investor, who must latch on to the longer-term beneficial prospects of homeownership and, prodded further by the latest bond rate cut, secure a property, albeit still with some considerable strain on his budget.

The buyer is well aware that, given more stable political conditions, a residential market take-off is assured, followed by price spirals on a broad front as sellers seek to capitalise after a prolonged bout of eroding values.

Certainly, the development community is, for the moment, helping to ease the buyer's lot for the home builder knows only too well that if he is to survive the downturn, he must hone costs.

It is well known that the target area for builders at present is for homes under the R200 000 mark and there is consensus among agents and developers that, while the upmarket, with its units of R500 000 and above continues to take strain, there is no lack of interest in the moderately priced properties.

Many home-building companies, such as Schachat Cullum and Richland and Maccon, are experiencing rapid sell-outs of new residential ventures, where the price is right.

This trend, in itself, is indicative of the fact that, while the market generally is in the doldrums, there is always demand for homes and the realistically priced home, whether new or otherwise, must inevitably sell.

There is no doubt then that market conditions for the potential home buyer are decidedly favourable and that if he can stretch his budget, without any hardship and strain, it will be worthwhile considering the medium to longer-term benefits.

Demand strong despite uncertainty

STAR 2/7/92.

The ongoing demand for homes in spite of the rippling effect of political uncertainty and violence is seen in the figures from one of the country's major lending institutions — Standard Bank. (58)(___)

In the past six months, the bank's home loans book has increased by R1 billion.

Adding his own little touch of encouragement to a battling real estate industry, Mike Vosloo, managing director of Standard told delegates at the recent convention of the Institute of Estate Agents:

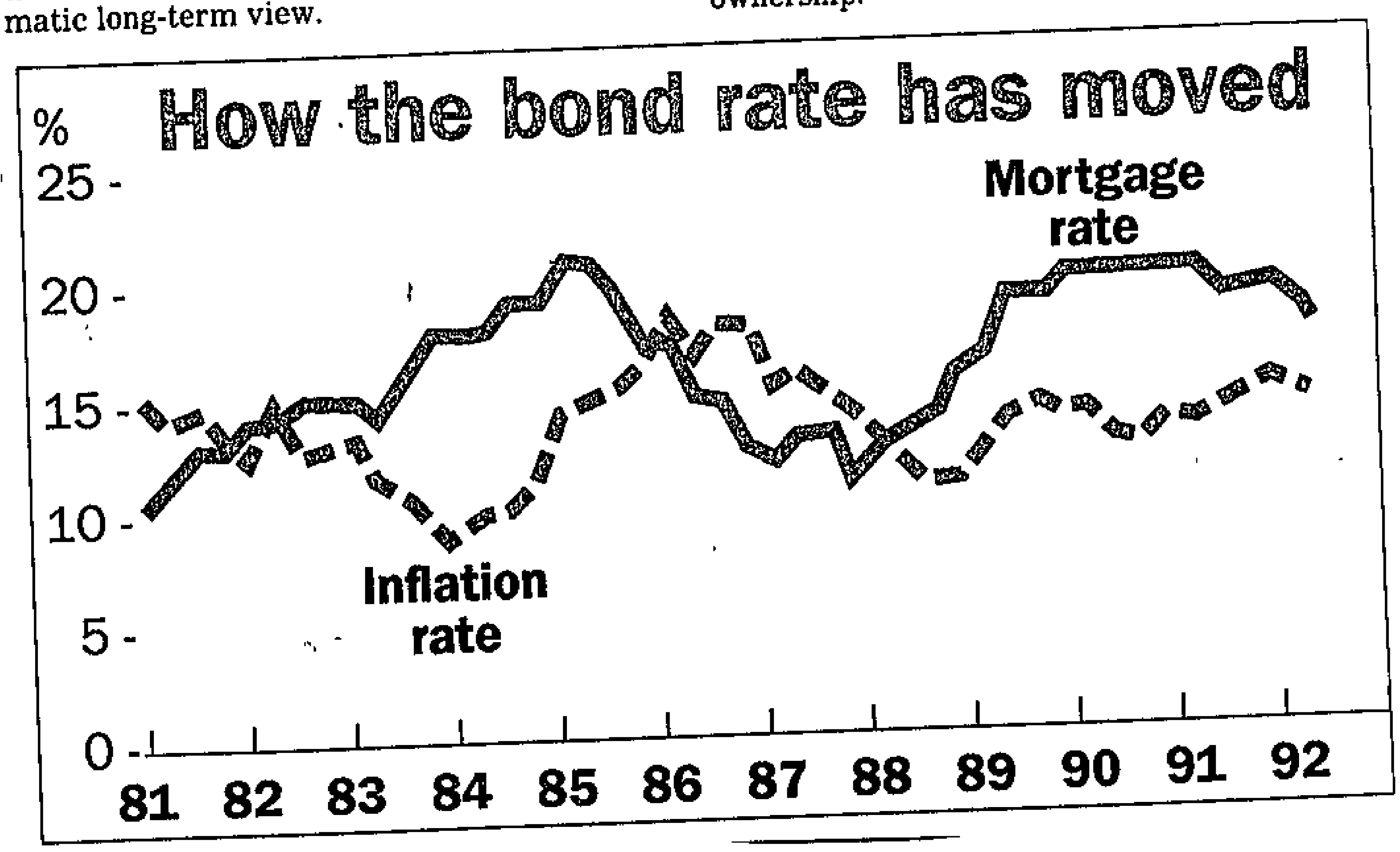
"Gloom is about the only growth industry in SA today. However, although potential home owners are lacking in confidence about the immediate future, they are taking a pragmatic long-term view.

"Their short-term anxieties are not paralysing them entirely. And those people who can generate confidence act, and action in economic terms means purchasing."

The Standard MD got the message across strongly when he pointed out that despite upheaval, the need for shelter remains.

Norman Nel, chairman of the Estate Agents Board told agents: "We must now become involved in the process of teaching first-time home owners about the privilege and benefits of owning a home.

"To socialists, individual property ownership was considered a sin. It is now up to us to convince people the real power of the entrepreneurial spirit is vested in property ownership."



Buyer benefits as banks compete

(123) (56) STM 2/9/92

The fierce competitiveness of the home loans business today has resulted in the lending institutions bringing to the market more and more financial packages to attract the borrower.

A big saver in the long run comes from the Amalgamated Banks of South Africa (Absa) with 0,25 percent cut in its bond rate if clients open a cheque account and two other accounts with any of its four banking divisions — United, Allied, Volkskas and Trust Bank.

If a bondholder maintains monthly instalments, he could save more than R67 000 on the total that will be paid on a R100 000 bond over 25 years.

Dr Danie Cronje, deputy chief executive of Absa, says: "Our substantial asset base combined with other rationalisation benefits arising out of the formation of Absa, have enabled us to curtail costs and to pass on the benefits of scale to our clients."

Between December 1989 and April 1991, the average bond rate was 20,75 percent. Compared with the current rate of 17,25 percent, the saving is R281 a month on a R100 000 bond over 25 years.

The lower interest rates also benefit potential homeowners in terms of minimum joint income required to qualify for a home loan.

Based on the 30 percent of joint income instalment limit required by Absa banks, the minimum joint income needed at 20,75 percent was R5 800 on a R100 000 mortgage, while at 17,25 percent it will be substantially less at R4 860.

Libvest paying special dividend

By Leigh Hassall 58

Shareholders of Liberty Investors (Libvest) will receive a 25,5c divdend per share payout comprising a special dividend of 17,5c and the interim dividend of 8c.

The special anniversary dividend stems from Libvest's extensive holdings in the Liberty Life group and its holding company, Libhold.

Libvest reported a 35 percent increase in taxed profit to R27 million for the six months to August this year.

Earnings per share increased accordingly to 13.2c from 9.8c.

The strong rise in earnings is attributable to the 32 percent jump in Liberty Life's interim net taxed surplus and the 34 percent increase in Libhold's earnings.

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Libvest's investments are 95 percent-held in Libhold, with the balance in Stanbic.

Sage unveils major restructuring plan

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LINDA ENSOR

CAPE TOWN — In a major restructuring move, the Sage group is planning to join forces with another institution, unbundle various operating divisions, and sell off a substantial portion of its stake in Absa, which after the slump in the stock market is estimated to be worth R240m.

The Sage group owns 29,4-million Absa shares — 5,2% of the banking group's equity. At yesterday's closing price of 825c a share the investment was worth about R240m, the equivalent of almost 10% of Sage's total assets.

The stake is held via Sage Financial Services (SFS) which owns 21,2% of Universa — a company co-owned by the Mines' Pensions Funds (39,4%) and Rembrandt Group (39,4%) — which in turn holds 24,6% of Absa (after its amalgamation with Bankorp).

Money raised from the sale of some of its Absa shares could be used by Sage to reduce its gearing of 52%, further strengthen its balance sheet and enable it to expand.

It was fairly certain that the Absa shares would not be offloaded onto the market but would probably be sold to Rembrandt or the Mines' Pension Fund, which are shareholders of Sage and already have a major stake in Absa. Other institutions could be in the wings — Sanlam for one has indicated its intention to build up its stake in Absa to 25%.

Any sale would, however, be unlikely to terminate the existing marketing arrangements Sage has with Absa. Sage subsidiary SFS is contracted to provide personal financial planning services as well as life assurance and investment products to Allied clients in a joint venture with that division of Absa. And the Sage group is also active in the marketing of its products and services through other Absa divisions to the Absa client base.

Sage executive chairman Louis Shill said this week it was inevitable that after the completion of its reconstruction, the medium-sized Sage group would develop new associations to enable it to compete with large companies without losing its identity. Certain potential partners had been identified, Shill said.

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He believed groups such as Sage could link up with other institutions, even competing life assurers, to achieve economies of scale.

In June, Sage announced a restructuring which would result in SFS becoming the listed vehicle for the group under the new name Sage Group Ltd, with Sage Holdings and Sage Property as its unlisted subsidiaries. The listing of the new shares would take place on September 21 subject to court sanction.

Shill stressed that any association with another institution would not take the form of a merger and that Sage would seek to maintain its independence. The various operating divisions of the group could rather be unbundled by creating specialist operating entities together with other institutions, to handle such activities as computerisation, technical support systems, claims handling and policy administration.

This would have the dual effect of cutting costs by creating economies of scale and would allow companies like Sage to retain the benefits of their unique brands without losing control. The arrangement would also free the group to concentrate on the core elements of its life assurance business, namely marketing, investment and product development

Shill said that to survive in the highly competitive life assurance market, where margins were very thin, meant either increasing the volumes of business handled or lowering expenses, or both.

Either a life company offered all the services and products available and competed head on with the giants in the industry — which was extremely expensive for a small player — or it had to confine itself to being a niche player.

"Margins are exceptionally thin, as far more of the benefit is passed on to policyholders than previously, and life assurers have become more managers of assets, than managers of profit."

Another element of Sage's changing profile would be its entry into the different markets, particularly the black market and the rural market, to increase the volume of business handled.

"In the past we have concentrated on the upper income market but in future will inevitably be driving into lower markets," Shill said.

One of the aims of the present restructuring was to focus Sage on its core life assurance business and it had committed itself to disposing of certain of its R500m non-strategic investments, chief of which was its substantial stake in Absa.

Few plan for retirement

ANDREW KRUMM

ONLY one in 10 citizens will enjoy financial security after 65, says NBS assistant GM Brian Findlay.

Findlay said a recent NBS research project, which focused exclusively on white respondents, had shown that a high number of pre-retired people had done little or nothing about planning for retirement.

"In fact, over 60% of respondents believed they did not require any advice while a staggering number relied on friends, casual advice or their own judgment. Over 50% of the retired people we canvassed were unaware of non-company retirement packages that exist," Findlay said.

He said the average person would not have accrued more than 15 to 18 years pensionable service at retirement, which meant they would probably not enjoy more than 45% of their pre-retirement annual income.

However, Retirement Association vice-chairman Bob Woodgate said the figure was a bit optimistic.

"The average pension fund provides retired persons with 2% of their annual salary for each year of service before retirement. This means that retirees with 18 years of service can enjoy about 36% of their pre-retirement income."

Findlay said the failure to start saving early meant some people would never be able to accumulate sufficient retirement capital.

Woodgate said this was true, but with one proviso. "The average South African cannot afford to save until his midlife expenses, such as school and university fees, have run their course," he said.

Sable holds R70m in cash

ANDREW KRUMM (58)

PROPERTY group Sable Holdings will keep about R70m invested in the money market until it finds a suitable investment opportunity, says MD Paul Nash.

Speaking yesterday after the late release of Sable's annual report for the year ended June 1991, Nash said it was a good time to hold cash.

"The group, which is cash rich after the disposal of an interest in Steiner Services in 1991, will keep its nearly R70m cash invested in the short-term money market until an appropriate property or industrial deal comes up. On the industrial side, we could go out and buy a big company, but no attractive deal is in the offing at the moment," he said. BDAY 3/9/92

Publication of the group's 1991 report had been delayed with permission of the registrar, but results for the year to June 1992 would be available in two months' time.

"We don't think there will be fireworks in the 1992 results, but we do foresee growth," he added. Apart from interest income, property would be the mainstay of group income for the year.

"The property division is expected to show real growth this year in spite of a depressed property market. The R70m property portfolio is well let with a negligible vacancy factor, while we also expect a good contribution from sectional title sales in 1992."

"The group does not forsee the state of the property market changing substantially in the next year or so, and it should continue to be a buyer's market," he said.

'Non-standard' policies warning

LINDA ENSOR

CAPE TOWN — Inland Revenue has warned companies and individuals that they face an onerous tax burden if they buy life assurance products structured on the assumption that the Sixth Schedule of the Income Tax Act is to be abolished.

Inland Revenue's Ian Meiklejohn expressed concern that life assurers were selling policies defined as non-standard in terms of the Sixth Schedule in anticipation of its abolition next year.

Life Office Association chairman Louis Shill also expressed concern about the practice saying life assurers selling such products were "leading people up the garden path" and taking an unfair competitive advantage.

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While there was agreement between life industry and tax authorities that the Sixth Schedule was unnecessarily restrictive, government had not taken any decision about its fate, Meiklejohn said.

He said life assurers could become "unstuck" in selling non-standard policies.

These are policies with a minimum amount of life cover, where the term for paying premiums is less than 10 years and which carry the normal company tax rate if owned by companies.

Single premium policies sold to companies would be an example of non-standard policies.

Under the regime of the Sixth Schedule such policies are not tax efficient as an onerous penalty tax is imposed when payment is made, in addition to the tax imposed on the money invested in the life assurer's fund. For standard policies no additional tax is imposed when the benefit is paid out.

SEC (58)

Meiklejohn said the after-tax return on a non-standard policy would be significantly lower than the inflation rate as the tax rate could halve the final return.

Assuming an inflation rate of 15% and a company tax rate of 48% or an individual rate of 43%, a life assurer would have to generate a growth of 33% or 28% respectively to match the inflation rate. This was "highly unlikely", he said.

Business Day SURVEY

When WesBank became a division of FNB in October 1991, the merger between First Industrial and WesBank Corporate resulted in the creation of a R2bn giant. Both First Industrial and WesBank's corporate finance divisions operated in the fixed assets market market. After the amalgamation, WesBank Corporate benefited from a substantially larger market share.

EDWARD WEST reports.

DAVE SEGOR

Merger creates R2bn motor finance giant

BDAY 3/9/92 (58)

WHEN WesBank became a division of FNB in October 1991, the merger between First Industrial and WesBank Corporate resulted in the creation of a R2bn giant to take advantage of synergies in the fixed assets market.

WesBank Corporate finance chief manager Dave Segor says the amalgamation provided new opportunities.

Both First Industrial and WesBank's corporate finance divisions operated in the same market. After the amalgamation, WesBank Corporate benefited from a substantially larger market share.

WesBank tended to focus towards the motor consumer-dealer sector but, with the merger, WesBank Corporate was able to extend its focus in its designated corporate sectors.

Its client profile tends towards medium and large companies. It provides finance through instalment sales, leases, loans and discounting facilities. All moveable assets, such as cars, trucks, equipment, factory machinery and equipment and aircraft, are financed as opposed to immoveable assets like property and buildings.

The division also administers car allowance schemes and provides financial services tied to WesBank's retail and consumer division, in particular WesBank First Auto.

Segor points out that changes to tax legislation, corporate instalment and accounting practices have resulted in changes in the market over the last few years, in particular.

Segor's division is the biggest within WesBank Corporate and is split into regions: central Transvaal, southern Transvaal, northern Transvaal, Natal, Western Cape and the eastern Cape. Regional offices are situated in the main centres in each province, and branch offices are located in Benoni and Pietermaritzburg.

WesBank Corporate's business ebbs and flows with the cyclical economy. Segor says capital expenditure for plant and equipment and, to a lesser extent, passenger and commercial vehicles, has to all intents and purposes dried up due to lack of business confidence and falling consumer spending.

The capital equipment sector would be affected only later in an upturn because the recession has resulted in a surplus of equipment and plant capacity.

Retention

The division has a book of about R1,6bn. In spite of the poor economy, Segor says customer retention is good and bad debt write-off is low at less than 0,2% of advances.

He attributes this to WesBank Corporate's strong credit ethic. "We have a relatively small staff of 240 and we would rather deal with high quality business," he says.

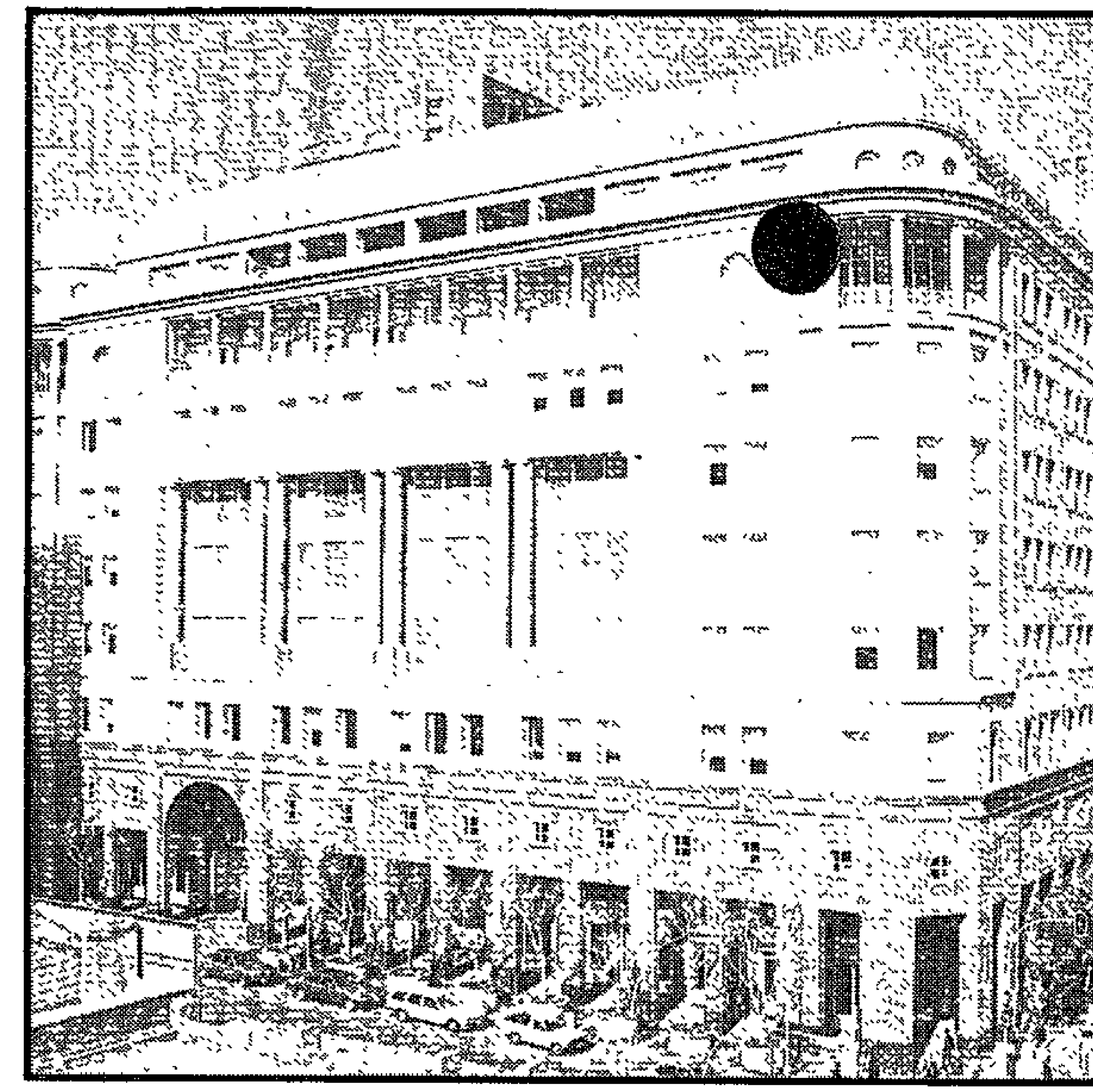
WesBank Corporate has a 70% interest in a small company called Avfin Industrial Finance, which caters for high risk business.

Says Segor: "We believe the way to win customers is not necessarily only price-orientated, but through the degree to which we can provide superior service. The way to do good business today is to get close to your customer and stand by him through thick and thin."

Stannic and Nedfin are major competitors, but Segor believes WesBank to be the leader in the corporate finance field. He says WesBank Corporate will continue to abide by the high moral and business ethics and values ingrained in the WesBank culture.

"Many medium-sized companies are running out of capital in the recession and are becoming highly geared," he says.

"We look at all risks, including the client's past financial record, political risk, labour practices and current and future financial well-being. All packages are tailored to suit the clients."



Bank City, the new HQ of WesBank Corporate.

JFC division looking to computers for expansion

IN 1981, First Industrial — then known as Barclays National Industrial — revolutionised instalment credit by introducing the joint finance company (JFC) concept to SA.

Today, after WesBank's merger with First Industrial, the JFC division operates under the WesBank Corporate umbrella, providing joint finance to capital equipment suppliers.

JFC chief manager Mike Macmillan says that the recession-linked decline in capital expenditure has eroded the division's traditional markets, especially earthmoving and construction, so considerable work has gone into expanding into new markets.

Computers

After recently entering the commercial vehicle market, WesBank JFC is now looking to computers for expansion, he says.

Although still a relatively small division within the WesBank stable, with about 80 employees, JFC's client base stems from the provision of joint finance companies to 20 suppliers of capital equipment.

The extent of the division's coverage of the capital equipment supplier industry is reflected in its diversified customer base.

These include the provision of JFCs for aircraft, earthmoving and mining laundry equipment, supermarkets and telecommunciations equipment.

MIKE MACMILLAN

The JFC caters for the instalment credit requirements of the supplier's customers, thus eliminating the need for the customer to establish external finance facilities, says Macmillan.

The customer obtains equipment, service, after-sales back-up and finance from one source. The JFC becomes a marketing tool for the supplier of capital equipment because he can offer his customers an all-inclusive package.

Normally, because a JFC is viewed as a long-term commitment, the negotiation process and the completion of feasibility studies involved in forming a JFC is extensive.

Prospective suppliers future business and to ensure fulfilment of maintenance obligations.

Prospective partners must also supply moveable equipment with a useful life of three to five years, while the equipment and after sales service must be of a high order.

Generally the unit cost of the equipment should average R100 000, though a high volume-lower unit price product range is also suited to JFCs.

MacMillan adds that JFC packages are flexible, according to the use of the equipment. For instance, a number of black entrepreneurs have been supplied with dry-cleaning and laundry equipment through JFC packages that might have been considered too high a risk by traditional finance institutions.

Security

WesBank's JFC division derives security and knowledge of markets in which it participates through its relationship with the capital equipment supplier.

Should the customer default or go into liquidation, the equipment supplier becomes a back-up to the JFC and helps in re-selling the equipment, says Macmillan.

This has an influence in the way WesBank JFCs look at the credit risk and

Looking for a quantum leap in performance

THE merger between Wesbank and FNB's First Industrial late last year will provide synergistic benefits to customers, staff and bottom-line profits, says WesBank's MD since 1984 Peter Thompson.

Customers will benefit in terms of improved service which, he says, will be facilitated by a bigger, more broadly based infrastructure resulting from the merger.

Staff will also benefit from more opportunities within WesBank, he says.

The merger was approved from October 1 1991, but in practice merged operations started a few weeks into January 1992, after the school holidays.

Thompson says although it's early days yet to judge performance, the benefits of the mer[illegible] ... yet to are achieved within 12 months from now.

"We are looking for 1+1=3, we are looking for a quantum leap in performance. That is why we merged in the first place," he says.

He says WesBank has achieved market share growth after amalgamation, but qualifies this statement because the statistical evidence does not appear in Reserve Bank quarterly figures.

Statistics

The statistics do not take into account the R200m SABTA Scheme which WesBank sold to Future Bank to aid the establishment of Future Bank with other parties, says Thompson.

He points out that there remain two distinct cultures within the group after the [illegible] both [illegible]

WesBank's activities were aggressively focussed outwards toward the motor dealer and the consumer while FNB Industrial was more focussed toward the corporate sector.

The long-term synergy will draw on the advantages of the tradition of good and information services at WesBank while at the same time drawing on the disciplined activities of Wesbank Corporate, says Thompson.

"We have been the leaders in the 'wheels' market, but we are determined to take on the corporate sector," he says.

Strategies to further growth within the group are under way. WesBank Corporate is to focus fully on the trend of granting employee car allowances instead of maintaining fleets, say[illegible]

PETER THOMPSON

the product as WesBank Corporate has established relationships with financial directors and human resource managers.

"WesBank Corporate will have to sell the product to them first so that they can recommend the product to their staff," he says.

Ideally, Thompson says, WesBank Corporate's future activities should comprise 50% financing for commerical and passenger [illegible]

Package enhances the corporate car allowance scheme

A PRODUCT tailor-made for business executives and other employees in large organisations operating on a car allowance has been launched by WesBank.

The WesBank Corporate Car Allowance package gives the individual all the convenience he used to have when running a company car, while fully utilising the tax benefit aspect of being paid a car allowance.

WesBank Corporate chief manager Dave Segor says the package has become feasible because WesBank has maximised the combination of strong and reliable banking infrastructures which already exists in the FNB group. The package has been launched by WesBank Corporate, a division of WesBank formed after the merger between WesBank and FNB's First Auto division.

Targeting

The new product is available only to employees of organisations which have been signed up with WesBank for the scheme. WesBank is targeting larger corporations and organisations with large numbers of employees identified as car allowance earners.

The package re-introduces a whole range of disciplined activities which all but disappeared when it first became fashionable (primarily for tax considerations) for companies to provide allowances instead of company cars, says Segor.

He says the individual with a car allowance has often found himself not providing for various aspects of his car ownership.

"For instance, he might allow enough (out of his car allowance) for monthly repayments, but not enough for maintenance or a possible shortfall between market value and a 'balloon' payment at the end of the agreement," he says.

When a company agrees with WesBank to embark on the package, its car allowance employees benefit from company arranged preferential financial terms for the purchase, Segor says. The car allowance earner or his employer pay a monthly, whole or selected, amount from his allowance directly into a special dedicated and personalised FNB account, which is opened in the name of the car allowance earner for them by WesBank Corporate.

The individual also qualifies for a First Auto Card, together with a fleet management system. From the outset, the individual benefits from a fully-managed car management system scheme without any disruption or complexity.

Once a month his personalised account can pay automatically or he can make one cheque payment from that account for the instalment on the finance for his First Auto card purchases and for his monthly insurance premiums.

The card also provides accurate summaries of all vehicle finance, insurance and running expenses.

The individual can also decide to take on additional optional services. For instance, maintenance expenses can be subjected to invoice scrutiny by First Auto technical specialists who ensure the work carried out was necessary and reasonably priced.

Modular

Other modular add-ons include a Customer Protection Plan (a policy ensuring ongoing payments in the event of temporary or permanent disablement or settlement on death); comprehensive insurance; Coverplus insurance extension (covering shortfall between insurance payouts and the financial settlement amounts in the event of the vehicle being damaged, stolen or written-off); Motorwise Warranty (covering mechanical failure of major components outside of the manufacturer's warranty) and Cashpower Loans to arrange loans quickly in the event of major repairs.

One-stop service in the instalment credit market

WESBANK Corporate has allowed WesBank to tackle the entire instalment credit market, providing finance and advice to manufacturers, suppliers, dealers, corporate entities and the man in the street, says WesBank Corporate's senior GM Ron Rudman.

WesBank started a corporate operation some two years ago and in October 1991 the activities of this division were merged with those of First Industrial, a division of FNB.

A year ago First Industrial comprised First Leasing, First Joint Finance Companies, First Factors and First Autocard divisions. With the merger, it was decided the factoring and Autocard divisions did not fit the profile of WesBank Corporate. The factoring division was hived off to FNB to give it access to the branch network, while the Autocard Division became a stand-alone operation.

First Industrial's head-office was integrated with Wesbank. All staff are now fully conversant with WesBank's shared values, known as the WesBank Way, and all activities have become geared toward the corporate sector.

As much of WesBank Corporate's business activities are determined by the extent of capital expenditure, many members of its management have backrounds in project and corporate finance, enabling the bank to be fully conversant with the needs of the corporate sector.

Rudman says government may need to reconsider schemes to promote capital expenditure if SA is to maintain its technological and economic base.

Plastic fleet card pioneer looking at govt agencies

WESBANK'S First Auto division has come a long way since pioneering plastic card fleet management in 1979. It now plans to expand to consolidate its position as leader of fleet management services in SA.

First Auto's chief manager Rusty Gibb says while private sector markets may be saturated, there remains scope for provision of fleet management for government agencies.

He says that while about 50% of the available fleet management market exists under various schemes, most of the remaining 50% comprises fleets of government organisations.

Gibb says his division, which since 1979 has traded as Barclays Auto, Barnib Auto and First Auto under First National Bank (FNB), is looking at ways of speeding up government agencies fleet administration processes.

Turnover

First Auto, with its turnover of about R1bn a year, is the leader in fleet management, with about 40% of the market. Absa, Nedbank and Stannic share the remaining 60%.

Gibb says fleet management is being geared to electronics. At present 10% of all forecourt transactions are billed electronically. However, Gibb predicts that when other banking institutions begin interchanging services, this percentage could rise to 17%.

Over a period of five years, he predicts more than 80% of garage transactions will be electronic.

This could also involve the introduction of Smart Card systems which will allow the use of credit and pre-paid purchasing facilities, says Gibb.

Government's plans to expand toll roads will provide new avenues for expansion for First Auto, involved in the evaluation of reading antennae at Tolcon's Wilge and Mooi River plazas which enable motorists to pass through without stopping.

There are also opportunities in providing full maintenance administration facilities, particularly for full maintenance scheme underwriters.

First Auto are administrators for Nissan SA's Marketing Maintenance Contract Scheme, Delta Motor Corporation's Execulink, Samcor's Mazda Contract Motoring and Ford Maintenence Cards, MacCarthy Motor Holding's Ford, Mazda, Nissan and Toyota franchises and Barlows Motor Holding's maintenance scheme.

"There is a tremendous future in this as people look more to fixed-cost motoring," says Gibb.

First Auto, recognised at some 15 000 motor repair, spares and toll road operations through a spread of branches in SA's major centres, provides a duality in the nature of benefits for customers.

It provides customers with a method of purchasing all facilities necessary for the operation of a vehicle such as fuel bills, repair and toll payments, while providing management information on financial and operating efficiencies, says Gibb.

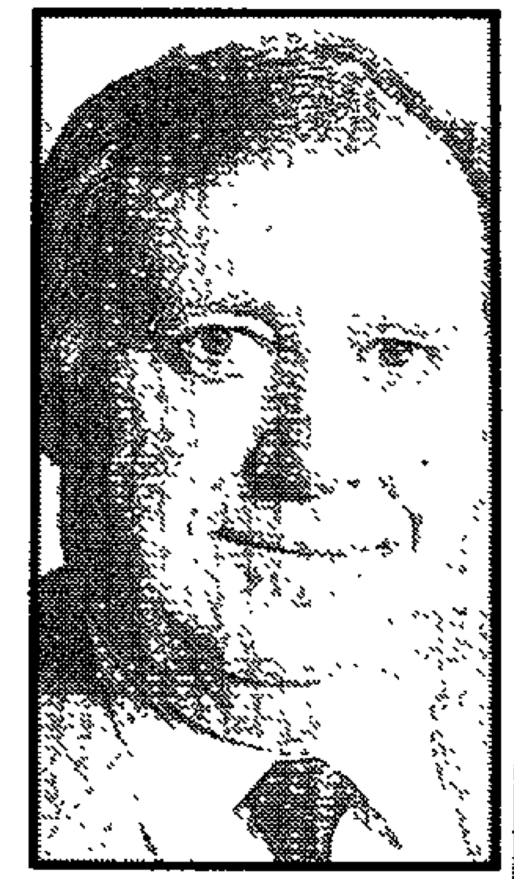
Information provided includes fuel consumption, repair and vehicle operation costs, in fact, a range of 28 types of expense and efficiency reports.

Dual

Gibb says the performance of these dual functions compared with vehicle national averages provides an accurate barometer of the efficiency of the vehicle and the fleet.

In addition, First Auto also controls managed repair and maintenance expenditure for fleet owners through its products.

This involves, for instance, the authorisation and vetting of expenditure for customers and underwriting maintenance principles.



RUSTY GIBB

First Auto is a separate operation under the WesBank umbrella which, in turn, is a division of FNB.

However, Gibb points out that First Auto plays a pivotal role in WesAuto products and provides for vehicle acquisition by company employees in receipt of car allowances.

First Auto provides a card for vehicle purchase interface mechanisms. Its fleet management systems are tied to vehicles and not individuals, which leaves little space for the misuse of funds or of the system.

First Auto pioneered the plastic card-controlled fleet management systems. It was followed by Stannic 12 months later. Volkskas started its scheme three years later and Nedbank followed in 1988.

Merger presents a challenge to Absa's market dominance

WESBANK'S contribution to FNB group profits is higher than planned and growing fast. In fact, WesBank is decidedly bullish about its prospects in 1993, says MD Peter Thompson.

WesBank and its main competitor, Stannic, both hold about 25% of the moveable assets instalment market, second only to Absa, whose market share, after its creation, totalled 29%. However, says Thompson, Absa has become a new challenge.

Meanwhile, WesBank's new business volumes have increased to more than R400m a month from R300m a month in March 1992. This, says Thompson, was achieved in spite of the drop in money supply, declining vehicle sales and the fact that demand for credit has been at all-time lows.

BDAY 3/9/92

Budgeted

Bad debts, although higher than last year due to the recession, were within budgeted levels, while repossessions were manageable.

Innovation, as in the past, will provide growth opportunities, says Thompson. An example of the success of previous innovations is the fact that WesBank's business is conducted via motor dealerships, which provides it with distribution advantages, he says.

WesBank puts its staff on motor dealer floors, a concept first pioneered by WesBank about 15 years ago — a world first, says Thompson.

The approach gives WesBank the first chance to "bite the apple" of vehicle financing because buyers often walk into dealerships without having sorted out a finance package, he says.

Taxi

WesBank also developed the SA Black Taxi Association (Sabta) Scheme. Thompson points out that were it not for this scheme, about 80% of taxi operators would not have found finance from more traditional finance sources.

Future Bank is 49% held by FNB (WesBank), 44% by Fabcos, 5% by SA Marketing and 2% by the black development group The Get Ahead Foundation. The bank is thus 51% owned by blacks.

Thompson says the financial benefits of making WesBank a division of FNB were vast, some being derived from VAT. However, he points out the change involves the removal of legal standing only, otherwise WesBank operates as would any other separate company.

'Big is not always best,' say banks

58 CT 3/9/92

By ARI JACOBSON

SA banks too small to become global players are seeking overseas partners merely to enhance their positions locally, according to SA's banking chiefs.

"SA will remain the engine room for First National Bank (FNB)" said MD Barry Swart commenting on the back of confirmed negotiations for the purchase of UK-based Henry Ansbacher.

Swart said that going overseas was not the natural option "it's no bed of roses out there," he said.

But Swart points out that London has always been an important base for trade with SA "we want to make sure we are well-represented to pick up the business for our clients".

"But make no mistake there is plenty on offer locally — with huge multinationals operating from SA."

And talking of the potential for a local purchase Swart says that "Nedcor remains the most complementary".

He says "there is very little duplication at branch level, both banks have mass market appeal and management that is reasonably compatible".

"I would like FNB to be bigger — but at the same time not too big to lose advantage."

Nedcor CE Chris Liebenberg points out that banks growing for the sake of size was no longer feasible "profitablity is far more important".

"Sure there is a necessary size needed to be profitable but all the four major banking groups are already at that level."

As for further rationalisation in the local banking scene Liebenberg adds that taking control of one of the leading banks would require permission from a powerful shareholder.

"In the case of Nedcor, Old Mutual has about a 52% stake and would have to give the go-ahead which would depend on their strategic evaluation of this holding."

Standard bank's MD Mike Vosloo feels that the Standard is large enough to achieve all the benefits size has to offer on the local scene.

"But on a global scale — there is absolutely no local bank which would be able to compete."

FNB is the only bank, of the big four, that up to now has no official representation in London. Standard bank has its namesake in London, Nedcor has been there for nearly 100 years and Absa is well represented through Trustbank and Volkskas.

Code of conduct for bonds likely

(58)

B DAY 4/9/92

WILSON ZWANE and ADRIAN HADLAND

AN INTERIM agreement on a code of conduct to regulate financial institutions' dealings with low-income homebuyers is likely to be reached today.

The Association of Mortgage Lenders (AML) meets the SA National Civics Organisation (Sanco) today to thrash out details of the agreement which will redefine bank lending policies, establish home loan centres in townships and set out the role of financial institutions in the development process. This follows calls by Sanco for a national bond boycott.

The likelihood of agreement being reached today was enhanced by a provisional agreement on community-orientated banking reached between the Perm and the Civics Association of the Transvaal this week. A community development trust to provide housing and development opportunities to the underprivileged in the southern Transvaal was established.

Sanco president Moses Mayekiso, who hailed the Perm agreement, and said the proposed code of conduct would be based on the premise that bankers had to change their operating procedures "radically" to do business in the new SA. People in arrears on housing bonds and future borrowers would gain relief from such a code.

Perm development GM Denis Creighton said the Perm had accepted Sanco's proposal for a banking code of conduct, but would not elaborate. The AML could not be reached for comment.

Curfin lifts net income

(58)

SHARON WOOD

CURRY Finance Corporation (Curfin) lifted net income by 6% to R11,6m during 1992 from R19,8m.

Executive chairman Mackie Brodie said as trading conditions had not been conducive to real growth in the year under review the increase in earnings was satisfactory. BDay

Earnings a share grew by 6% to 82,1c from 77,3c and dividends by 16% to 50c a share from 43c.

Clearing, forwarding and freight income increased by 13% to R39,4m from R30,5m. 4/9/92.

Leasing, finance and property income rose by 6% to R4,8m from R4,5m.

Director Henry McCormick said Curfin was dependent on its 51% owned subidiary Safcor and it had done well.

In view of the economy, leasing and finance business had performed reasonably, he added.

Property showed set increases annually because of long leases and would continue to show steady growth.

The outlook for 1993 depended largely on the return to normality of the economy.

If that happened the group would probably do as well, if not slightly better, than this year, said Brodie.

FNB/HENRY ANSBACHER

Cleaned up

FM 4/9/92 (58)

First National Bank (FNB)'s pioneering target for the first SA takeover of a British bank, Henry Ansbacher, has been on the market for some two years during which time its capitalisation has slumped from £160m to £49m.

It has been a period of cleansing for Richard Fenhalls (49), the Durban law-trained chairman and CE who joined the merchant

FM 4/9/92 (58)

bank in 1985 from Guinness Mahon, where he performed a rescue act over four years.

Ansbacher's pre-tax profit doubled to £10,1m in two years to the end of 1989, but was then hit by bad debt provisions. Profit dropped to under £2,5m in 1990, and Ansbacher recorded a loss of £8,2m last year.

London analysts say that as a third-tier merchant bank, lacking in a strong corporate client list — though it has the distinction of having the only two quoted football clubs, Manchester United and Tottenham Hotspur — Ansbacher found itself looking for business. It was involved in loans to the property sector, to a financial services group which crashed and to companies related to Robert Maxwell.

In the secretive world of merchant banking no full disclosure is made, but Ansbacher's provisions last year are thought to have exceeded £10m, wiping out operating profit from offshore banking and trust management and asset trading — principally South African and Third-World debt.

According to one analyst, Ansbacher's loan book is now down to the level of shareholders' funds of £83m at last balance sheet date. "It has been cleaned up," he says. "There is no gearing to speak of. Ansbacher should be a good buy for FNB."

As a portfolio investment, Ansbacher has been regarded as "a bit of a dog", because it is small and tightly controlled. Nearly 63% is in the hands of the Belgian-Canadian group Pargesa (23,9%), Groupe Bruxelles Lambert (23,8%), Nanque Internationale of Luxembourg (13,8%) and three others including the Middle Eastern Wafra Interinvest, Pergamon and the ADT group.

The main shareholders had been in takeover talks with Singer & Friedlander, merchant banker, but these were discontinued after FNB came into the picture. First-half 1992 figures for Ansbacher showed a recovery from just over £1m pre-tax profit last year to £1,9m, propelled mainly by offshore banking and asset trading operations.

The share price, however, has remained at its low for the year of 26p. *John Cavill*

MONEY SUPPLY (58)

Out of range FM 4/9/92.

The acceleration in money supply growth in July does not reflect an increase in demand for money. Absa economist Dominick Sutton says the impetus probably came from inflows of foreign exchange — reserves rose by almost R1bn that month. "Anecdotal evidence does not suggest any significant increase in credit creation," he says.

So the uptick has produced what the late Reserve Bank Governor Gerhard de Kock used to call "good money" — the potential for a future increase in spending, matched by foreign exchange reserves and thus the ability to import.

Provisional figures show the broad monetary aggregate M3 grew 1,01%, or 2,24% seasonally adjusted, in the month. From the base of the guideline year, it rose an annualised 10,16% to a seasonally adjusted R193,4bn — above the guideline range of 7%-10%. In the 12 months to July, it grew 9,85% to R191,4bn.

FM 4/9/92 (58)

The uptick in the 12-month figure is partly technical; M3 fell by almost R2bn last July, so the basis for comparison is low.

June M3 growth has been revised substantially, from 8,36% to 7,52%, at R189,5bn. The seasonally adjusted figure was revised from 9,05% to 7,69%, at R189,1bn. The revision arose from corrections to figures originally submitted by banks.

The full breakdown of monetary aggregates for June shows that:

- ☐ M0 (notes and coins and deposits by deposit-taking institutions with the Reserve Bank) grew 6,52% over 12 months to R12,7bn;
- ☐ M1A grew 18,73% to R35,6bn;
- ☐ M1 11,11% to R64bn; and
- ☐ M2 11,77% to R164,7bn.

The Bank also released credit aggregates for June. Claims on the domestic private sector rose 9,08% over 12 months (0,22% in the month) to R197,6bn. Total domestic credit extension grew 7,82% (0,5%) to R199,1bn. ■

NBS and ANC in home auction row

BIOAN 4/9/92 58

LINDA ENSOR

CAPE TOWN — A spate of repossessions in the Blue Downs community — estimated at 75% of the 5 000 units built there so far — has led to a showdown between the community representatives and NBS Bank.

ANC campaigns convenor Chris Nissen claimed yesterday the bank had adopted an unsympathetic approach and the ANC had been brought in by the community to intervene in the conflict.

"We are extremely unhappy about what appears to us to be a betrayal of an undertaking by NBS to deal sympathetically and reasonably with the plight of people who are struggling to own their own homes," Nissen said.

But an NBS spokesman denied the bank had been unsympathetic, saying it had agreed to suspend auctions for August in the hope borrowers would come forward to discuss their problems. None of the owners whose homes were auctioned yesterday had come forward to discuss their plight, he said.

Yesterday 11 Blue Downs homeowners lost their homes in an auction organised by NBS and a further 16 homes will apparently be auctioned on September 9.

The NBS spokesman said auctions were a last resort and those who were unable to meet their bond commitments for the foreseeable future were advised to sell the houses by private treaty.

Members of the community claimed they were frustrated in trying to attend the auction yesterday by the sheriff and NBS officials.

Nissen claimed the auctions were conducted secretly instead of being openly advertised, with the result that only those directly informed would be present to bid. Hence "the miserably low prices" raised for the units.

"Auctions often take place without prior advertising and (houses) are sold for prices well below their value on the basis of what is essentially insider information.

"The sale amount, which in some cases has been as low as R10, is deducted from the amount owing by the mortgagee, who must then pay the balance to the bank."

But the NBS spokesman disputed the allegations, saying the bank was legally obliged to publish its intention to hold sales in execution of houses in an English and Afrikaans local newspaper, and it had done this.

A meeting between Absa and the Blue Downs ratepayers' and tenants' association has been scheduled for Wednesday to request a freeze on repayments at affordable levels and an extension of repayment periods until the economic situation had improved.

Reserve Bank policy given seal of approval

(58)

SIMON WILLSON

FINANCE Minister Derek Keys yesterday aligned government squarely behind the Reserve Bank's management of interest rates and the rand's exchange rate.

At his news conference in Pretoria, Keys said government was aware of the malignant effects of pitching interest rates lower than the inflation rate. He said government fully endorsed Bank policy to maintain positive real interest rates.

"This policy has already permitted two reductions of the Bank rate this year, and the process will no doubt continue in an orderly manner as inflation drops further."

He said there was a considerable gap, not fixed by any regulation, between the 15% Bank rate and lending rates charged by banks. This gap ought to be narrowing through competition, although banks' bad debts and their desire to raise capital resources to meet new regulations would be a restraint. BIDAY 4/9/92

"I trust that, as these restraints become less important, we can look forward to greater lending rate competition in the banking industry to the benefit of the economy in general and small and medium-size businesses in particular," Keys said.

Welcoming debate on an appropriate exchange rate for the commercial rand, Keys said there had been a continuing depreciation of the rand which took considerable account of SA's higher rate of internal cost increases. The current rapid depreciation of the dollar was setting up stresses and strains in the rand's exchange rate.

"If one were going to pay particular attention to the rand/dollar exchange rate, it would seem to be wiser to do so some time after the underlying causes for the present instability have passed."

On privatisation, Keys said government faced no political obstruction to selling off state assets. There was a medium-term programme which required organisational changes to the different activities which were potential subjects for privatisation, and this process was continuing.

He said privatisation proceeds did not offer a way of boosting underperforming

☐ To Page 2

Reserve Bank

☐ From Page 1

(58)

state revenues in the 1992/93 fiscal year "There is nothing at the moment that I could hock to solve a short-term problem "

Keys appeared to rule out extending VAT exemption to food, saying government wanted to adhere to its line that an indirect tax such as VAT should not be allowed to distort the relative prices between the products of different economic sectors "We would regard it as fiscally unsound to exempt an entire section of the economy from the effects of a tax like VAT," he said

A plenary session of the proposed economic forum was not government's objective, Keys said "Our objective is that labour and business should be talking and that they should have free access to government with a view to enlisting us if that is required" BIDAY 4/9/92

More discussions on the establishment of an economic forum had been scheduled for September 14

BANKING — FM 4/9/92

Taking an interest (58)

Though banks are increasingly looking to non-interest sources of revenue, figures published in the 1991 annual report of the Reserve Bank's bank supervision department show loans generated 85% of the income of SA banks. Service fees amounted to 10% and investment earnings 5%.

Interest costs, at 69%, were the biggest expense, followed by operating expenses at 22% and provisions at 3%. The remaining 6% represented net income before tax.

The importance of mortgage loans to the banking sector is underscored by a breakdown of interest income. This category topped the list at 31%, along with credit cards and overdrafts which provided 31%.

Other contributions came from:

- ☐ Instalment debtors 17%;
- ☐ Bills and promissory notes 7%;
- ☐ Interbank transactions 6%;
- ☐ Other 5%; and
- ☐ Foreign advances 3%.

Interest expenses break down as follows:

- ☐ Fixed/notice deposits 39% of total;
- ☐ Demand deposits 18%;
- ☐ Interbank 14%;
- ☐ Negotiable certificates of deposit 10%;
- ☐ Other 7%;
- ☐ Savings deposits 6%; and
- ☐ Loans under repurchase agreements 6%.

A breakdown of loans and advances at December shows that 31% of the total is made up of overdrafts and credit cards while mortgages constitute 30%. The rest is made up of:

- ☐ Instalment debtors 15%;
- ☐ Interbank transactions 8%;

☐ Bills and promissory notes 7%;
☐ Other 5%; and
☐ Foreign advances 4%.

Funds are composed of:
☐ Deposits 75%;
☐ Other 11%;
☐ Loans under repurchase agreements 5%;
☐ Acceptances 5%; and
☐ Capital and reserves 4%.

The industry's risk profile, based on the monthly average for the calendar year, shows:
☐ 47% of assets have a risk weighting of 100%;
☐ 24% have 50%;
☐ 14% have 0%;
☐ 9% have 20%;
☐ 5% have 10%; and
☐ 1% has 5%. ■

BANKING — 2

Charge cards; card charges

On credit cards, banks make money from the card holder and the vendor of goods or services. The vendor is the real money spinner, which is why many US credit card companies don't even bother charging card holders an annual fee.

In SA, of course, they do. Council of Southern African Bankers director-general Tony Norton says fees are charged because many card holders don't use their cards but keep them for emergencies. So it would not be fair to make the merchant pay for cards supplied to customers.

The argument has some validity but, since the banks stand to make about 3% on each card holder's purchase, should their objective not be to get cards into the hands of potential or credit-worthy customers — and bear the cost?

Customers say a bank could make up for lost fee income by offering a free card which would attract more users and increase turnover.

Premium or "gold" cards offer few advantages over their more common counterparts. With their built-in snob appeal, their desirablity relates directly to the high cost of acquiring them.

It is an advantage to keep credit card accounts in credit because the rates often exceed savings account rates. Also, cash advances do not attract interest if there is enough money to cover them (unlike ordinary spending, which attracts no interest charge if paid in full by statement due-date, cash advances attract interest charges from the date of withdrawal until repaid).

Interest rates on outstanding balances make overdraft facilities seem cheap — but these apply only after the first billing cycle, which effectively gives credit card users up to 45 days' free credit.

Garage cards work a little differently. Because the law does not allow the sale of petrol on credit, some banks link garage cards to customers' current accounts. So as soon as the garage deposits the sales voucher, the customer's bank balance is reduced.

Otherwise, the card can be linked to a customer's regular credit card account or it can stand alone. In both cases, however, petrol purchases are treated as cash advances — on which interest is charged. The way to get around this problem is to keep a credit balance in the account.

Fuel purchases on garage cards attract a transaction fee (see table) because banks do not receive their usual commission. When garage cards are used to pay for spares or repairs, the transaction fee does not apply. However, when the charges are debited to customers' current accounts, they, like any other debit, are subject to a service fee.

FNB's Petrocard allows up to four cards to be linked to one account to cater for families and small businesses. Large corporate clients use fleet management cards, which offer different facilities.

Most credit card issuers offer extended credit facilities on the purchase of big-ticket items. These purchases usually have to be paid off within a customer-elected period of between six and 48 months. The interest rate is usually that applicable to outstanding debit balances — but it varies among banks. The extended credit facility does not affect the customer's ordinary credit limit.

Credit card technology is becoming more sophisticated. Though the next generation of "smart cards" will not be in wide use soon, the Nedcor group has been testing them over the past two years. Their cost, at around R48 each, is one factor that inhibits their introduction. Programmable computer chips embedded in the cards allow consumers to "load" them with money. Whenever the card is used, the expenditure is automatically deducted from the balance available.

The cards have many applications, including use for access control, public telephone calls and pay television.

Smart cards pose no threat to credit cards now because they do not serve the same needs. The two technologies are expected to run in tandem for some time. *Anthony Sarankin*

Plastic money: credit where it's due

	Allied	FNB	Nedbank	Perm	Standard	Trust	United	Volkskas
Credit cards								
Annual fee								
Ordinary	R30	R27	R25	R25	R30	R30	R25	R30
Premium	R66	R72	R70	R70	R66	R70	R55	R72
Interest on outstanding balance								
Ordinary	26,75%	26,75%	27% / 28%*	27% / 28%*	26,75%	27%	26,25%	27%
Premium	24,25%	24,75%	27% / 28%*	27% / 28%*	24,25%	26%	24,25%	26%
Interest on credit balance								
Ordinary	8,5% - 12,75%	13%	12,5%	12,5%	8,5% - 12,75%	12%	12,5%	8% - 13%
Premium	8,5% - 12,75%	13%	12,5%	12,5%	8,5% - 12,75%	12%	12,5%	8% - 13%
Lost card protection								
Ordinary	R3	R3	R3	R3	R3	Free	R3	R6
Premium	Free	R4	Free	Free	Free	Free	Free	Free
Garage cards								
Annual fee	R12	R15	R25	R25	R12	R18	R12	R15
Transaction fee – fuel	85c	50c	50c	N/A	85c	50c	75c	85c
Lost card protection	R3	R4	R3	R3	R3	Free	R3	R6
Can card be linked to current account?	Yes	No	Yes	No	Yes	Yes	No	Yes

* 28% applies if expenditure exceeds R6 000 over 3 months

COMMON FUND FM 4|9|92

Broad basket (58)

Activities: *Investment trust holding a wide spread of listed shares.*
Control: *Directors 39,8%.*
Chairman: *J G van der Horst.*
Capital structure: *7,3m ords. Market capitalisation: R460m.*
Share market: *Price: R63. Yields: 3,1% on dividend; 4,0% on earnings; p:e ratio, 25,2; cover, 1,3. 12-month high, R65; low, R60. Trading volume last quarter, 13 000 shares.*

Year to Mar 31	'89	'90	'91	'92
Investments (Rm)*	344	481	489	649
Dividend income (Rm)	13,6	17,7	18,2	19,0
Interest income (Rm)	1,2	1,4	2,0	1,5
Net income (Rm)	13,0	17,0	17,8	18,3
Earnings (c)	117,4	232,0	242,5	249,6
Dividends (c)	89	117	196	196
Net worth (c)	4 626	6 462	6 624	8 771

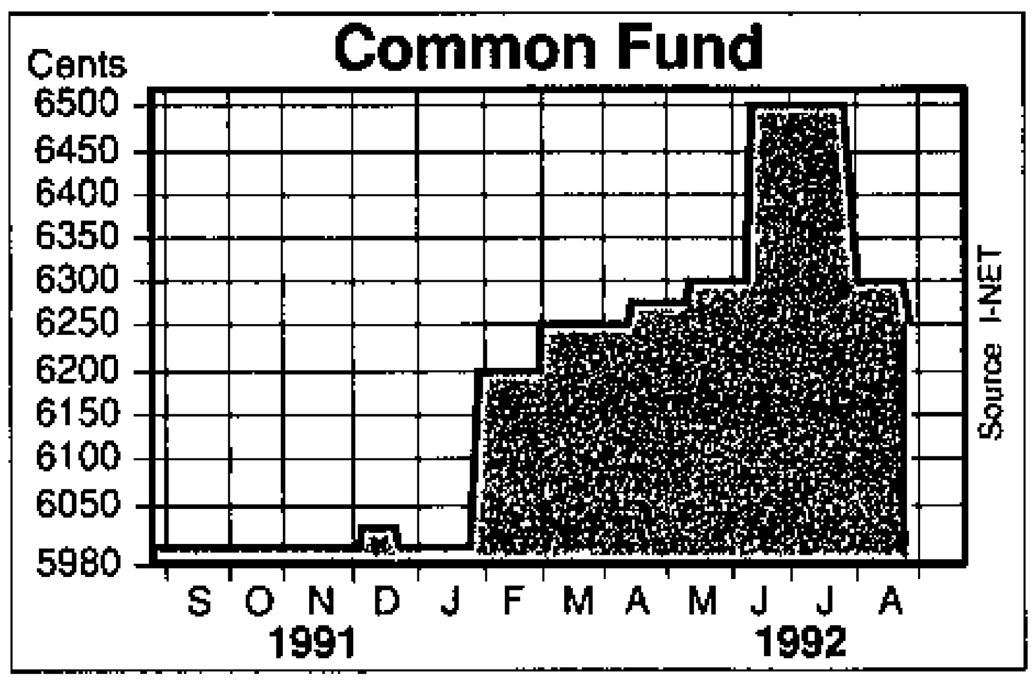
* At market value.

Common Fund's widely spread share portfolio outperformed the JSE Overall index last year, appreciating by a third against the index's 23%. Since the company's March year-end, the index has shed 11%. Assuming the market value of ComFund's 28 listed companies has moved in line with the index, net worth would now be about 8 021c per share.

FM 4|9|92 (58)

During the year, it disposed of its shares in building and construction group Everite and passed its rights to take up shares in First National Bank Holdings debentures and in Sasol, and also passed part of its rights in C G Smith Sugar.

The disposals did not bring in enough cash to finance R7,3m in acquisitions and ComFund delved into — and halved — its R6m cash resources. Apart from additions to Barlows, which now makes up 15% of the total portfolio, listed shares in the industrial holding sector continued to account for a third of the portfolio's total market value. Platinum was the only metals and minerals sector that ComFund chose to broaden. Other new investments include Metropolitan Life and C G Smith Sugar.



Total expenses were low, at R396 000, or 2% of net income.

The share stands 29% below the estimated current net worth, suggesting this could be a buying opportunity for those who want exposure to a broadly based investment trust. Marketability is limited; less than 1% of the issued shares traded in the past three months.

Kate Rushton

DEFINITIONS

Debt cover: Gross cash flow expressed as a multiple of interest-bearing debt.
Return on capital: Pre-interest profit as a percentage of capital employed.
Net asset value: Net assets attributable to ordinary shareholders after adjustment for market and/or directors' valuation of investments, less intangibles.
Return on equity: Earnings per share, based on weighted average number of shares in issue during the year, as a percentage of NAV.

RESULTS AND DIVIDENDS

		Pre-tax profit Rm		Percentage change	Earned cents per share		Paid cents per share			Dividends		
		1991	1992		1991	1992	1991	1992	Sector	Amount cents	Register by	Payable about
Alex White	P	1,7	4,1	+147	•6	•14	2,5	6	Paper & Pack	‡6,00	11.9.92	9.10.92
Beatrix	D	—	—	—	—	—	70	70	OFS	†35,00	11.9.92	23.10.92
Bloch	D	—	—	—	—	—	♠3,83	♠5,19	Dev Capital	♠†3,32	4.9.92	18.9.92
Bowler Metcalf	D	—	—	—	—	—	1,5	2	Paper & Pack	*2,00	4.9.92	10.9.92
Blue Circle	I	53,9	32,3	−40	•130	•93	55	27,5	Building	*27,50	18.9.92	28.9.92
Commercial Finance	I	2,9	3,2	+11	18	20	8	8	Dev Capital	*8,00	16.10.92	30.10.92
Congella Fed	I	1,6	1,7	+7	107	116	16	18	Property	*18,00	23.10.92	6.11.92
Gen Optical	P	3,9	4,0	+2	77	74	20	20	Pharmaceutical	†15,00	20.11.92	7.12.92
Gentyre	I	29,2	28,4	−3	186	179	55	55	Motor	*55,00	25.9.92	12.10.92
Grintek	P	80,9	81,3	+0,4	15	14	5,4	3,7	Electronics	†2,00	11.9.92	9.10.92
I & J	P	98,4	108,2	+10	•235	•258	78	86	Food	‡86,00	11.9.92	9.10.92
Imperial Group	P	n/d	n/d	—	114	134	44,2	51	Ind Hold	†26,00	18.9.92	20.10.92
Imphold	P	50,6	62,3	+23	38	46	15	17,5	Ind Hold	†9,00	18.9.92	20.10.92
Iscor	P	641,0	345,0	−46	•33	•19	11	6	Steel & Allied	†3,00	11.9.92	16.10.92
JD Group	I	8,9	6,7	−24	30	19	7	4	Furniture	*4,00	9.10.92	23.10.92
KWV Invest	D	—	—	—	—	—	46,3	51	Beverages	†35,00	25.9.92	23.10.92
McCarthy	P	99,2	87,8	−12	•60	•51	▼23,5	21	Motor	†13,50	18.9.92	9.10.92
Middle Wits	P	78,7	80,9	+3	15	17	6	7	Min Hold	†5,00	18.9 92	16.10.92
Mobile	P	13,6	16,6	+22	181	221	40,6	49,5	Transportation	†39,50	11.9.92	23.9.92
M & R Hold	P	299,3	466,2	+56	•500	•485	156	180	Ind Hold	†127,00	18.9.92	2.10.92
M & R Invest	P	124,2	126,7	+2	445	432	139	160	Ind Hold	†113,00	18.9.92	2.10.92
Mutual & Federal	P	145,4	197,8	+36	•232	•298	52	68	Insurance	†43,00	18.9.92	19.10.92
Pangbourne Prop	P	31,0	41,2	+33	▲75	▲73	▲74,744	▲74,735	Prop Loan Stock	▲†37,12	18.9.92	1.10.92
Rembrandt Beh	D	—	—	—	—	—	9,33	10,51	Tobacco	*10,51	18.9.92	15.10.92
Remgro	D	—	—	—	—	—	12,6	14,2	Tobacco	*14,20	18.9.92	15.10.92
Safcor	P	30,5	34,6	+13	•74	•84	37	47	Ind Hold	†29,00	11.9.92	25.9.92
Samancor	P	567,4	384,4	−32	•216	•151	110	90	Manganese	†50,00	4.9.92	25.9.92
Sho-craft	P	0,47	0,99	+108	2	7	1	1	Dev Capital	‡1,00	25.9.92	16.10.92
Tegkor	D	—	—	—	—	—	8,18	9,22	Tobacco	*9,22	18.9.92	15.10.92
TIB	D	—	—	—	—	—	8,67	9,77	Tobacco	*9,77	18.9.92	15.10.92
T & N Hold	I	7,1	9,9	+39	28	28	7,5	11	Ind Hold	*11,00	18.9.92	31.10.92
Trencor	P	132,0	170,1	+29	735	905	160	195	Transportation	†153,00	11.9.92	23.9.92
U-Control	I	1,4	0	—	2	0	2,25	#	Engineering	—	—	—
Unihold	I	7,9	1,7	−78	12	3	4,5	#	Engineering	—	—	—
Unitrans	P	28,8	◇45,6	+58	•73	•◇89	23,5	▼◇25,6	Transportation	†17,00	18.9.92	2.10.92
Venter	I	□	3,9	—	□	6	—	—	Transportation	—	—	—
Wesco	I	100,5	27,0	−73	280	27	—	—	Motor	—	—	—

P = Preliminary. • = Weighted earnings per share. ‡ = Annual. D = Dividend. † = Final. ♠ = Net after non-resident tax. * = Interim dividend. I = Interim. n/d = Not disclosed. ▼ = Includes special dividend. ▲ = Per unit. # = Dividend passed. ◇ = Annualised. □ = Not comparable.

BOND BOYCOTT (55) (100)

Loose cannon FM 4/9/92.

Even in ANC circles, there are those who have misgivings about the tactics sometimes employed by Moses Mayekiso. The latest example is his threat of a black "bond boycott" if the financial institutions persist in failing to grasp what he calls "the big picture."

Addressing the Council of SA Banks (Cosab) recently, as president of the SA National Civic Organisation (Sanco), Mayekiso said the bankers have to "help the democratic forces press the government to discard its racist stance on the nature of reform and the future constitution." cont ->

 FM 4/9/92.

The banks had to "put your money where your mouth is. Stop funding apartheid. Stop providing financial services to homelands, black local authorities, the police, army and Armscor." The banks had more than R13bn in government loans on their books, said Mayekiso. But Cosab had pointed out that government was self-financing, that banking internationally is neutral in such matters, and that banks provide limited facilities to government outside of legal requirements.

He went on to imply that American banks had pulled out of SA in political solidarity with the ANC. It appears to have escaped Mayekiso that they pulled out essentially for business reasons — that is, they judged the risk of operating in SA as too high.

Mayekiso says the bond boycott is one of a number of tactics being used to "sharpen the banks' sensitivity to our problems."

However, another civic activist says that "other, more innovative ways are being found to address this issue." It's also realised by some activists that encouraging a boycott mentality could lead to problems in future under a democratic government.

Mayekiso bemoans the fact that interest rates on bonds soared from 14% to 21% within 18 months. Inflation and unemployment made the situation unbearable for many bondholders, he noted in a display of apparent ignorance as to how the market works.

ANC leader Nelson Mandela recently in effect repudiated Mayekiso's bond boycott stance. Mandela said that the ANC had not been consulted and had not made such a call.

Aside from the image of Mayekiso as something of a loose cannon (he is also general secretary of the metal workers' union, Numsa, whose ill-conceived strike had to be called off this week), it seems part of the problem is related to a lack of clarity on what the role of civic organisations should be.

Mayekiso, whom some regard as an overrated leader, could be using this vacuum to carve out a political slot for himself.

Civic organisations emerged during the Eighties when they were at the forefront of resistance against rent increases and discredited councillors. They were curtailed by states of emergency. Since 1989, however, observes UCT research fellow Jeremy Seekings, civic organisations have occupied a position of unprecedented importance.

Yet, adds Seekings, the civics' prominence masks their limits. These include weak organisation of membership, uneven levels of consciousness, variable leadership and dubious accountability.

Civics came to exist because local government institutions were seen as illegitimate and credible political parties had been banned or, later, preoccupied with national issues. This could explain differences of approach between the ANC and Mayekiso over the bond boycott.

As Seekings notes, civics have tended to be only intermittently active by reacting to single-issue campaigns. Their present prominence results mainly from government's

(58) (100)

search for credible township representatives with whom to deal. "This suggests that civics may play a key role in the unfolding transitional period, but their role in a post-apartheid SA is uncertain."

The broad support for civics during the Eighties, says Seekings, reflected a curious combination of their conservatism and radicalism.

They linked national and local issues, arguing that key civic issues could not be resolved without national changes in the local government system, the distribution of economic resources and access to political power.

It is further argued that civics attracted support through their tactical pragmatism and "reformism" rather than their ideological or programmatic radicalism. Such pragmatic tactics produced results, with rent increases postponed and evictions suspended.

But when they made national political concerns their priority or adopted uncompromising tactics, support for the civics declined, says Seekings.

Civics have moved beyond their essential watchdog role and are now "institutions that themselves need to be watched over." ■

Bank margin twice pre-recession level

S/Times (BUSS) 6/9/92.

By CIARAN RYAN (58)

BANKING margins are twice the level they were before the recession.

The margin — the difference between banks' cost of funds and the rate at which they lend it out — varies between 4,5% and 5%. In 1988, before the recession, the margin was 2,25%.

A primary reason for the widening margin is a banking system which is awash with cash and few borrowers. Banks are reluctant to increase their lending books by taking on high-risk borrowers. Desposit rates are falling as banks try to avoid a further build-up of liquidity.

Standard Bank managing director Eddie Theron dismisses the suggestion that competition among banks is muted, saying: "You cannot compare margins under the current banking climate with those in good times. The net margin after allowing for bad debts is little different from that in boom times."

Finance minister Derek Keys referred this week to the gap between the 15% bank rate and that at which banks lend money.

He said that although banks were having to contend with rising bad debts and new capital requirements, the gap should narrow as a result of competition.

JSE analysts say banking margins are not excessive because of the sharp rise in bad debts. The average provision for bad debts is about 1%, says one analyst.

Mr Theron says bad-debt ratios have more than doubled in the past two years.

Board of Executors economist Rob Lee says banking margins have widened because the money market expects a further drop in short-term rates. Bankers' acceptance rates fell to 12,4% and prime overdraft — linked to bank rate — is 18,25%, a margin of more than 5%.

"This margin is more theoretical than real. Triple-A borrowers are able to obtain funds at up to 2% below prime. In this case, the banking margin is much less than 5%, but most borrowers are forced to pay prime and above."

A comparison of return on assets by KPMG Aiken & Peat puts Standard Bank Investment Corporation (SBIC) in front of the majors with a return of 1,09% in the year to September 1991. It is followed by First National with 1,07%, Absa with 1,01% and Nedcor with 0,94%.

The returns are more than 12% higher on average than in 1990, but low growth in the volume of lending has forced banks to maintain wide margins in an effort to boost profitability.

"When the economy starts to pick up, demand for credit will grow and this will put margins under pressure," says a JSE analyst. "Banks are compensating for lower volume growth by holding wider margins."

Dampen

Banks have been forced to build up dividend cover to meet more stringent capital requirements. Because of this banks cannot be accused of over-charging, says the analyst.

Banking margins traditionally widen in recession as liquidity builds up in the economy and high real interest rates make borrowing expensive. Monetary authorities tend to allow the margin to widen in a recession to dampen credit demand.

The PW Botha government artificially stimulated demand by pressuring the Reserve Bank to lower bank rate.

In the 1986-87 recession, short-term money-market rates dropped below 9% and prime was 12,5%, a margin of more than 4%. Higher bad debts are behind the wider margin this time.

SBIC decided to issue shares instead of dividends to build up capital. To satisfy the new 8% capital:assets ratio required of banks, SBIC needs earnings growth of 12% rather than the industry average of 18%.

Mr Theron says there is a worldwide trend to lower margins as more non-banks enter the lending market.

Ratplan could be withdrawn

S/Times (BUSS) 6/9/92

By KEVIN DAVIE

RATPLAN, which has controlled fuel distribution in SA since 1960, may be revised or withdrawn even though it is scheduled to run until the end of 1995.

The Department of Mineral and Energy Affairs (DMEA) says "the plan is but an agreement, and although the necessary powers exist to legalise it, thus far the Government has not found such a course of action necessary".

"Should it be decided to reduce the Government's involvement in the petroleum industry in any way or to withdraw altogether, the plan may be revised or withdrawn."

Self

The DMEA says Ratplan is not a secret document in terms of any legislation, but is a confidential agreement between SA oil companies, organised service stations and the Government "who act in the interests of the consumer".

"The reference by the press (Business Times) to a secret agreement can therefore only be interpreted as deliberate, the same applying to the plan being branded infamous."

SA petrol prices are competitive with Europe's, notwithstanding the fact that those countries have self-service and full service is provided here.

"This ensures job opportunities for 45 000 driveway personnel with roughly 250 000 dependants.

"In addition, the restriction on the opening of service stations has prevented the unnecessary squandering of capital in a country which has a shortage of capital resources."

The DMEA says Ratplan has contributed to restricting the rise in the price of fuel since 1985 to only 51% in nominal terms while in real terms it has decreased by 36%. This compares with a 160% increase in food prices in the same time — a real rise of 13%.

"It is therefore evident that the price of fuel has not contributed to the average increase in inflation over the past six years."

Average per capita expenditure on petrol in Pretoria-Witwatersrand-Vereeniging amounts to only R30 a month, or R85 a month based on the economically active population in the country. Food, drinks and cigarettes cost R176 a month, or R500 for the economically active population.

The DMEA says regulation does not protect the vested interests of the oil industry: "SA has more oil companies than many other countries in the world — also Western countries.

"There is keen competition between these companies, also competition with regard to prices as is evident from the discounts they allow to direct clients and service stations with a view to extension of market shares."

Cotton-farming threat

S/Times (BUSS) 6/9/92

THE future of cotton farming and the domestic textile industry will remain in jeopardy unless prices for domestic raw cotton become internationally competitive, says Brian Brink, executive director of the Textile Federation.

World cotton prices are R1,20/kg cheaper than the R4,80/kg forced on SA users by the Government, says Mr Brink. Duties were imposed last May to penalise imports.

Prefcor sets up (58) insurance company

PETER GALLI

PREFCOR Holdings has been granted a licence to operate in the short-term insurance market and has established its own R10m insurance company, Prefsure Limited, to begin operations next month.

It is expected to take about R100m in premiums away from the industry.

"The granting of this licence by the Financial Services Board is a first for the furniture industry and is a breakaway from traditional customer protection insurance, which was provided through arrangements with third party insurance brokers — a practice that has been in contention with the authorities for some time," Prefhold executive chairman Terry Rosenberg said at the weekend.

Group financial director Bernard Gatter said the R10m issued share capital would be funded internally. B|DAY

Prefsure would offer fire, personal accident and miscellaneous cover and would service credit sales at Prefhold's furniture stores, including Beares, Savells, Link, Price and Target. 7|9|92

"While this move will have no real financial effect on future consumers, as we will just be issuing insurance through our own company rather than another party, we expect to write up premiums of up to R100m this year," Gatter said.

Prefsure's board will include Fedgen MD Ron Carter, who is retiring, and SA Mercantile & General Reinsurance former director and GM Dennis Bridge.

Investec acquires UK's Allied Trust

BDAY 7/9/92

(58)

SHARON WOOD

INVESTEC Bank had acquired the total issued share capital of Allied Trust Bank from UK-based Barclays Bank for R185m, it announced at the weekend.

Banking analysts said this was a sound move and would provide a rand-hedge contribution to earnings. The deal carried an acceptable risk because it amounted to only 0,6% of earnings.

Allied Trust is a London-based commercial bank specialising in marketing retail investment products and lending to small and medium-sized businesses.

MD Steve Koseff said in addition to existing business, Allied Trust would now be involved in trade-related business, cross-border corporate finance and in encouraging investment in SA.

"We would like to see the development of that business, but will take it easy initially. There will be no staff moves from Investec to Allied Trust at the moment."

Executive director Bas Kardol said the acquisition would give Investec a foothold in the UK and was an important base for participation in the EC.

"This acquisition will enable us to gain competitive ground on foreign banks which have and are establishing offices and subsidiaries in SA and will broaden the range of international services we are able to offer our clients," he said.

Kardol said the aquisition would have no material effect on Investec's earnings a share to March 1993 but was expected to have a positive effect after that.

About 40% of Investec's profit after taxation was expected to be earned in foreign currency. Foreign contribution to earnings in the year to March 1992 was 30%.

The deal was effective from July 1.

Kardol would be appointed chairman of Allied Trust and the previous CE of the overseas bank would be deputy chairman. Allan James would continue as MD. Kantor director Ian Kantor and Koseff would become non-executive board members.

Investec had undertaken to provide £10m of subordinated debt through its existing overseas structure, which would raise the shareholders' funds of Allied Trust to £31m.

The risk-adjusted capital-to-asset ratio of Allied Trust would be about 20% after the deal, which would allow for further growth. In time consideration would be given to raising additional capital.

☐ To Page 2

Investec

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(58)

☐ From Page 1

Kardol added: "While Allied Trust has suffered in common with other banks and financial institutions in the economically hard-pressed UK, its low overheads and ability to move quickly mean it is better placed than its larger competitors to take advantage of the upturn when it comes."

Investec intended to concentrate as many of its existing international structures as possible under Allied Trust. The credibility would be enhanced because they were part of a well-capitalised bank. Initially, substantial savings would flow from the integration of Reichmans with Allied Trust, Kardol said.

"There are numerous rationalisation benefits that will be derived from this structure and will result in cost saving and the elimination of duplication."

Amendments may give life industry a boost

ANDREW KRUMM

(58)

THE scrapping of the Sixth Schedule to the ~~Income~~ Tax Act and a new tax deal for life offices would improve the industry's ability to compete, Fedlife deputy GM Andrew McGinn said last week. BDAY 7/9/92

McGinn told a financial planners' meeting the impetus to level the playing fields in the financial services sector stemmed from criticism of the tax and other advantages the industry was supposed to enjoy.

"It is ironic that proposals to amend the life assurance industry's legislative framework — motivated by discontent among other financial services sector players — will better fit life offices for competition."

Outlining the proposed amendments at an Institute of Life and Pension Advisers gathering, McGinn said: "In addition, a review of commissions paid to intermediaries, a review of a Life Offices Association (LOA) agreement on products, and a new Long Term Assurance Act may revitalise the industry's outlook."

He cautioned, however, that the abolition of the Sixth Schedule was still tentative, while the planned Long Term Assurance Act (LTAA), would probably be introduced only in 1994.

McGinn said the most welcome effect of the Sixth Schedule's abolition was that investment policies would no longer be tied to life cover.

A new tax deal for life assurers and policyholders would also emerge as the Sixth Schedule was replaced with the proposed "four fund" approach. "In the four fund approach, policyholders' funds are held in a trustee capacity, which implies life offices pay tax at a more appropriate rate (32%) on the individual policyholder's behalf. So, the proceeds from life policies owned by natural persons will be received tax-free in their hands."

McGinn said proposals to amend commission rules would leave the situation largely unchanged, with one exception."Retirement annuity (RA) commissions will soon be paid upfront, removing yet another disincentive to salesmen."

Investec buys UK bank for R185-m

S TAR 7/9/92

By Stephen Cranston (58)

Investec has bought Allied Trust Bank from the British banking group Barclays for R185 million.

Investec chairman Bas Kardol says that Allied Trust will be an ideal vehicle to introduce new products into the British market.

Allied Trust is a deposit-taking and lending institution, and Investec operates in a broader field which includes unit trusts, property syndication and management.

Mr Kardol says it is the first time that a South African bank has bought a British bank.

Investec will enjoy enhanced access to international technology, capital markets, credit and trading lines. It has an important base for activities in the European Community.

Investec will provide £10 million of subordinated debt, raising shareholders' funds to £31 million.

Mr Kardol believes the acquisition will enable Investec to gain ground on foreign banks which are establishing offices in South Africa, and will broaden the range of international services offered to Investec clients.

Allied Trust specialises in marketing retail investment products and lending to small and medium-size businesses. It has a staff of 60 who handle 9 000 clients.

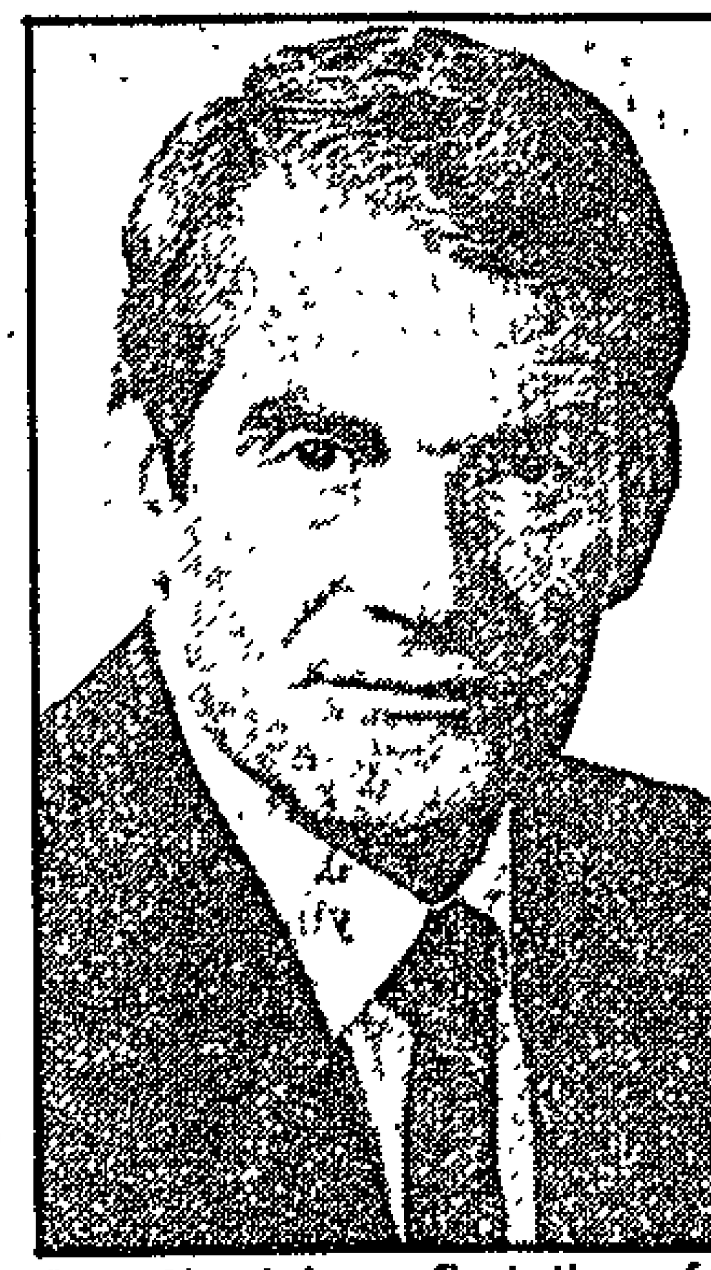
"Allied Trust has suffered in common with other banks in the economically hard-pressed UK, but its low overheads and ability to move quickly means that it is better-placed than its larger competitors to take advantage of an upturn," Mr Kardol says.

After the acquisition Allied Trust will have a risk-adjusted capital/asset figure of 20 percent, which should allow for further growth. Mr Kardol says consideration will be given in time to raising additional capital.

Mr Kardol will be chairman and the previous CE Colin Wakelin becomes deputy chairman. Allan James continues as MD.

The acquisition is not expected to have a material effect on Investec's earnings per share in the year to March 1993. Thereafter, however, it is expected to have a positive effect.

About 40 percent of Investec's taxed profit will be in foreign currency, compared with 30 percent now, primarily from Reichmanns.



Bas Kardol . . . first time for a South African bank

HCI lays 'sound basis for sustained organic growth'

(58) 1. BDAY 7/9/92

GAVIN DU VENAGE and ANDREW KRUMM

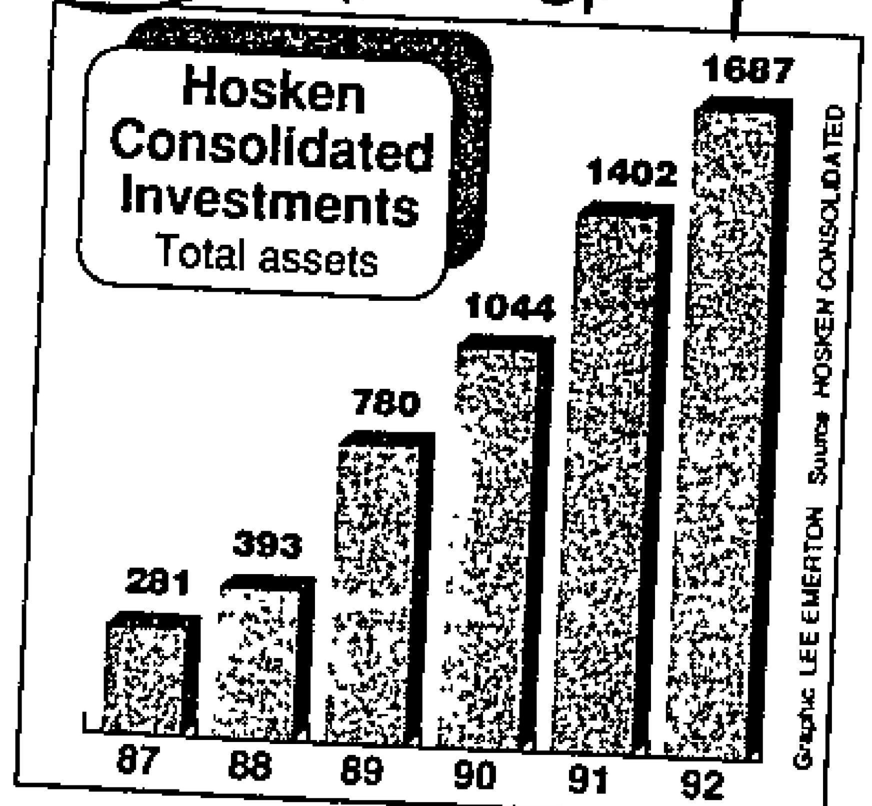
HOSKEN Consolidated Investment (HCI) has laid sound international and local foundations for sustained organic growth, says HCI executive chairman Michael Lewis in his chairman's review for the year to end-March 1992.

Lewis said moving the group's non-SA interests into holding company Amity Internationale — listed in Luxembourg in December — was a reaction to the expected concentration of economic influence and strength in the single European market.

"This structure will provide Amity with access to international equity markets and the benefit of funding future acquisitions and growth."

HCI's attributable income increased to R20,1m from R19,7m and a final dividend of 32c was declared for a total of 48c (45c)

Hosken Brokers (Hosken's), the group's brokerage arm, which reported a decline in earnings in 1992, was returning to profitability as costs had been contained, Lewis said.



A high point of the group's year was the return to profitability of short-term insurer IGI Insurance.

In spite of severe recessionary conditions that affected the insurer's traditional consumer market, IGI underwriting results made an R18m turnaround from a loss of R9m in 1991, to an underwriting profit of R9,5m this year.

Investment holding company Saflife had increased its market share and taken full advantage of the increased limits in sums assured that the authorities approved last year, Lewis added.

Net premiums rose to R39m from R25m, but fraud of forged and duplicated claims had plagued the industry as a whole throughout the year.

However, computer and internal audit systems had been effective in alerting management to the problem.

MD Paul Cushway said "a strategy excercise for tough times ahead" had been implemented, assessing the strains surrounding premium business growth and management strategies had developed to keep these strains at a minimum.

Cushway said the excercise would keep Saflife from falling prey to the adverse market conditions, and the various operating divisions had been put on a path of secure and continuous growth.

It had been necessary to streamline some of the support services and introduce economies to maintain a healthy and profitable life assurance operation, Cushway said.

Dabi shares soar on plans to sell portfolio

MERVYN HARRIS

JCI's mining holding group DAB Investments (Dabi) soared 42% or 400c to R13,50 on Friday on news that it plans to dispose of its entire investment portfolio and distribute the profits to shareholders by way of a cash dividend. BIDAY 7/9/92

Major holding in the portfolio is nearly 2-million Consolidated Metallurgical Industries (CMI) shares, which constitutes about 23% of Dabi's portfolio. CMI eased 25c to 875c on Friday.

Dabi has smaller holdings in De Beers, Dries, Palamin, JCI and JCI group platinum mines Rusplat, Leplat and PP Rust.

Dabi said in a cautionary statement to shareholders that the decision to realise the underlying value of the portfolio for the benefit of shareholders was made because of the substantial discount to net asset value at which Dabi shares consistently traded.

Analysts said the move was unlikely to be followed by other mining holding groups such as New Wits and New Cent.

They said Dabi differed from other mining holding groups as its investments comprised listed holdings and the portfolio had no mineral rights or unlisted companies.

This made it easier for Dabi to sell off its holdings and clear its decks.

Friday morning's trade of just over 4 100 shares worth almost R56 000 changing hands in five deals means a few investors made about R16 000 profit.

The other big rise on Friday was registered by embattled Harmony Gold Mine which rebounded almost 27% or 200c to 950c on news that government might render assistance to save the mine from closure.

The rise included a foreign purchase of the shares at 935c and came after the price touched a low of 675c earlier last week after falling from a high of R22 in February.

IGI makes an R18m turnaround in spite of pressures on market

BIDAY 7/9/92

GAVIN DU VENAGE

IN SPITE of severe recessionary conditions that had an impact on short-term Insurer IGI's traditional consumer market, underwriting results made an R18m turnaround from a loss of R9m in 1991, to an underwriting profit of R9,5m this year, chief executive Ima Lewis said in the company's annual report. 58

Premium income increased 10% during the year under review, net income rose to R29m (R23m), which Lewis ascribed to strong management, aggressive marketing and strictly controlled costs.

Group attributable income declined marginally to R26m (R27m), but the final dividend was up 13% to 35c (31c), bringing the total dividend for the year to 55c (48c).

The solvency margin was up 12% to 59% (47%) and, as this exceeded the minimum requirement of 15%, Lewis said the board might review its dividend cover policy.

Dividend cover remained three times the earnings in spite of a loss resulting from discontinued operations and losses incurred by Abacus. Capital employment exceeded R1bn for the first time this year.

Investment income dropped from R35m to R25m because of a marked swing from monthly to annual premium payments, in large commercial accounts as well as in individual accounts, where advantage was taken of this facility.

This trend was experienced throughout the industry and he expected investment income to improve next year as the full effect of monthly premium annualisation was felt.

He said the overall results should be seen against a backdrop of more claims in the crime classes of insurance as a result of the prevailing socio-economic climate.

Lewis said reductions in interest rates, and further cuts that could follow as inflation declined, mightwell be the turning point in the current low economic cycle.

Club Med recovers from Gulf war downturn

PARIS — Club Mediterranée, the French resort and tour operator, announced that it swung to a net profit of Ff20,3m in the first half of its fiscal year to end-October, from a loss of Ff87,4m in the year-earlier half.

The result was roughly in line with the company's prediction for a profit of Ff21m in the November-April period.

Club Med published the figures in the French bulletin of obligatory legal announcements, known as the Balo.

Club Med noted good attendance at its European and African resorts, particularly in the Mediterranean basin, crippled last year during the Gulf conflict. Its Alpine ski resorts benefited from good snow conditions last winter.

The company, which targeted full-year profit of Ff240m, remained cautious about the near-term tourism outlook, noting the poor economic conditions still prevailing.

Club Med posted a full-year 1990/91 loss of Ff17m francs. The group would have posted a profit of Ff175m if its air charter operations were excluded. The company's exposure in charters has been greatly decreased in the past year. — AP-DJ.

Job scheme for teens boosts work statistics

WASHINGTON — The unemployment rate dipped slightly in August to 7,6%, the second consecutive decline, but the improvement came from a special summer jobs programme for teenagers, the US government said on Friday.

The rate, which hit an eight-year high of 7,8% in June before declining to 7,7% in July, could well soar again in September with the expiration of the jobs programme financed by Congress after the Los Angeles riots, analysts noted.

Labour department officials estimate 75 000 youths found jobs under the programme in July and 100 000 in August. BDAY 7/9/92

A separate survey of employers' payrolls showed that even with the youth programme, there were 83 000 fewer non-farm jobs overall, the worst decline in nine months.

In advance, economists were looking for a decrease of around 150 000 jobs.

The August decreases were concentrated in retail trade, down 71 000, and manufacturing, down 122 000 — the steepest in 18 months.

Friday's report was likely to become political fodder in the presidential election race, with President George Bush focusing on the improvement in the rate and Democratic nominee Bill Clinton focusing on the second drop in payrolls in three months.

Payrolls had risen 177 000 in July and fallen 76 000 in June.

Bush's re-election effort has been plagued by voter dissatisfaction with the virtually stagnant economy. Although GDP has been growing slowly for five consecutive quarters, the unemployment rate has continued to rise in most months.

The problem, according to economists, is that the torpid economy, although growing, is not generating enough jobs to accommodate new entrants into the labour force.

And many layoffs are now being considered permanent staff reductions, rather than temporary responses to slow sales. — Sapa-AP.

MONEY MARKETS by Hilary Gush

Shortage comes as unpleasant surprise

BDAY 7/9/92. (58)

MARKET liquidity fell sharply towards the end of last week as the shortage doubled to R3,176bn on Thursday from R1,588bn on Tuesday.

Having expected a relatively easy month-end — unusual for August — as interest payments on government stock pared tax outflows to the Receiver, market players were unpleasantly surprised to see the shortage rise so dramatically on Thursday. While not exactly welcoming the higher shortage, dealers were not too concerned that liquidity would evaporate.

The markedly higher shortage was attributed to tax payments flowing out of the system, forex payments — the nature of which is a mystery to many — and Reserve Bank gilts sales.

Nedfin's latest analysis of bank instalment-credit business confirms beliefs that the shortage will not rocket in the year and demand for credit will remain poor. Nedfin's research suggests that a mid-year surge in business fizzled out quickly and that credit stagnation is setting in.

In the second quarter total credit business written by commercial banks — as measured by DI 900 returns — grew by a nominal R395m to R32,7bn, up from R32,3bn in the first quarter. This represents a 12,8% growth in total receivables in the year to June, compared to the 14,4% increase measured in the year to December 1991.

Most of the second quarter rise was ascribed to the spurt in business after the authorities' first quarter announcement that hire purchase payment periods could be extended from 48 to 54 months. Nedfin claims that the announcement came too late to have much effect on first quarter figures,"but helped boost business for a few weeks on the run-in to mid-year".

Other than having recorded a higher shortage, activity on the money market was subdued last week. The 90-day liquid BA remained steady in a 12,4% to 12,6% trading range all week, and 12-month NCDs continued to trade at around 11,45%. Finance Minister Derek Keys's Thursday address did little to alter dull market sentiment. Similarly the release of July's consumer inflation figure, at 14,6% year-on-year, had limited effect on rates in the money market.

Towards the weekend calm returned to the capital market after wild swings in gilts rates at mid-week. Both big buyers and sellers in the market saw volume heighten to 6,7-billion on Wednesday from 2,5-billion at the beginning of the week.

Near the close on Friday the yield on Eskom's bellwether bond was down on the week at 14,16% from Monday's 14,26%. In line with this, the yield on government R150 stock was 10 points down at 14,25% from a previous 14,35%.

The bull trend is expected to last as equities continue to perform poorly.

Campaign to launch home loan centres in townships

(58)

WILSON ZWANE

THE Perm and the SA National Civics Organisation (Sanco) would embark on a campaign soon to establish township home loan centres, which would make home ownership easier for low-income families, Sanco president Moses Mayekiso said at the weekend.

The Perm and Sanco have already reached a provisional agreement on community-oriented banking.

The agreement provides for, among other things, the establishment of home loan centres in the townships "to make bond application and consumer education much more accessible". BDAY 7/9/92

Mayekiso said the centres would greatly benefit township residents, who could not pay their bonds because of unemployment. Should a resident be unable to pay his bond, his house would be taken over by the centre, which would service the bond.

The affected resident would pay rental to the centre until he was once again able to carry the burden of repayments, at which time the house would be restored to him. The arrangement would ensure that there were no arrears on housing bonds.

In another development, the Association of Mortgage Lenders (AML) and Sanco appointed two working committees at a meeting at the weekend to look into issues of dispute and give their negotiations new direction.

Meanwhile, work has begun in earnest on developing strategies to alleviate the housing crisis, with the recently launched national housing forum's working committees identifying issues for discussions.

The six committees of the national housing forum, launched in Johannesburg last week, have been entrusted with discussing land and services, financing, institutional structures, the integration of cities, and the hostel question over the next few months.

According to the forum's co-ordinating committee vice-chairman Khehla Shubane, the committees finalised their terms of reference last week.

"The co-ordinators of these committees will meet this week to exchange information," Shubane said.

He also disclosed that the committee on hostels, which began its work long before the forum was launched, would meet government soon to ascertain whether its proposals were being implemented.

The committee has proposed, among other things, that government should give hostel dwellers the same housing assistance it gave to other "economically disadvantaged communities".

The national housing forum consists of 16 organisations, including the ANC, the PAC, Inkatha, Azapo, Saccola, development agencies, financial institutions and civic organisations.

Government is not a member of the forum but Housing Minister Leon Wessels has welcomed its launch.

Institutions dominate retail property

Sowetan 7/7/97

(58) PETER GALLI

NON-institutional property developers, who do not have the resources to carry vacancies, are being squeezed out of the retail market due to oversupply and high development costs.

Recent studies have shown that existing ownership of centres is almost exclusively in institutional and pension fund hands — a situation that is unlikely to change.

Matrix Projects MD Malcolm Wilson said opportunities for new, succesful shopping centre developments were becoming increasingly difficult to find.

Funding for such developments was also becoming more problematic as there was only a limited number of potential investors with sufficient funds.

A recent study by Anglo American Property Services (Ampros) research department showed that about 60 centres larger than 20 000m² provided more than 2,2-million m² of space countrywide.

More than 250 000m² of retail space in new and existing centres was expected to become available by next October.

Developers claimed that while there might be too many large shopping centres in SA, opportunities existed for smaller centres in residential areas with few facilities and growing populations.

While latest statistics vary as to exactly how many centres are owned by the major institutions and pension funds, Liberty Life and the Eskom Pension Fund each own three of the 12 largest centres, with Mainpro controlling two and Amaprop, Old Mutual, Sanlam and a number of other pension funds one each.

Banks shrug off plea to cut overdraft rates

S TAR 7/9/92.

By Derek Tommey (58)

Commercial banks have responded to the appeal by Minister of Finance Derek Keys for a reduction in the rate of interest they charge small borrowers with a marked lack of enthusiasm.

The problem, it appears, is that after having absorbed hundreds of millions of rands of bad debts in the past two years, they are in no mood to lend to the small borrower at any rate of interest — high or low.

Mr Keys last Thursday endorsed the Reserve Bank's policy of maintaining positive real interest rates by keeping them above the rate of inflation.

But he pointed out that there was a considerable gap between Bank rate of 15 percent and the actual rates banking institutions charged their customers.

The gap was not fixed by regulation, and ought to be narrowing as a result of competition among banks.

He admitted that the heavy incidence of bad debts had been a restraining influence, as had the banks' desire to augment their resources to comply with higher capital adequacy requirements.

But Mr keys said: "I trust that as these restraints become less important, we can look forward to greater lending rate competition in the banking industry, to the benefit of the economy in general and to small and medium-sized businesses in particular."

Mr Keys' words highlight a sore point with many people.

As any pensioner having to live on his savings can verify, the rate of interest on deposits has dropped sharply in recent months.

As a result, many pensioners count themselves lucky to be getting 13 percent on their savings.

On the other side of the coin, small businessmen can find themselves paying double or even more than this rate of interest on their bank loans, and so can private individuals on their overdrafts.

However, bankers deny they have not cut their lending rates in line with the drop in deposit rates.

Top-class large firms are now able to borrow at several percentage points below the banks' prime rate of 18,25 percent, says a banker.

Prine rate in Europe is still the minimum lending rate for a bank's best customers, but this is no longer the case in South Africa.

The corporate market is extremely competitive and some borrowers could be getting money at just over 12 percent, a banker said at the weekend.

Medium-size companies with good credit ratings were probably paying around prime for their money, the banker said. But as prime is reduced, so too will the rate they are charged.

However, borrowers with weak balance sheets — and a great many small businesses and individuals fall into this category — must expect to pay for the greater risk factor in lending to them.

And so the rate of interest they are charged could go as high as 28 percent — the maximum permitted by the Usury Act.

Reserve Bank figures show that the rate of interest commercial banks charge on overdrafts are fairly "sticky", and remain virtually unchamged, even though other rates may change.

Prime was reduced by 1,75 percent in the 13 months to March. But the predominant overdraft rate fell only 0,5 percent in this period from 24 percent to 23,5 percent, the Reserve Bank reports.

Mr Keys' call is likely to go unheeded.

The banks want better and healthier balance sheets before they are prepared to give small borrowers lower rates — and this could be some time away.

Low-cost housing scheme in pipeline

BDAY 8/9/92 TIM COHEN (239)

PRETORIA — A National Housing Finance Corporation, which would free billions for low-cost housing, could be implemented soon, even before an interim government, Development Bank of SA GM Johan Kruger said yesterday. (58)

Kruger said in an interview that the housing super-bank was one of the interim measures which, if accepted by all parties, could be implemented soon to lay the foundation for a new national housing policy.

The proposal for rationalised financing of low-cost housing has been endorsed by financial institutions canvassed, but still has to be negotiated with other groups, including the National Housing Forum.

Financial institutions are keen to play a role in the provision of low-cost housing although they are reluctant to become involved in the administration of the system.

Kruger, who spoke earlier during the presentation of the De Loor report on a national housing policy, would not give details of proposed equity, but it is understood that it will be in the region of billions of rands. The bank would enjoy state guarantees and have a gearing ratio significantly higher than commercial banks'.

The De Loor report, which proposes one-off capital grants as its key strategy, suggested the creation of a National Housing Finance Corporation, similar to the Development Bank. The report will be accepted as government policy only after comments from all parties.

FNB has takeover of UK bank 'in the bag'

58

JOHN CAVILL

LONDON — FNB's R400m takeover of small UK merchant bank Henry Ansbacher was "in the bag", market sources said yesterday. BDAY 9/9/92.

No comment was available from Ansba[illegible]r or its advisers, but it is understood [illegible]B is paying cash and has already [illegible] necessary financial rands.

[illegible] share price has risen by [illegible] since the announcement of negotiations with FNB, capitalising the company at just under £58m.

An FNB spokesman said in Johannesburg last night that the deal was "a long way down the track".

However, he declined to comment on speculation that the bank would be paying cash for the acquisition.

Offshore stake in Prima

PETER GALLI (58)

AN UNIDENTIFIED offshore institution yesterday acquired a 13,7% stake in Prima Property Trust for R11,46m as 18,2-million shares changed hands at 63c a share in a special bargain deal.

Prima Bank assistant GM Ockert Goosen said the settlement date for the deal was October 1 and the shares had been held by a consortium of local investors who exercised their rights under the rights issue held in May.

About 44,37-million shares were then offered at 63c to raise 27,9m for the acquisition of two new properties. All of the shares bought by the foreign institution were "rights offer" shares, he said.

"Prima Bank, which holds about 3% of the trust's shares as well as a major interest in its management company, only sold a small amount of shares to make up the package," he said. BDM 9/9/92

At 63c the share had an earnings yield of 16,34% and a dividend yield of 16,26%.

The share hit a 54c low on January 31 from an October 1991 high of 70c a share. Goosen said the broadening of the shareholding was a good thing as the share had previously been heavily held by a Cape Town institution. Old Mutual is reported as the largest shareholder with a 16% holding.

Concern over bank interest margins

BIDAY 9/9/92

SHARON WOOD

(58)

WIDE bank interest margins should be looked at in the light of the stringent capital adequacy requirements in the SA banking sector, bank spokesmen said yesterday.

Banks needed quite high profit escalation with returns on equity of 22% to sustain capital growth in the inflationary environment, one leading banker said.

He added not many banks were meeting these returns on equity and could struggle to meet the capital requirements in 1995.

Absa's return on equity is 20,8%, FNB's is 20,4%, Standard Bank's is 14,2% and Nedcor Bank's 16,1%.

Banks are presently profiting from high interest margins of about 5% because overdraft rates have not been reduced by the same amount as deposit rates.

A reason for the high overdraft rates was the extremely low demand for credit at present, one banker said.

Finance Minister Derek Keys said last week competition in the industry could be expected to lead to a narrowing of bank interest margins at a time like this.

However, FNB senior GM Viv Bartlett said overdraft rates would not come down before an official cut in the Bank rate.

Reduction

Bartlett was confident Reserve Bank interest rates would come down before the end of the year, and added banks had already twice preempted a Bank rate cut by bringing down home loan rates, providing help where it was most needed.

He said the corporate sector's utilisation of overdrafts was very low at present and a reduction in overdraft rates would not make a difference to this demand.

Bad debts were inordinately high, as clients adjusted to high real interest rates.

The level of bad debts has been used as a reason for high interest margins in the sector.

A banking analyst agreed the banks' statutory capital requirements were very strict.

But he added the banks were already meeting capital requirements and had been ingenious in raising capital through revaluing equity, shareholdings and property.

They were also distributing capital from holding companies, which were not deposit-taking institutions, down to the banks.

Profit growth in the banking sector during the next upswing would not be as high as during the economic revival in 1987/88, when assets soared by 30%. He said assets would grow in a range of between 15% and 25%, and margins would tighten.

Brave finrand raft riders get a sinking feeling

BDAY 9/9/92 58

SIMON WILLSON in London

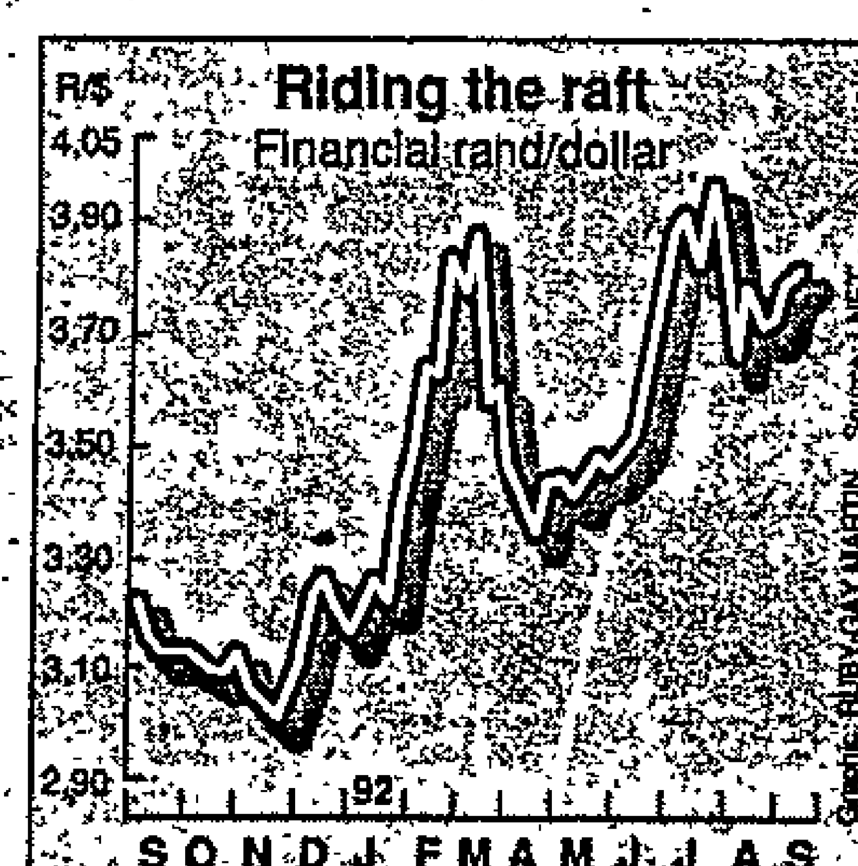
AN EXASPERATED dealer once grumbled through tightly clenched teeth that to trade the financial rand was to go white-water rafting through the foreign exchange market's most treacherous rapids. London's foolhardy finrand raft riders have been at it again over the past few days, and may be losing the sense of adventure and the amusement at pain that sets them apart from the rest of the market.

The normal hazards of foreign exchange trading appear not to be enough for finrand dealers. The capricious data, cut-throat competition and fickle central banks that are features of conventional currency trading are doubled up in finrand trading by unique extra obstacles — chronic illiquidity, an incestuous market and bizarre regulations.

These additional dangers help to explain why London dealing rooms categorise the finrand rather ignominiously among the "exotic" currencies — with the Gambian dalasi, the Macao pataca and the Vietnamese dong, as currencies traded when necessary to please the odd client but more often avoided.

Reggie trades exotics for a major UK commercial bank in one of London's biggest currency dealing rooms. He fell off the finrand raft again last week, but clung onto the proverbial trailing rope and hauled himself back aboard. The occasion of Reggie's latest finrand ducking was last week's meeting of the ANC national executive committee on whether to re-enter constitutional negotiations with government.

The lead-up to the meeting had been conspicuously optimistic. Reggie had been running a small long position for a couple of weeks in anticipation of some better political news emerging. He had bought R3m in finrands in anticipation of being able to sell them at a higher price, and government's discernible confidence that Codesa was about to get back on track gave him every reason to hold on to his position, or even to double up. It is just as well he held back.



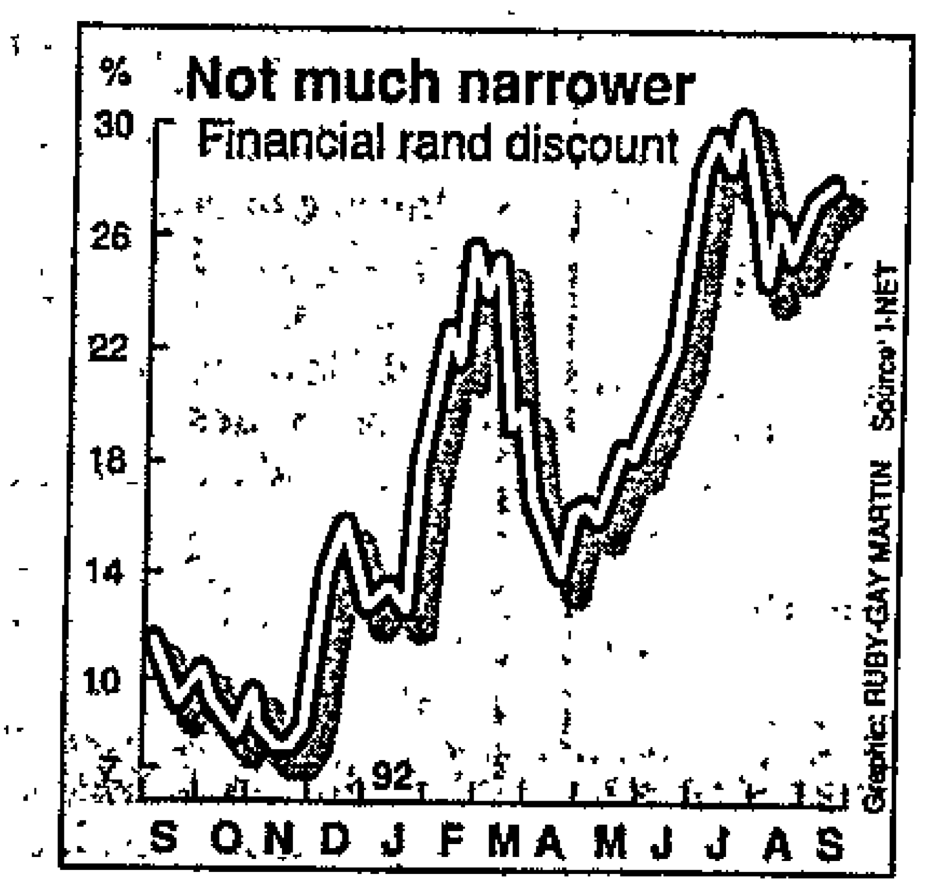
Suddenly, everything that could go wrong did go wrong. Against expectations, the ANC decided against rejoining constitutional negotiations. Reggie, R3m long in a currency that was tumbling, frantically tried to cut his position. But the finrand market's first two extra obstacles immediately blocked his way: players in the finrand's thin and incestuous London market were all positioned the same way — long, and expecting positive news. So no bids.

Plan B for Reggie was to call the Johannesburg market to look for a bid. But he was thwarted by the third of the finrand market's special hazards, its bizarre regulations. SA banks are not allowed to hold overnight finrand positions. The ANC decision was announced when Johannesburg dealers were squaring off, so no players in the SA market could deal. Still no bids.

Just as Reggie was wondering whether the drop from nearby Tower Bridge would be long enough to do the trick, he gave a City broker one last call and found, to his relief, that a bid he could live with came on the dealing screen. He bailed out of his position, taking a knock that could have been a lot harder.

But the disagreeable combination of extra dangers in finrand trading had, yet again, given a trader some grief he could have done without. The unit's image as a haphazard exotic had been further reinforced.

A year ago, City traders were regularly running R10m-R15m financial rand positions, helping to boost the market's liquidity and making the unit more tradeable. But, as the first chart shows, that was when the political news from SA was mostly favourable and the finrand was generally strengthening. Now, dealers are



reluctant to hold short positions because of the Reserve Bank's announced intention to intervene as a net buyer, and are unlikely to hold appreciable long positions to avoid the perils that dumped Reggie in the drink.

The regulatory limits on the finrand's tradeability do little to help narrow its discount to the commercial rand, shown in the second chart. And yet a narrower discount must be the Bank's goal as it sets about reducing the overall supply of finrands by buying them in the market. Governor Chris Stals told the Bank's AGM last month that the Bank's net finrand purchases amounted to R229m in the first four months of official intervention. He effectively conceded, though, that the Bank may have overestimated its ability to underpin the unit, since the finrand had remained weak over the period.

For Reggie and his counterparts in the London market, the finrand remains a conundrum. Disillusioned, for the time being, about the market's illiquidity and cramped by its restrictions, City dealers look set to keep their positions small — aggravating the market's problems by doing so. But there are other exotics to deal. Traders are getting tired of being tossed off the raft.

LETTERS

(58) CT 19/9/92

Bank rate could drop 2%

JOHANNESBURG. — The Reserve Bank could lower the bank rate from 17% to 15% as a result of the declining trend in the inflation rate, Public Enterprises Minister Dr Dawie de Villiers predicted yesterday.

Dr De Villiers, addressing the National Party's Transvaal congress here, did not say when he thought this would happen.

However, he predicted that the inflation rate could decline to 12% in December if the increase in food prices could be curbed, which would give the country an inflation rate of 14,4% for 1992.

It was expected that the inflation rate would continue to decline in 1993 and an average rate of 12,8% was predicted for next year.

"As a result of the declining trend in the inflation rate, a more stable domestic monetary situation and a more liberal liquidity position will be experienced in the money markets.

"The Reserve Bank could therefore lower the bank rate by two percentage points from 17% to 15% in collaboration with the trend in market interest rates. This tendency should continue," said Dr De Villiers.

The minister said that in spite of the difficulties being experienced by the economy there were a number of positive developments.

These included indications of more modest salary adjustments this year — lower than the inflation rate — and the turning of the Producer Price Index from a high of 15,2% in 1989 to an average of less than 10% in recent months.

● Trade surplus resumes rise — Page 5

Smaller banks again fare poorly in risk ratings

(58)

BDay 10/9/92

SHARON WOOD

SMALL trading banks again score low marks on Republic Ratings' risk scales in the credit rating agency's latest informal risk assessments.

The assessments are conducted on banks which have not requested formal ratings or have not yet been rated. Ratings range between four, which reflects a vulnerability to risk, and 12, which indicates the bank is extremely strong. The agency provided a two-tier risk assessment, one on a "stand-alone" basis and the other on the likelihood of parent support.

Societé Generalé, Prima Bank, African Bank and Mercantile Bank were at the bottom of the scale with ratings of four on a stand-alone basis. However, when taking into account parent support, Societé Generalé was relatively highly rated at nine. Standard Bank and Nedcor Bank were at the top of the scale, each with 12.

Prima Bank's low rating was due to concerns about the quality of the merchant bank's asset book. And as one of the smallest banks in the country it was at a significant disadvantage in its lending activities.

Enhanced

Republic Ratings spokesman Dave King said Prima attracted the majority of its funding from the volatile wholesale market. It was thus exposed to this market and to the implications of the larger corporates "pulling in their lines".

However, Prima had doubled its profits during 1991 and increased them by 25% this year and the capital base had been significantly enhanced by the recent issue of R5m secondary capital, pushing its risk-weighted capital adequacy up to 8,4%.

Concerns about African Bank's capital base led to its low rating. King said it needed to be augmented to meet the requirements of the Deposit-Taking Institutions Act.

Sechold group subsidiaries, Secfin, Securities Investment, National Discount House and District Securities Bank, all received a rating of five. Very large trading exposures in relation to the banks' capital bases was cited as the main reason behind the group's vulnerability to risk.

Absa's recent acquisition of R50m convertible debentures in Sechold would probably be channelled down into its four operating banks and thus have a favourable impact on their capital adequacy.

Bad debt set-offs 'to cut Bankor asset base'

BDAY 10/9/92 (58)

SHARON WOOD

A R500m set-off of Bankorp's bad debts would reduce the Absa Bank's asset base by the same amount from R84,4bn at the time of the merger, finance group executive Alwyn Noeth said yesterday.

He added Bankorp had continued to accumulate provisions for debts that had gone bad and these would now be set off.

He stressed growth in the group's advances would reduce the impact of the "write-offs" on the asset base and they would have no effect on the capital base or profitability. These write-offs and accounting misallocations would bring the group's specific bad debt provisions to a downwardly revised R1,8bn at the end of June and R1,9bn in July. Reserve Bank returns for June and July incorrectly showed specific provisions to be R3,8bn in June and R4bn for July.

Noeth said the published specific provisions on DI900-returns, the monthly statement of assets and liabilities, were incorrect because, in addition to the bad debt set-offs, there had been a misallocation of creditors and interest in suspense of about R1,5bn. The mistake had occurred when the accounts of Bankorp and Absa had been consolidated. The revised returns had been sent to the Bank yesterday, he said.

Difficult

An analyst said R1,8bn was a big provision, which meant the group was very well provided for its bad debts. "They are specific provisions which means they need them," he added. Standard Bank had specific provisions of R329,4m, FNB had R503,2m and Nedcor Bank had R306m at the latest respective year ends.

Noeth agreed they were large provisions but added they had been built over time.

While it was difficult to predict the size of provisions, Noeth was confident the current year-charge for bad debts would not increase materially from current levels and would probably be slightly lower than that of last year.

87 families may lose their homes

Sowetan 10/9/92

■ **Houses repossessed as union runs out of cash:**

58

By Lulama Luti

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especially fellow blacks. Azapo

87 families may lose their homes

Sowetan 10/9/92

Houses repossessed as union runs out of cash: 58

By Lulama Luti

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(58)

INSURANCE FM 11/9/92

Dusting the furniture (58)

By forming its own insurance arm, Prefhold — holding company for several large trading chains — seems to have taken the lead in ending what has been perceived as a harmful business practice. Effectively, it is self-regulating the practice of inducing low-income customers to insure their purchases transacted through hire purchase (HP).

In one sense, Prefhold is shooting itself in the foot. It will now earn only the standard commissions, maximum 20%, on the insurance of consumer durables sold in its chains, which works out at considerably less than the industry practice of adding insurance costs to the principal debt. This can add up to 7% in finance charges, possibly contravenes the usury laws, and effectively means that traders are self-insuring against losses.

But Prefhold stands to gain in image, as a consumers' champion. While it stands alone in this selected marketplace it can, of course, decide its own rating pattern, creating underwriting profits, while still sending the 20% commission down to the outlets.

An insurance licence has been granted to Prefsure, capitalised at R10m. By going this route, the group brings its insurance activities squarely under the spotlight of the Financial Services Board (FSB).

If Prefsure holds rates at a reasonable level it will buy customer goodwill without any material loss of income and earn points at the FSB. If it sees itself, on the other hand, as having an open pen to write rates for its customers, it will invite competition from existing non-life insurers.

"Whatever happens," says an insurer, "Prefsure's suggestion that it will remove R100m of premiums from the market is nonsense. It is effectively rewriting existing business in a different form and, if that business becomes attractive, other insurers will compete."

The insurance of HP transactions has always been controversial. There have been complaints that the rates built into monthly payments are outside the Usury Act. Regulators in Pretoria have been watching the system but accept that the furniture trade industry has special problems. A typical transaction with a capital value of R1 000 is of no interest to a regular insurer and this has forced traders to offer their own forms of insurance, probably illegally.

In some cases, the traders pass the insurance to registered underwriting companies, sometimes with a kick-back of commissions. In others, transactions have not been underwritten at all — a clear contravention of the Insurance Act. To be sure of covering their potential losses, some traders included "insurance rates" of 5% and more. Even allowing that HP sales to consumers with low credit ratings comprise a high-risk aspect of insurance, this rate appears abnormally high. A leading insurer this week hinted that it would watch Prefsure's operation and, if the risks seemed acceptable, could come in with a rate as low as 2%.

That seems doubtful. The logistics of collecting insurance dues separately from HP instalments pose problems and must raise costs. The HP customer has an undisputed right to shop around for rates but, in reality, will end up in the same store where he made the purchase. Only if trader insurance becomes outrageous is there likely to be consumer awareness and reaction. ■

FM 11/9/92

GDM FINANCE (58)

Into the big league

Activities: *Trade finance.*
Control: *Goode Durrant Plc: 49%.*
Chairman: *M Waring; MD: J Cowper.*
Capital structure: *25,6m ords. Market capitalisation: R56m.*
Share market: *Price: 220c. Yields. 7,1% on dividend; 17,3% on earnings; p:e ratio, 5,8; cover, 2,5. 12-month high, 300c; low, 200c. Trading volume last quarter, 85 700 shares.*

Year to April 30	'89	'90	'91	'92
Bills receivable (Rm)	91,9	102,0	112,4	124,6
Pre-tax profit (Rm)	8,1	9,8	12,0	11,5
Attributable prof (Rm)	5,5	7,5	8,6	9,7
Gross assets (Rm)	100,4	127,9	149,8	169,9
Earnings (c)	21,3	29,3	33,7	38,0
Dividends (c)	8,5	12,0	13,5	15,5
Net worth (c)	79,4	96,9	109,1	130,0

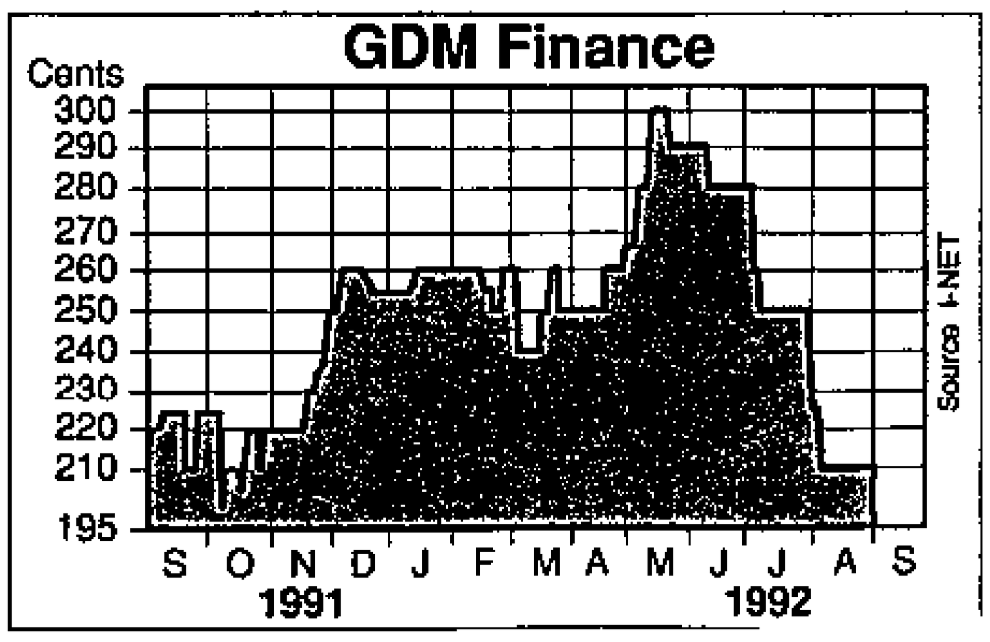
This company was founded 40 years ago, with shareholders' funds of R50 000. By the end of GDM Finance's last financial year (April), its managers had increased shareholders' funds to R34m and gross assets stood at R170m.

Pre-tax profit for 1992 decreased marginally to R11,5m largely because of the need, says chairman Michael Waring, "to provide for bad debts incurred during the year." That setback didn't flow through to the bottom line: EPS for the year rose 12,8%, and the dividend was increased nearly 15%.

The company's business is essentially that of providing trade financing; it acts as a confirming house and, through its subsidiary African Shipping, provides clearing and forwarding services. Waring says 1992 was characterised by falling consumer confidence and a deepening recession, so the performance reflects unusually tight control, particularly in the areas of overheads and credit management.

If anything, 1993 will be more of the same. Group financial director Clarry Berlin says GDM's clients are going through a very difficult period. He's reluctant to be drawn on prospects: "Given the political and economic mess we're in, it's almost impossible to make a decent forecast." Nevertheless, he says he's "confident GDM will produce good results."

One of the keys to the group's business is African Shipping, the clearing and forwarding operation in which GDM holds a 64% interest. Last year, the company reported a very significant rise in its after-tax profit, to R2,4m, and its range is being expanded for 1993 by the acquisition from April 1 of the SA business of R H Freight Services, a subsidiary of a large UK group.



FM 11/9/92 (58)

GDM MD John Cowper ... *another satisfactory performance*

The result will be that African Shipping's total turnover should rise to about R200m; that lifts the company into the big league of the industry.

The other pillar of the group's business is its conservative approach. GDM's risk is spread across a number of businesses operating in unrelated fields. No single client represents more than 7% of total receivables, and no one business sector accounts for more than a quarter of total turnover. The four largest sectors are: clothing and textiles (25%); household and consumer goods (21%); computer supplies and consumer electronics (13%); and engineering and light machinery (10%).

The company incorporates the former beleaguered Repfin group which GDM acquired in 1991.

Berlin says Repfin has been integrated entirely into GDM's operations and has by now turned into a successful and profitable investment.

The company is trading on a p:e of 5,7 in a sector dominated by the big banks. In the light of its results it deserves rather better treatment than it's getting from the market.

David Gleason

Ilco riding high in a tough market

BDAY 11/9/92 (58)

ANDREW KRUMM

DEVELOPER Ilco Homes reported an 18,8% increase in earnings to R6,2m for the year to June 1992 in spite of a tough residential property market.

Dividends a share in 1992 were maintained at 1991 levels — a steady 7,5c for both years.

The company said today the improved 1992 results, with more than doubled turnover last year, were fast returning Ilco to pre-1990 profitability after the 70% drop in profits in 1990.

Turnover, which was not disclosed, rose 23% (1991: 215%) in spite of adverse economic conditions and high interest rates hampering consumer spending.

Operating income increased to R11,6m from R9,3m in 1991.

However, the company's interest bill was higher at R5,4m from R4m last year as interest bearing liabilities grew substantially.

Financial director Warwick Lombard said it was difficult to predict future results, but Ilco was well placed to take advantage of any real drop in interest rates.

"Should interest rates drop to more acceptable levels, current sales volumes would probably increase substantially.

"Numerous projects have been planned and these developments appear very promising in the long term.

"However, the company is reliant on the co-operation of local authorities to curtail delays in obtaining approval for these contracts," Lombard said.

INVESTEC FM 11/9/92

Sterling leap (58)

Market speculation has finally been quelled with Investec's announcement of its R185m acquisition of a London-based commercial bank It is to acquire Allied Trust Bank (ATB) from Barclays Bank Plc. About 40% of Investec's after-tax profit will then be earned in foreign currency.

MD Stephen Koseff says the deal will be financed from SA, through the finrand, with an announcement of further details coming in due course. Koseff says Reserve Bank approval has been given. Analysts reckon a rights issue is unlikely, as Investec's balance sheet is sufficiently strong.

The market had speculated Investec was looking to buy a corporate finance business rather than ATB, a London-based commercial bank specialising in marketing retail investment products and lending to small and medium-sized businesses.

Apart from the £25m purchase price, Investec will provide £10m of subordinated debt to ATB, raising ATB's shareholders' funds to £31m and taking its risk-adjusted capital:asset ratio to about 20%, allowing for further growth. Investec chairman Bas Kardol reckons the acquisition will enable Investec to gain competitive ground on foreign banks which have established offices and subsidiaries in SA. It will also give ATB access to southern African markets.

The acquisition will have no material effect on Investec's 1993 EPS, but is expected to contribute positively thereafter. Kardol will be appointed chairman of ATB while Colin Wakelin, its previous CE, will be appointed deputy chairman. *William Gilfillan*

Liberty claims top spot

STAR 12/9/92

(58)

TOM HOOD

THE country's three largest insurance companies have raised the lid on their assets to disclose combined wealth of R307 billion — more than three times the R96,5 billion the Government plans to spend this year.

Liberty Life claims to have eclipsed Old Mutual and taken the No 1 spot.

Leased

Old 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 is estimated to be worth about R60 billion, though its value could be higher as it has bought commercial property worth hundreds of millions of rands and leased the buildings back to the sellers.

The Liberty group, which announced a payout of R250 million in dividends to celebrate 35 years in business, reported that market capitalisation of its insurance arm, Liberty Life, exceeded R10 billion.

This, said chairman Donald Gordon, made it 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.

While Liberty has a 40 percent stake in the country's largest banking group, Standard Bank Investment Corporation (Stanbic), Old Mutual owns 14 percent, according to McGregor's Who Owns Whom.

After outstanding results from Stanbic earlier this month, Gordon said that not only had the Standard group reaffirmed its leading role in the banking field but that the combined performance of the wider Liberty Life-Standard Bank group had consolidated its position as the largest SA-based financial services group.

Growth

Its combined market capitalisation on the JSE was R17 billion.

"The total assets controlled or jointly controlled by the wider Liberty Life-Standard group now exceed R160 billion," 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 during the past 10 years in assets and shareholders' reserves.

Shareholders' interest in Liberty Life had increased to R4,98 billion and total assets to R36,4 billion.

During the same period Liberty's asset base had risen to R36,4 billion.

Shareholders' capital and reserves had 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 — increasing total capital and reserves employed to R9 billion," said Gordon.

Banks, civics join forces

South 12/9-16/9/92 (58)

BANKERS are traditionally hard-headed and conservative but are learning to unbend in South Africa.

They are not necessarily undergoing a radical transformation, but realising they will be hit hard where it hurts most — their pockets — if there is not a lot more give-and-take in their relationship with, particularly, civic organisations.

Some banks have had small business units for some time to broaden their outreach and lessen criticism that they are for "big business only".

But this has not helped them reach grassroots communities. There, complaints are common that people have not been able to get loans because of a lack of collateral and general discrimination by banks against black people, especially women.

This has affected the ability of many township residents to buy or build houses or start businesses. The lack of banking facilities in townships has also been a bugbear, although violence has undoubtedly played a part in keeping banks away.

It is no wonder, then, that the South African National Civic Organisation (SANCO) this year started making noises about banks as legitimate targets of mass action, including a possible bond boycott.

This, and militant statements issued by SANCO president Moses Mayekiso, has resulted in a steady war of words between SANCO and the Mortgage Lender's Association (MLA).

But last week SANCO reached what it called an "historic and pioneering agreement" with the Perm which could pave the way for peace with MLA and avoid the bond boycott, which has in any case received only little support.

SANCO and the Perm have joined forces to initiate socio-economic development programmes, housing development programmes and home-loan schemes to make it easier for people to get loans.

The details are still being worked out, but SANCO hopes it will open the way for the development of a code of conduct to make banks more receptive to linking up to grassroots community needs.

Lynda Loxton

4

WORTH PURSUING *Long-term investment vehicle offering above-average yields*

Partbonds have big attraction

STAR 12/9/92. (58)

THE activities of participation bond companies are regulated according to very stringent provisions. While the rate of return on a partbond investment does fluctuate, it is comparatively high, writes JOHN FIELD, MD of Fedlife Assurance Ltd subsidiary Fedbond.

TEN years ago, the financial institution market was well defined. Banks did commercial transactions, building societies gave home bonds, and mortgage participation bond (partbond) companies financed industrial and commercial properties. This worked well.

The banks were regulated by the prime rate, and home-ownership was encouraged by building societies which could offer tax-free investments and hence borrow at a lower rate. The partbond companies slotted in between the two.

The partbond company gave a fully secured long-term investment without the social obligations of providing housing.

Then banks began to give home loans and building societies became banks, and both entered the industrial/commercial financing field. Only partbond companies remained pure to their sector.

Regulation

The homeowner suffered and became discouraged as high interest rates were applied to his home mortgage. Growth in the partbond industry slowed as banks and building societies moved into the industrial/commercial property sector. However, the partbond industry was too well-established to disappear.

Regulation of the partbond industry was provided by the Participation Bond Act of 1981 and enforced by the Registrar of Financial Institutions (now the Financial Services Board).

The Act provides for an investor in a bond over a specific property. Registration of the bond is made in the name of a nominee company for the benefit of the investor. The nominee company is prohibited from incurring any liabilities whatsoever to ensure investor protection. Management of the investment is vested in the management company, run in terms of the rule book.

All investors in participation bonds should, by law, be issued with a copy of the rule book. There are requirements for the maintenance of a bond register, storage of securities, valuation parameters and control of almost every facet of the management company.

Financial Services Board inspectors have access to all partbond companies' records. They make periodical visits to ensure the Act is being adhered to and that investors are not at risk of losing their investments.

Property is the basis of the security in this type of investment. By nature it must be commercial/industrial and rent-producing. In the case of a borrower defaulting, the resaleability of the property is of utmost importance.

A complete valuation is done when the bond is first granted and then reviewed every three years. The maximum bond granted must not exceed 66,66 percent of the valuation for an interest-only bond and 75 percent for a capital-and-interest bond. Once again these conservative parameters dictated by the Act to protect the investor should be noted.

An investment in a participation bond is a five-year commitment. Only in cases of extreme financial hardship can the investment be released earlier.

This is more than offset by the high rate of interest, which has averaged 17 percent during the past 10 years.

Compare this with the interest on saving/transmission accounts and the fluctuating call rate.

The partbond rate fluctuates, and although not fixed to prime, there is a correlation. An investor can expect a rate of between 0,5 and 1 percent less than prime.

Several years ago a number of companies took advantage of a loophole in the Companies Act. They discovered that they could issue debentures to investors inquiring about partbond investments without having to issue a prospectus. Investors lost their partbond security and in ignorance invested in debentures.

In a recent failure of a partbond company it was found that only 15 percent of the total money invested was actually secured by partbonds. The balance was in short-term debentures.

This was a case of a partbond company by name but not by nature.

Those investing in partbonds were the first to regain their interest payments. Most should have their interest and capital paid in full.

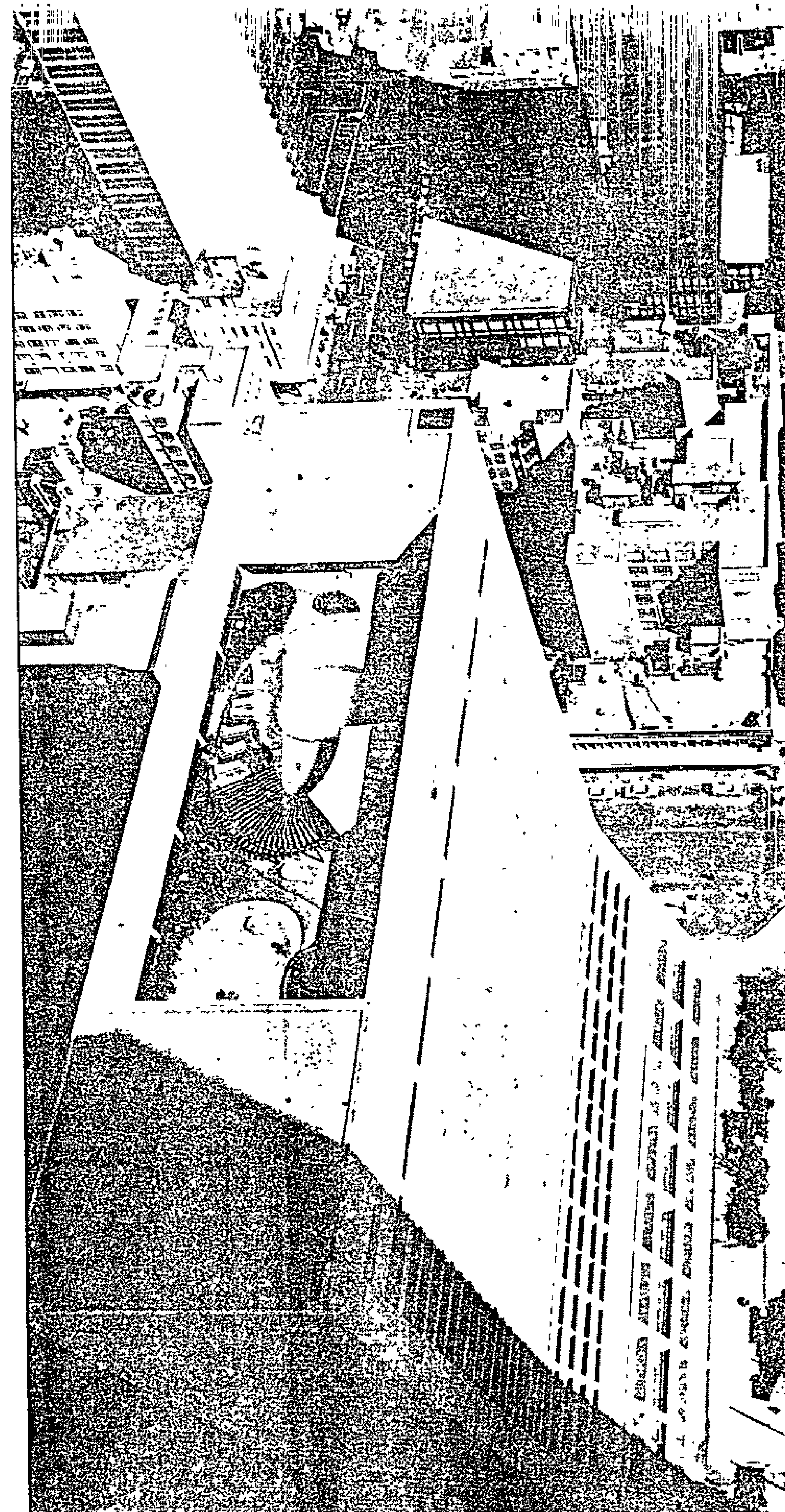
High returns

None of the investors in partbonds will lose their entire investment. The partbond portion of the company worked despite questionable management ability. The introduction of the Deposit Taking Institution Act stopped this practice, but the damage to the name of the partbond industry had already been done.

The industry has served the investing public of South Africa for 30 years, giving high returns.

Recent events were the result of misuse of a partbond management company. This must be seen in the comparative light of the failure of several banks in recent years.

The Participation Bond Act is comprehensive, but I believe it could be improved. It should allow for the "pooling" of properties and require a non-distributable reserve as a provision against the possible loss on sale of a property securing an investment. Even so, people can invest with confidence in participation bonds, but must ensure that they look at the strength and reputation of the ultimate shareholding of that company.



INVESTMENT IS SPECIFIC: It is in a bond over commercial property.

Central banks keep gold down

BIDAY 14/9/92. (58)

MATTHEW CURTIN

THE absence of a clear undertaking by central banks to hold on to or sell their huge gold reserves is unsettling the gold market and keeping prices low, says Chamber of Mines economist Ivor Liebowitz.

Gold is holding around the $340 level, but the metal is still at record lows in other currencies because of the weakness in the US dollar.

Figures released by the IMF last week showed that in June this year central bank gold holdings had fallen to their lowest levels since the fund started keeping records in 1961. Central bank reserves stood at 35 344 tons, down from 35 550 tons in May.

The 0,6% drop in holdings revived fears that some central banks would sell off more of their reserves, a move which would hurt gold market sentiment, increase gold supplies and knock prices.

Central bank holdings are equivalent to 20 times current yearly gold mine output, 60 times SA output, and alone could satisfy current global demand for the metal for 12 years or more. Liebowitz said yesterday that the only central banks to show any commitment towards their gold reserves were Canada, committed to sell, and SA, committed to buy.

"Nobody really knows what other central banks plan to do, and that is unsettling the market. It's not a picture which inspires confidence although holdings have remained pretty stable since the '60s," he said.

What was more comforting was that the gold market had absorbed large amounts of central bank sales so far this year, without a sharp corresponding drop in gold prices, Liebowitz said.

A senior industry source said the threat of central banks' sales was real, but they were unlikely to be irresponsible in selling one of their major assets. Sales were more likely to restrict gold's upward momentum than send prices tumbling.

The Belgian central bank sold 202 tons in June, and the IMF said reserves held by the Bank of International Settlements (BIS) had fallen by 133 tons to a record low of 43 tons between April and May. Canada's monthly gold sales were continuing to rise as it continued to run down its reserves of Maple Leaf coins.

Anglovaal marketing manager Rocky van den Berg said there was a natural limit on central bank selling, as largescale sales would hit prices hard and devalue the banks' assets. Sales seemed to be taking place in a controlled fashion, and the threat of sales was just one of many factors depressing gold prices and most other investments.

Call to reinstate savings effort

28 LINDA ENSOR 58

CAPE TOWN — SA's potential growth rate would gradually decline if the structurally unbalanced savings pattern in the country was not addressed, Boland Bank group economist Louis Fourie said in the bank's latest Economic Review.

In the absence of a significant increase in savings, fixed investment would remain limited, particularly in the case of SA, which lacked foreign capital resources, Fourie said. B DAY 14/9/92

"South Africans still prefer to ignore long-term wealth creation in favour of an acceptable short-term living standard. The savings effort of both the government and households confirms it."

He said measures to facilitate a structural recovery of the savings effort should include positive real interest rates and control over government spending.

"The re-establishment of financial discipline with regard to state finances will exert a crucial direct and indirect influence on the country's general savings effort in future," Fourie said.

Further measures suggested were a tax system that promoted discretionary savings and the separation of economic policy goals and the political process.

Personal savings as a percentage of net household income fell to 2,1% in 1991 from more than 11% averaged in the '60s, he said.

'Complementary' gilt fund

BDAY 14/9/92

LINDA ENSOR

CAPE TOWN — A gilt fund to complement the Community Growth Fund — an equity unit trust controlled by trade unions and Syfrets — was under consideration, fund director Ian Hamilton said at the weekend.

The Community Growth Fund was established with the intention of providing pension and provident funds with a socially responsible investment vehicle which invested only in companies meeting certain criteria, for instance job creation, union recognition, equal opportunity for all and fair wages.

Hamilton said the need for an additional fund arose because of the requirement that pension and provident funds invest in a balanced financial vehicle.

The prudential investment guidelines for pension and provident funds stipulated that a maximum of 75% could be invested in equities, with the rest having to be invested in property, cash and fixed interest securities.

To achieve this balance most pension and provident funds invested in guaranteed funds.

Syfrets had assumed responsibility for balancing the portfolios and cash flows of the pension and provident funds which invested in the Community Growth Fund.

However, Hamilton said, it would be preferable for the benefits of managing such investment funds to flow into the Community Growth Management Company, which controlled the Community Growth Fund and which was jointly owned by Syfrets and Unity, a trade union-owned company.

A total amount of R50m has been committed to the Community Growth Fund since its launch on June 1. Hamilton said the fund was 100% liquid, because of the uncertain state of the market, and for this reason would outperform the industry this quarter.

He said there was great concern about the US economy and the outcome of the French vote on Maastricht.

The fund would wait until the market settled down before investing.

The shares which met the union's social criteria had been selected and did not differ much from the Syfrets Growth Fund portfolio. One exclusion was Richemont, whose assets were wholly offshore.

Bank's policies defended

SMALL and medium-sized businesses were likely to perform best in an environment of comparative non-inflation and consistent, predictable monetary policies, Reserve Bank Deputy Governor Jaap Meijer said yesterday. BDAY 15/9/92 (58)

Speaking at a conference in Johannesburg, Meijer defended the central bank's policy of stern interest rates which some analysts believe has been the reason for many small and medium-sized business enterprises going to the wall.

"The Reserve Bank is by no means insensitive to the charge that its disinflationary, supposedly 'high interest rate' policies bear particularly harshly on new, small and inexperienced business enterprises.

"Such enterprises have limited financial reserves to fall back upon and only very limited, if any, access to emergency financing that will tide them over difficult periods," he said.

Real interest rates were quite low by international standards and during a tough economic climate there would be a higher "mortality rate" among new and small businesses, Meijer said. — Sapa.

PO lowers interest on savings accounts

(S8) CT 15/9/92 BY ARI JACOBSON

THE Post Office Savings Bank in an attempt to match other financial institutions has lowered interest rates from today — with service charges to be levied on accounts from October.

A spokesman for the post office pointed out yesterday that "this is the first step in the restructuring of the post office".

She added that while the post office was merely a savings institution — the possibility was that the commercial side would now be emphasised with among others the adavancing of loans.

But the drop in the post office's interest rate on deposits by 1% to 11% is below that on offer by other financial instutions.

Service charges would be levied for the maintenance of saving accounts and withdrawals from Telebank accounts.

From October service charges of R1 will be levied on all withdrawals at automatic teller machines or counters, while an amount of 75c will be levied for account statements requested in addition to normal quarterly statements.

Ledger fees of 50c a month will be levied on all active accounts.

Lost savings books and certicates will be replaced at a cost of R2 and lost cards at R5.

Ditch apartheid lending, urges Nafcoc president

BIDA 16/9/92 (58)

NAFCOC's newly elected president Archie Nkonyeni says financial institutions should make funds more accessible to blacks and ditch remaining apartheid provisions in their lending procedures.

Addressing a business and entrepreneurial development conference on financing of small business in Midrand this week, Nkonyeni said it was time financial intitutions took deliberate and conscientious measures to allow access to their services and products by black entrepreneurs — including women.

"These institutions are being challenged to take an unequivocal stand ...," he said.

Nkonyeni said there were still no laws which prohibited discrimination by financial institutions on grounds of race, ethnicity or gender.

A lending officer was able, under the guise of protecting the interests of shareholders, to express deep-seated prejudices through decisions on loan applications.

He called on the private sector, government and local and international donors to develop packages to finance small businesses and the informal sector. — Sapa.

Home buyers' confidence shot to pieces

58

105

THERE is a new level of despair in the residential property market because of the Bisho shootings. Sellers are now obtaining lower prices than they paid for properties two years ago, say estate agents.

Prospective buyers are also withdrawing from the market, and the only interest is in "realistically priced homes".

"The feeling in the market is that there is further downside potential for house prices, and this is depressing sentiment further. For the first time the market is being driven only by confidence levels, and they are running low," says Pam Golding Properties director Ronald Ennik.

The market is no longer being influenced by economic developments such as the drop in interest rates, but almost entirely by perceptions of the future, says Ennik.

Property economist Neville Berkowitz agrees. He says sales are slow and that until business confidence is restored there will be no revival for the market.

BIDAY

Lew Geffen of Lew Geffen Estates says the market has reached the threshold of "negativity and misery", but that sentiment is unlikely to worsen. "However, as there are not enough buyers, prices must fall further."

16/9/92

Camdons MD Scott McRae agrees, saying the market is "unbelievably depressed", with the events at Bisho being "just another nail in the coffin".

"In the middle to upper price range particularly, prospective buyers are making offers below those considered a reasonable market value. Genuine sellers are discounting as much as a third off their price," he says.

However, any positive political developments, such as the resumption of constitutional talks, would have a positive effect on sentiment, which would soon be reflected in higher prices.

Geffen says the average show day is attracting fewer people, and prospective buyers feel they deserve bargains.

Ennik says turnover has dropped, as only about 30% of properties placed on the market actually sell. McRae agrees, saying only 32% of houses put on the market change hands, with the agency having to carry the cost for this.

Lower rates lend some lustre to dividend yields

BDAY 16/9/92.

Reports by PETER GALLI

DECLINING interest rates are seeing dividend yields for listed property vehicles beginning to look attractive to institutional investors, says Frankel, Max Pollak, Vinderine analyst John Rayner.

The recent spate of activity on the property trust and property loan stock sectors is indicative of this, with institutions looking at the shares.

"Institutional investors are questioning whether they can buy shares in listed property vehicles cheaper than cash. That is, whether the yield on the investment is likely to be greater than the return from, say, a money market investment or gilts," he says.

Earlier this week, about 2,11-million Mainpro shares worth R10,5m traded in four deals at an unchanged 475c, and 1,264-million Panprop shares valued at R6,7m changed hands 20c off at 530c.

At these prices, Mainpro has a dividend yield of 11,57% and Panprop a yield of 14,10%. This compares well with a BA rate of about 12,5%.

Prima Property Trust has also seen good activity following the acquisition last week of 13,7% of its equity by a foreign institution. About 18,2-million shares worth R11,46m traded at 63c a share in a special bargain deal.

This week, 175 000 shares traded at 65c, showing a dividend yield of 15,76%, with 135 900 RMS Prop changing hands 25c down at 475c and a dividend yield of 13,84%. The property trust sector has an 11,9% average dividend yield and a weekly volume of 159 792 shares, with the property loan stock sector offering an 12,7% average dividend yield and an average weekly volume of 5 448.

Most institutions are becoming more positive about property units as prices have eased and both historical and forward yields are currently looking attractive, Rayner says.

As long as there is a good possibility that returns to shareholders will at least be maintained, these shares will continue to gain popularity, he says.

"Maintaining shareholder's returns depends on present and future vacancy levels, which are determined by both the economy and the stability of the tenant given the tough present economic conditions."

Strategic changes bring upgraded, attractive services

STRATEGIC changes have taken place that will enable the Corporate Banking Division to provide clients with upgraded relationship and corporate transaction banking services.

With the completion of major restructuring and the integration of Absa's corporate banking activities, the division is preparing to clinch a greater share of the corporate market with a range of attractive services.

Corporate Banking executive director Bob Aldworth says changes have been made to meet the many financial needs and objectives that have to be accommodated through relationships and accessibility.

He says comprehensive tailor-made packages supplied via numerous service points — both in SA and abroad — will ensure these multifaceted banking needs are met.

"The highly experienced management and staff of the new division will offer the full spectrum of corporate banking services.

"All documentation will be specific to Absa Bank's Corporate Division, including our own cheque book."

With total corporate banking assets exceeding R16bn spread across 1 200 clients, the division already has 20% of market share.

However, Aldworth and his team believe they have the goods and want to increase market share to 30% in the future.

Opportunity

"There is much opportunity, particularly as SA has only four major banks. We are well placed to play an influential role in the corporate banking market."

Part of the strategy will be to keep a high level of continuity on corporate accounts in the regions and employ innovations like preparing detailed proposals for corporates.

"We are the first of the local banks to have established a full operation in London, which has been restructured to support two-way trade."

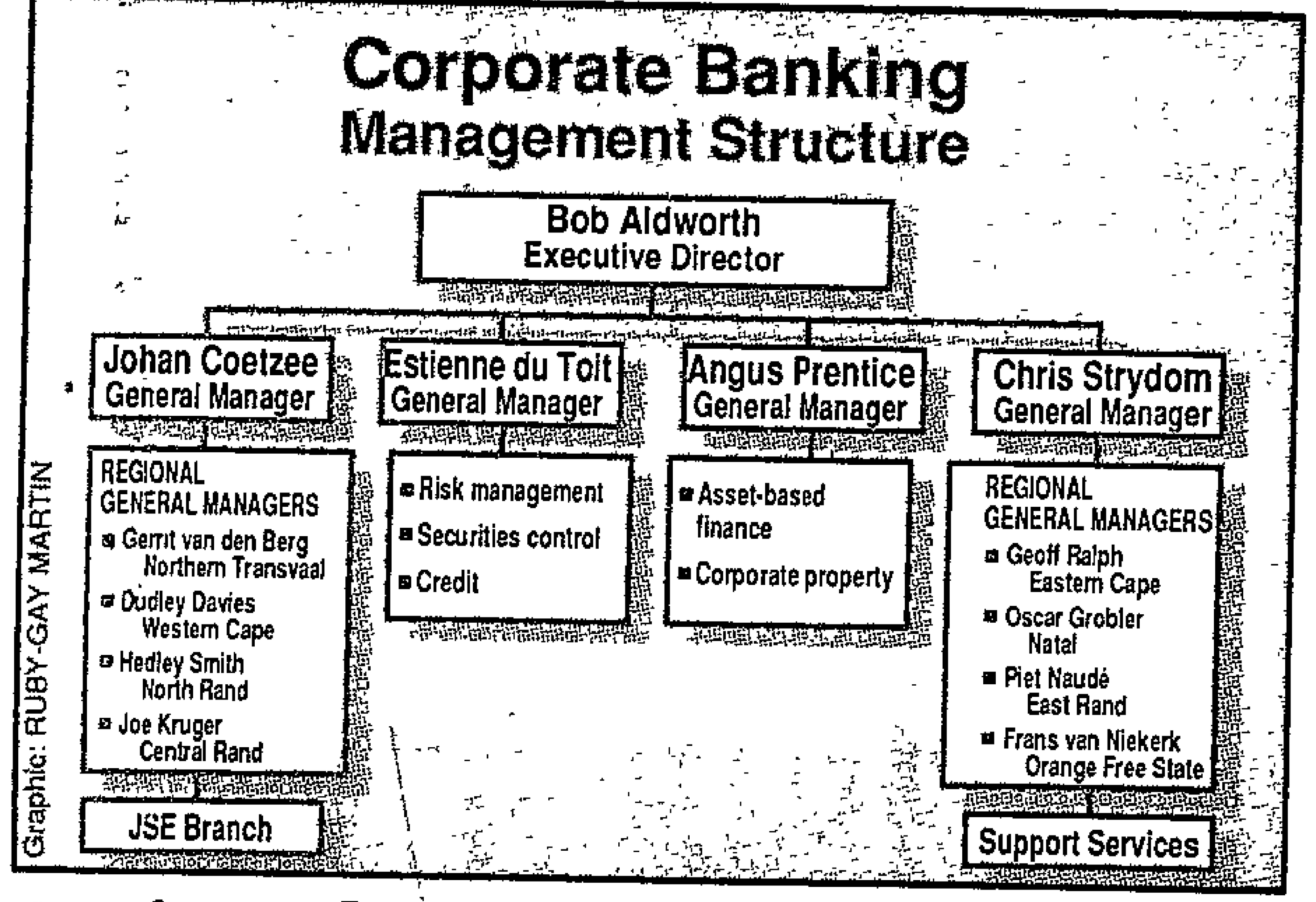
Encouraged by the easier international political climate, the bank is to establish a representative office in Frankfurt.

It also plans to upgrade the corporate relationship of the Hong Kong branch on the same basis as London. This will better enable it to serve the entire Pacific Rim.

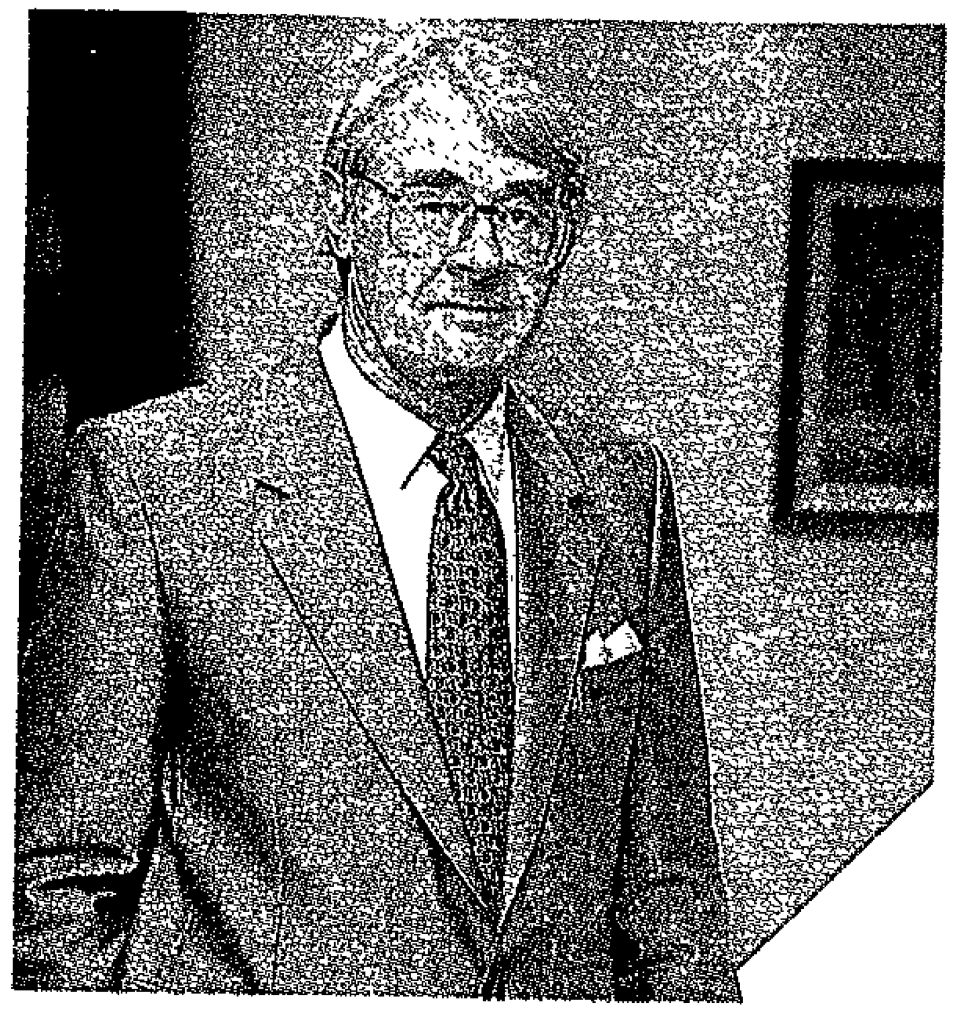
Although much streamlining has been completed abroad and on the local front, some finishing touches are being applied to the delivery system.

Aldworth says the delivery system will implemented by its teams in the eight local regions and both branches at the Johannesburg Stock Exchange.

"The JSE operation is in the process of being upgraded and centralised into Absa Corporate Banking. Systems and management will soon be in place to service stock brokers and their requirements."



Graphic: RUBY-GAY MARTIN


BOB ALDWORTH

Recession creates greater demand for economic advice

DEMAND for economic advice has assumed greater proportions in the recession and Absa's economic advisory group provides such a service.

According to Absa senior economist Adam Jacobs, business clients and Absa's corporate advisers are among those drawing more heavily on his department for economic developments and trends.

Under Jacobs and economist Dominick Sutton the corporate economic advisory group carries out many activities on behalf of clients. These include:

☐ Supplying forecasts of movements in economic variables — both domestic and international — according to the client's requirements;
☐ Briefings on developments on the SA and international economies;
☐ Briefings on specific topics;
☐ Performing a "translation" role by interpreting economic data and events for clients to give them more insight into how economic developments can affect their business;
☐ Providing background information and forecasts to assist them in formulating their budgets;
☐ Providing assistance that will help them in their planning activities; and
☐ Giving background briefings to assist them in writing annual and other reports.

Jacobs and Sutton have adopted a hands-on approach as the best means of offering their services.

Address

Not only do they provide many services to their business clients, but also regularly address and advise senior staff in Absa's treasury department and the Corporate Division's international and domestic departments, including the regional corporate banking teams. These corporate advisers are then able to make up-to-date assessments when dealing with clients.

Businesses need the group's services, especially in times of growing economic and political uncertainty, says Jacobs.


ADAM JACOBS

Yet, when times are good and companies aremaking more money the tendency is to give little thought to planning for any cyclical downturn.

"But now it's different," he says. "As the recession tightens its grip more businessmen are coming to us for advice on how to cope in hard times.

"They want to know what the future holds and how to plan to take full advantage of any upturn when it comes."

While he has some advice to offer, he emphasises the need for businessmen to do their planning when in a position of strength and to take a more frequent and harder look at the basics of running their operations.

Among the most important of these requirements is that businessesremain competitive through improved productivity — by proper planning and working smarter to cut down on the wastage of human effort and material resources.

Technology to make banking safer and simpler

THE recent merger of the four banks under the Absa umbrella has brought together a critical mass of expertise and technological sources to electronic banking (EB).

Absa Card & Electronic Banking GM Piet Odendaal says these are essential for success.

EB banking products add value to the core products that are being marketed by the Corporate Division to its clients.

Absa's Electronic Banking Division offers services that assist clients with managing their short-term funds such as electronic cash management systems, electronic collection and distribution of funds, electronic reconciliation facilities by means of magnetic tapes or personal computer linking — as well as an electronic salary and leave management system.

Manned by specialist staff, and employing sophisticated computer facilities operated by skilled computer staff, Absa provides clients with a number of major benefits, including:

☐ Convenience due to companies being able to conduct their banking transactions from their offices;
☐ Security as electronic banking is easier to control than conventional systems; and
☐ Cost savings as routine paper-based transactions, including cheques, are labour intensive and costly to process, hence the bank can pass some of the cost savings to the client.

Improvements

"We pride ourselves on the level of service we provide and have everything a client might need. Nevertheless, we are constantly working on improvements," says Odendaal.

Ongoing research ensures that Absa Bank is fully conversant with market trends in EB — locally as well as overseas.

Moreover, the product range is continually adapted and enhanced to suit the changing environment and to fully utilise technological developments.

Noting that cash management is the flagship service, he says the Electronic Banking Division has about 600 clients in both the public and private sectors, including some of the countries' largest organisations.

Odendaal boasts of a considerable pool of expertise on their salary payment system, SalaryFocus.

This enables the division to customise a system to cater for specificclient needs.

"We are willing and able to go further along the road of customisation than most other bureaus I know" says Odendaal.

He says the key aim of the division for the 1990s is to identify and address the needs of clients, as well as specific sectors of the market, and to develop products to satisfy them.

"Our aim is segmentation, packaging of products and cross-selling to the broadest possible range of clients."

To ensure quick response to clients' needs, the EB sales and support force is decentralised with advisers based in the regional offices of the Corporate Banking Division.

Keeping an eye on SA's global re-entry

FUTURE prospects in international banking could improve and this is a possibilitythe management of the Corporate Banking Division is watching for with anticipation.

Absa deputy CE Piet Liebenberg believes such a strategy is necessary for the division to play an increasingly important role in financing and servicing imports, exports and investment to this region.

He is confident the division currently possesses the expertise, services and overall structure to cope with both present and immediate future local and international banking needs.

"The division is well positioned to provide both a bridge to international business opportunities for SA companies and a gateway to the potential of the SA market and southern African region."

However, he says it is imperative to always be able to take proper advantage of any international changes that may benefit SA and southern Africa.

Although easily the largest banking group in Africa and possessing modern communications, Absa has no wild visions of grandeur.

It sees itself as a strong, but medium-sized player in the global banking village.

Assuming that the politicians find the answers to SA's problems, and in a relatively short time the country becomes part of the global scene — with trade and financial restrictions disappearing — where does this place Absa?

"Should this happen and if we couple this to the fact that SA's exports and imports make up a large portion of GNP, then we as an international bank would need to be active in all those areas on behalf of our clients," he says.

"But in order to cope, we would need to further restructure ourselves — as the scene is changing — in order to gain maximum benefit for our customers."

Would this mean becoming an even larger organisation in order to retain the edge over local majors as well as overseas based competition?

Liebenberg is clear — he prefers a small number of well capitalised SA banks that are in a position to compete more favourably with foreign banks, rather a number of small ones.

"But although the Corporate Division may continue to grow it will not do so at any cost. Only on the basis of quality and acceptable pricing."

"It's one of the biggest mistakes to grow indiscriminately. You cannot grow a good bank on bad credit."

A larger corporate division needs access to funds and expertise, particularly as there is a difference in the way the bank services its corporate and personal customers.

"For the foreseeable future, however, we possess all the skills to deal with corporate and smaller business customer needs at international, merchant banking and treasury levels."

Major player with

European

asset-based finance

BEING a significant player in asset-based finance with some 30% of the market, Absa Bank has improved facilities for handling business in the corporate, business and retail markets.

Its asset based finance service for the corporate market is being delivered through the eight Corporate Banking regions, while the business and retail market is served through the Absa Commercial Division.

The corporate service launched last month will enable the Absa Bank Corporate Division to bring a more professional focus on the special requirements of corporates, says Asset-based Finance GM Angus Prentice.

Products for this market include instalment credit, rental schemes, group motor vehicle schemes, group housing schemes, finance for commercial and industrial properties and joint finance company facilities.

"The new situation will result not only in better products, but improved facilities that are structured to meet the specific needs of the client."

The Corporate Division already has a substantial position in corporate and industrial property which was helped by its former building society connections.

Dedicated

However, business is now being handled by dedicated asset-based finance relationship managers in the eight corporate regional offices.

"This greenfields situation works well through the use of the structures of the regional network and its relationship banking managers," says Prentice.

Relationship managers are trained and experienced in advising the corporate market in all aspects of instalment credit and rentals, and of restructuring transactions to meet the special needs of the corporate customer and their projects.

He says the regional relationship managers are supported at head office level by a team of product specialists.

ANGUS PRENTICE

ready to expand

GREAT emphasis is being placed on the development of Absa Bank's UK and European operations, which are spearheaded from London by UK and Europe GM Jan-Arne Farstad.

The amalgamation and consolidation of Volkskas' and Trust Bank's London operations are proving to be a sound base from which to developAbsa's off-shore operations.

ES Schwab, a small merchant bank, was purchased by Volkskas and converted in 1984 to full branch status. Trust Bank achieved similar status in 1985.

"Both operations have steadily developed corporate banking, trade finance and treasury activities since that time," says Farstad.

Last year, Volkskas in London changed to Absa Bank Limited.

This was followed closely this year by the merger of the London branches of Bankorp.

Focus

He says the focus of Absa Bank's European operations will be on assisting SA companies in Europe by facilitating trade and investment through the services offered by Absa London Branch.

"These services include corporate banking, trade finance, treasury and corporate finance services."

Currently the London branch has 40 people, a balance sheet in excess of £200m (R1-billion) and is profitable.

"Absa London is the only full service branch of a SA financial institution and, as a branch, can rely on the financial strength of Absa South Africa which enhances the services we can offer our customers," he says.

Farstad says Absa is committed to developing its overseas operations so as to offer its customers services through Europe, and in so doing making Absa's overseas operations a significant contributor to the group as a whole.

London will look into expanding into Europe and an announcement will be made soon.

whole page.

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Tailor-made offerings beat off-the-peg deals


JEAN BROWN

MERCHANT banking is a specialised and competitive undertaking and the newly restructured Absa Merchant Bank is taking a proactive stance to sell its deals to the business sector.

Comprising four specialist departments, the new-look Absa Merchant Bank is the result of the integration of the corporate banking activities of Absa Merchant Bank, Senbank and Volkskas.

Focused

It is a transaction-driven organisation that offers tailor-made corporate and project finance, with few off-the-shelf products.

Headed by managing executive Jean Brown with the backing of four departmental executives, the bank will remain focused on the traditional merchant banking arena.

Says Brown: "We will continue to be innovative in our financial engineering of company and project finance as well as asset management."

Thrust will come from the merchant banking group's specially structured departments which are manned by a staff of 84.

The departments comprise Corporate Finance, headed by GM Danie Vlok; Project Finance, under GM Deon Brand; and Asset Management, under assistant GM John Liackman.

The inclusion of SA's largest share transfer registrars, Central Registrars, under MD Manie Boonzaaier, rounds off an extensive range of merchant banking services.

It is an independently operating transfer secretaries organisation which is held as an investment by Absa Merchant Bank.

All divisions in theAbsa group are profit centres. The merchant banking group carries approximately R3bn and is funded by Absa's Central Treasury division.

Vlok says Corporate Finance undertakes traditional merchant banking financial services such as listings, merges and acquisitions, rights issues, MBOs and investment banking.

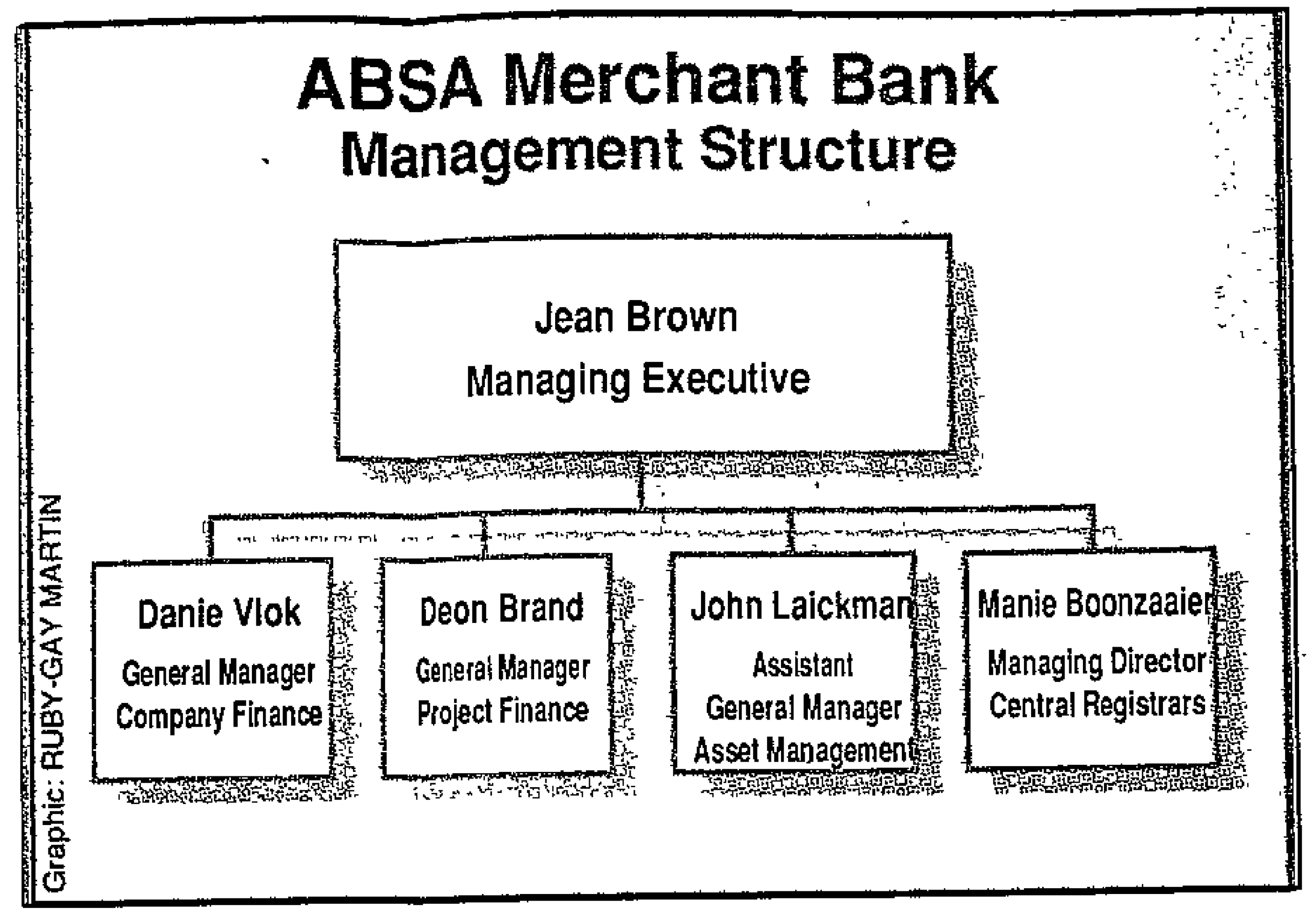
"Our 17 professionals, which include chartered accountants and attorneys, offer a range of services such as reconstructions, valuations, commercialisations, mergers and investment banking in particular.

"We have a R100m portfolio and are actively investigating investment banking opportunities."

Brand's Project Finance department runs a book valued at R2,6bn and its 15 professionals undertake the procurement of finance for medium to large projects.

They concentrate on specially structured one-off financial arrangements.

The Asset Management department under Liackman manages R2,8bn on behalf of its clients that include insurers and pension funds and is seeking to increase market share.



Card systems can be tailored to suit the customer's needs

A FLEXIBLE card-based payment mechanism that assists organisations improve their vehicle fleet management and control is offered by the Absa Card Division.

Card Division GM Piet Scheepers says the ability to offer two comprehensive systems, which can be tailored to a customer's requirements, follows the recent restructuring of Absa Bank.

The systems are not only payment mechanisms for fuel, running and maintenance, but provide other beneficial information for customers.

"Some of this has a bearing on an organisation's vehicle replacement strategy, while also assisting in the overall modelling of future requirements."

The systems reduce the paper work normally associated with fleet control and also serve as added value products in the application of full maintenance leasing (FML) systems.

"Our fleet cards help to combat misuse. They divulge how much fuel is used and influence the application of good controls."

Both service delivery mechanisms are provided and serviced to corporate clients in the main centres by Card Division specialists.

Scheepers says the bank researched the needs of the market before formulating and developing the payment and information mechanisms.

In order to cater for the requirements of both small and large organisations, Absa designed one system to provide only more basic information.

However, the other package available provides additional data as required.

What gives Absa the edge over fleet card systems traditionally provided by other banks is that its two card-based options can be tailored to suit the individual customer, organisation or businessman, he says.

Independence of consultancy services valued


BEN SOLOMON

AS A leader in its field, Absa Consultants & Actuaries is geared to play an even greater role in providing managerial, actuarial and consulting services in the corporate environment.

Absa Consultants & Actuaries MD Ben Solomon says the firm can provide a wide range of services using its team of highly trained, professional experts.

They are already responsible for looking after the interests of about 400 companies employing anything from 10 to 40 000 people.

Having been a leader in this field in SA since 1975, the firm's role in the corporate environment of Absa is to provide employee benefit consultancy services to Absa's corporate clients.

Regional offices are based in Johannesburg, Randburg, Pretoria, Bloemfontein and Belville.

Among its functions, Absa Consultants & Actuaries provides:

- ☐ Administration of pension, provident and benefit funds;

Actuarial

- ☐ Consulting services regarding employee benefits;
- ☐ Actuarial services;
- ☐ Secretarial services to the boards of trustees of pension, provident and benefit funds;
- ☐ Broking services; and
- ☐ Presentation of retirement planning seminars.

The firm's philosophy is to identify and meet the needs of employers and employees relating to employee benefits by presenting solutions and information to the employer.

Asked to cite one of the most important features of the consulting and managerial services in respect of employee benefits, Solomon says it is the independence of the firm's advice.

"For example, while insurance companies tend to provide more of a product than service, we offer knowledge of the products of the whole market."

Forging links with Hong Kong

BACKED by years of experience and expertise, the Absa banking group has established a sound bridgehead in Hong Kong to promote international two-way business and investment between SA and South-east Asia.

Its South-east Asia operational presence and international links are available through a subsidiary deposit taking company (DTC) with a strategic orientation for trade finance and professional documentary services.

Absa's bridge to international business opportunities in the region stems from the recent merger of Bankorp into Africa's largest banking group.

For years, Bankorp has operated the highly successful DTC, proving a valuable service to its indigenous and SA-based customers and earning a good reputation among Hong Kong's international banking authorities.

By virtue of its independent capital situation the DTC has had access to the region's business for years — a factor it would not have enjoyed had it been a branch of an SA-based bank.

Value

Treasury and International Banking managing executive Doug Anderson says the value of the service provided so far by Absa's Hong Kong-based DTC cannot be underestimated.

"Particularly as its excellent track record has been built up during a most difficult trading period for SA. Indeed, its relative autonomy and exclusion at the time of the debt standstill enabled it to carry on business as usual," he says.

Today, the profitable DTC is strategically positioned in the hub of and gateway to Far Eastern countries to provide an even greater service to customers in countries such as SA, Japan, Korea, mainland China, Taiwan and Malaysia.

The desks are manned by specialists who are able to assist home-based customers make inroads into these foreign markets, particularly as Hong Kong is the absolute trade centre of the region.

With the advent of the New SA and expectations of the country becoming a major world trader, Anderson says it has become necessary to upgrade the profile of Absa Hong Kong.

The role of the relationship manager

STEPS have been taken by Absa Bank to improve banking relationships and the managing of major industrial organisations' needs.

In a move to ensure its corporate clients receive the best banking advice and that specific needs are met, the Corporate Banking Division has established teams of relationship bankers in eight regions of SA.

Absa Bank deputy CE Piet Liebenberg, who heads the Corporate Division, says the bank has established regional teams of experts, comprising banking generalists and specialists in the fields of merchant banking, mergers and acquisitions, investment, forex and others.

Specialist

When a generalist identifies that a client has specialist needs, he will use the relationship manager to contact the specialist concerned to provide the necessary service.

At regional level each of the 70 relationship managers in the eight regions is allocated up to 30 clients.

The group relationship manager deals with only one major industrial organisation and is responsible for co-ordinating corporate transactions for the company as a whole. He has several relationship managers who assist him and deal with subsidiaries of such an organisation.

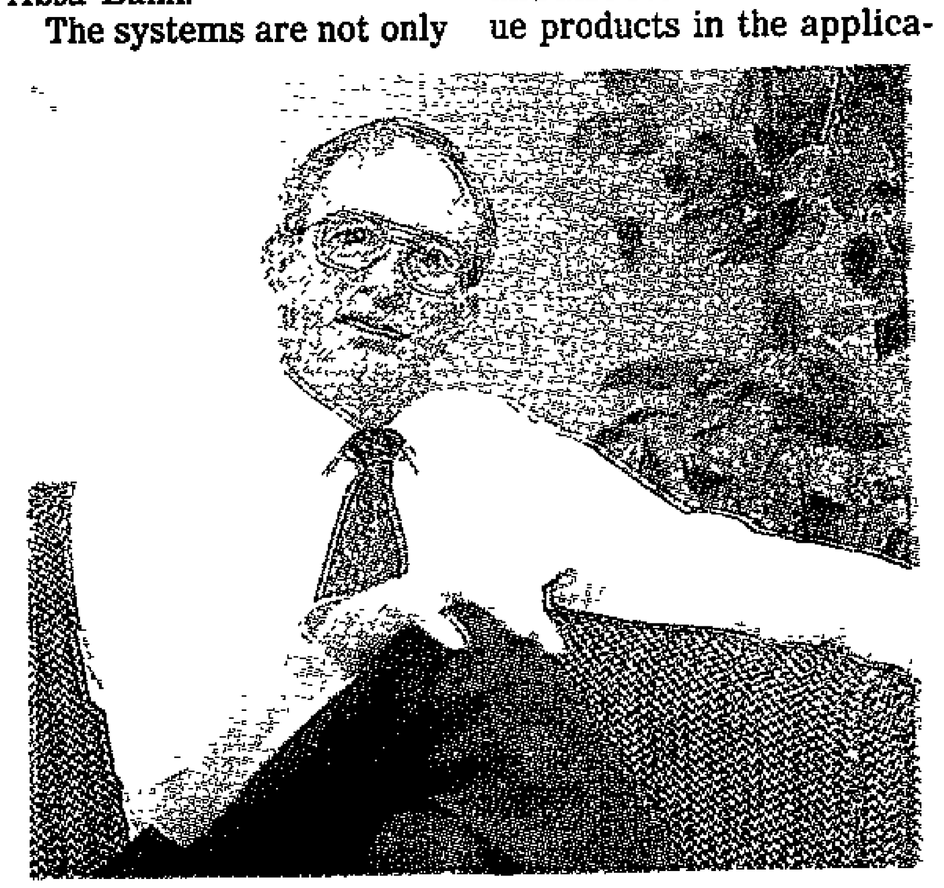
Corporate Banking GM Johan Coetzee sayswhile many banks offer similar products, those able to provide the best personal attention and service are at an advantage and the client benefits most.

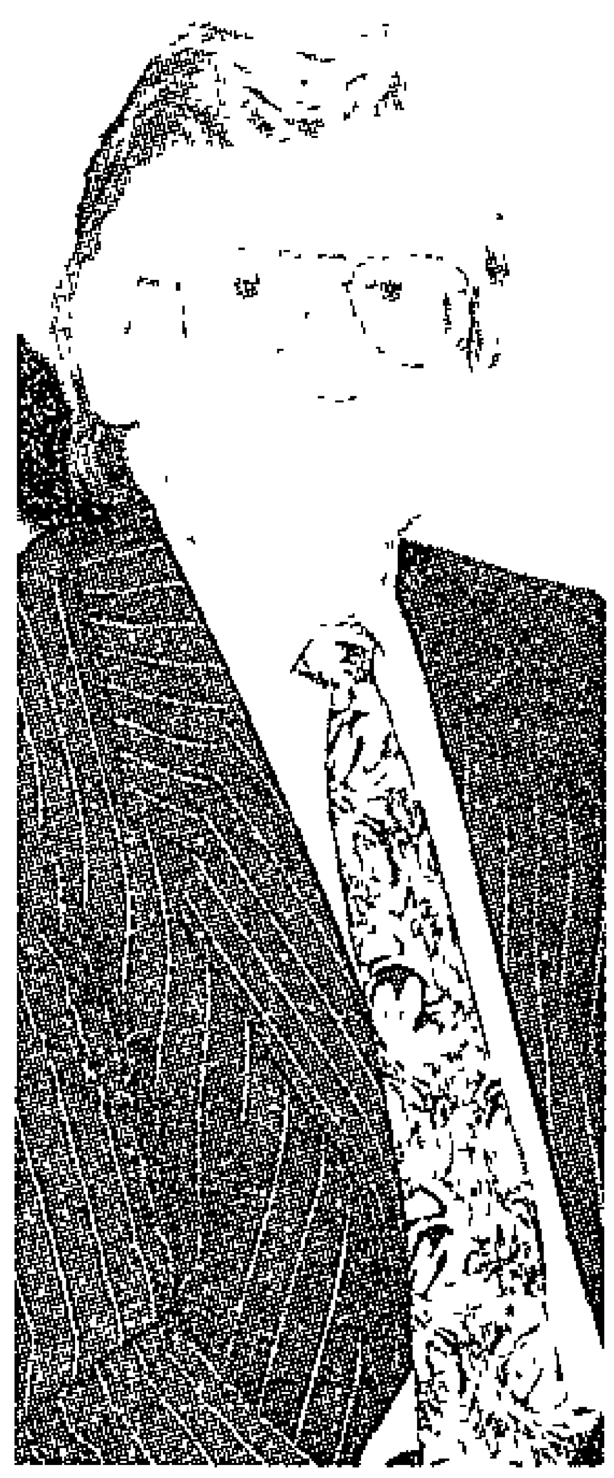
Using the analogy of a road map, he says:

Identify

"The relationship manager's role is to identify the needs of corporate clients and to guide them on the 'map' to ensure they take the correct turn-offs to reach their destinations."

He says the rapport and understanding between each relationship manager and his clients is vital.


JOHAN COETZEE



STANDER JORDAAN

differ from those of the individual client or small business.

"We have recognised these needs and are repacking our card products in order to cater for the banking requirements of the corporate market," Jordaan says.

The Absa Corporate Business Card will be launched next month, he says.

The cards assist corporate clients to improve credit control, provide management information and add to the cash flow of an organisation. Product characteristics include:

Costs

☐ Management information on entertainment and travel costs;
☐ Consolidated statements of expenses;
☐ Consolidated payment from a nominated account resulting in one payment per month;
☐ Individual functions such as cash withdrawals.

Other features are 55 days interest-free credit, a newly negotiated and top class free travel insurance package, medical assistance overseas and baggage loss cover.

S & SH custodian services already a leader in the field

Major developments in the domestic money markets have given rise to the establishment of Absa Securities & Settlement House (S & SH) to service local and international clients trading in the gilt and shares markets.

Absa International Treasury GM Malcolm Chapman says Absa S & SH is already a leader in the field.

"We run a very large custodian function with assets, excluding our own, of about R100bn under control. Most of this amount comprises investments in JSE shares and capital market issues.

"The scrip custodian services, while of major interest to the large portfolio managers, can be of equal benefit to the small investor," he says.

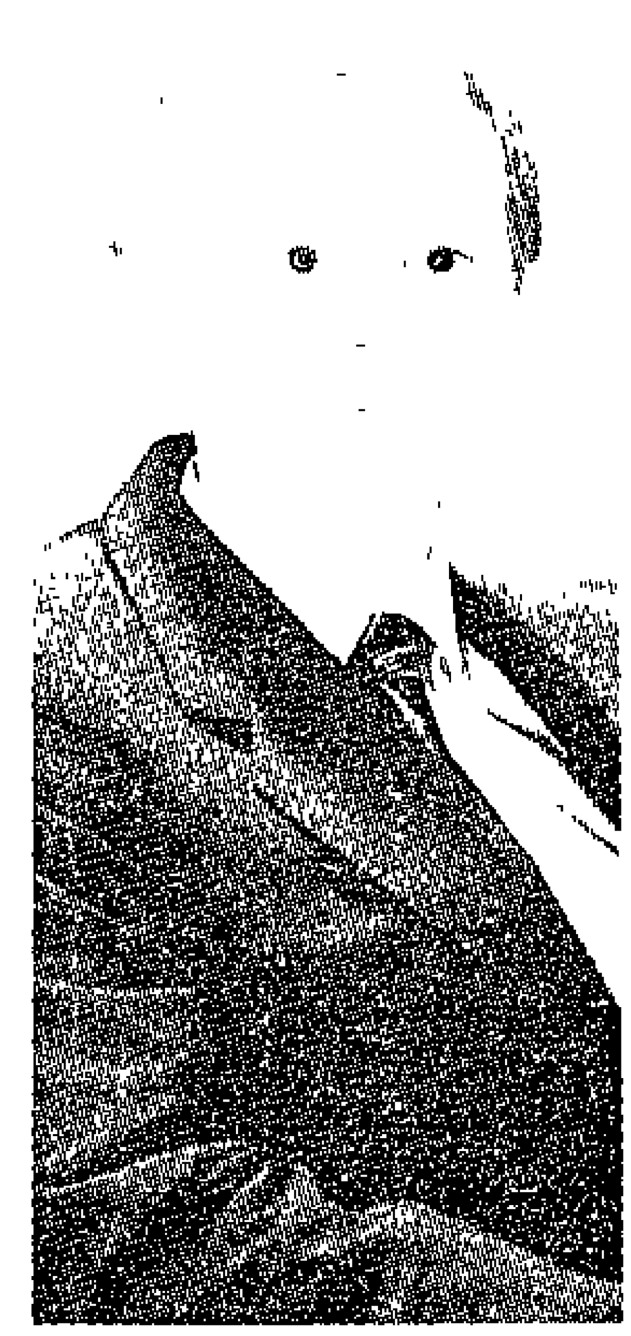
Change

The formation of S & SH stems from a change in legislation affecting financial markets, resulting in the formation of a clearing house for gilts and the establishment of a central depository. The central depository is owned by the major clearing banks and the Reserve Bank.

Net effect is that players in the gilt market need to settle transactions through a settlement bank.

Absa's S & SH is situated close to the JSE and performs the following services:

☐ Settlement bank and risk management services (when Unexcor is operational);
☐ Settlement of all transactions including the delivery and collection of title documents;
☐ Safekeeping of stocks and shares. Money market instruments and other securities;
☐ Collection of dividends/interest and other duties associated with securities;
☐ Registration of scrip either into a nominee company or the owner's name, share slitting, rights issues and redemptions;
☐ Statements in respect of holding and individual transactions on a regular or cyclical basis;
☐ It acts as custodian for investment companies, large portfolio managers and individual investors.



MALCOLM CHAPMAN

Manage

Chapman says S & SH manages the Absa Bank nominee companies and has been appointed custodian for several overseas banks to manage transactions on behalf of their clients.

"The advantages of the S & SH services are they can be availed of by clients through any of the branches of the four operating banking divisions, which place these services as close to the client as his nearest branch."

Bank takes to the tee as sponsor of Skins

GOLF is sweet music in most business circles and the Absa Bank Corporate Division is to sponsor SA's popular Skins Golf series this year to the tune of R600 000.

This will include prize money of R300 000 for the final Skins weekend and R80 000 to the Professional Golfers' Association's development fund, with the rest to be used for five pro-ams and players' guarantees.

Absa Corporate Banking executive director Bob Aldworth outlines the reasons for Absa Bank's decision to sponsor this tournament:

Value

"Last year, when Volkskas Bank joined Nissan as co-sponsor for the Skins, we realised the value of its format for strengthening our ties with corporate clients. When the opportunity arose this year, we took over as sole sponsor."

He says Absa Bank has a strong corporate client base.

"The Absa Skins will be used to strengthen personal contact with the corporate sector and opinion leaders in the financial services sector," says Aldworth.

Enjoyed

During last year's Skins the bank realised that its corporate clients really enjoyed the Skins game and excitement of the final weekend of play by four top-class professionals.

Aldworth says this year's series is made up of five individual Skins pro-ams — the first having been played at Durban Country Club on August 11.

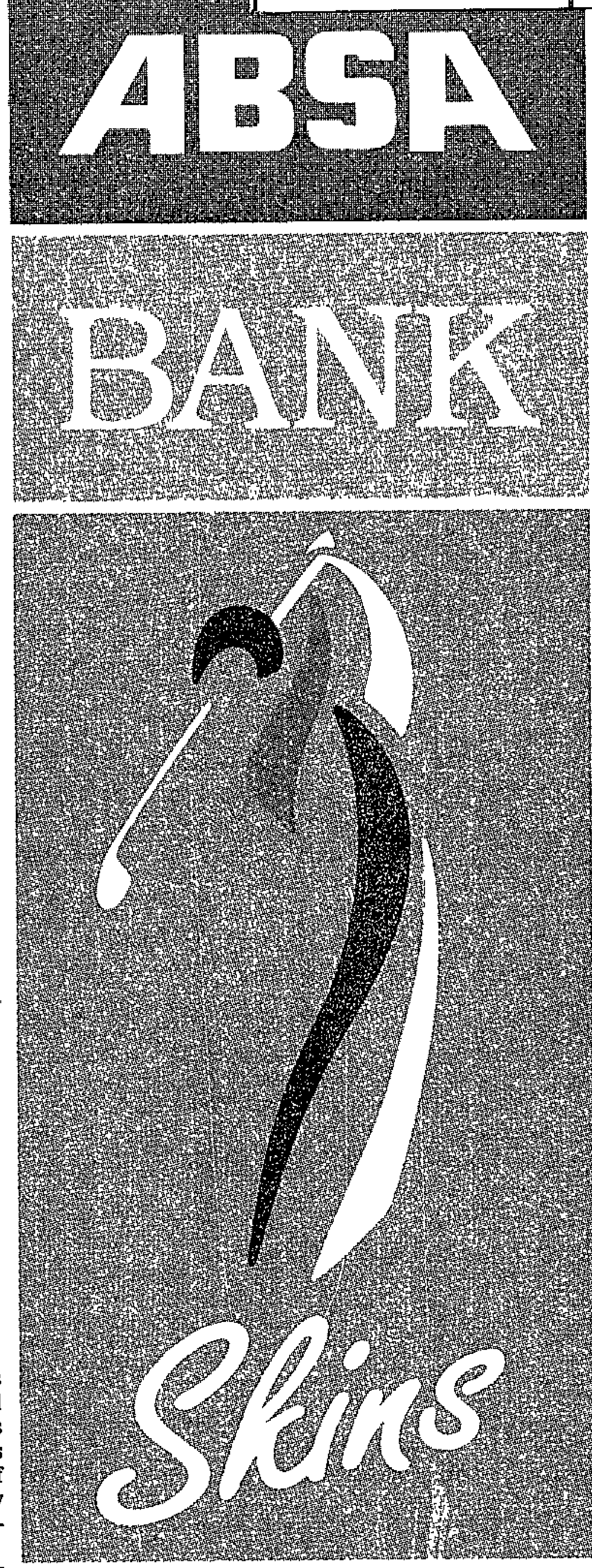
The others will take place at dates still to be finalised, possibly from the end of this month, at the following venues:

- ☐ Monument Gold Club, Pretoria;
- ☐ Mowbray Golf Club, Cape Town;
- ☐ Wanderers Golf Club, Johannesburg; and
- ☐ Roodepoort Country Club.

Not only will 30 professionals compete in each of the pro-ams, but the rest of the field will be made up of Absa Bank's corporate clients.

After negotiations with the PGA, it was agreed that last season's Order of Merit winner plus three sponsor's nominees will constitute the final field.

Tim Hewan, who introduced SA to the Skins format, will again be the promoter of the series, assisted by the PGA and Absa Bank.



SA opens banking channels worldwide

A NUMBER of formal correspondent banking relationship breakthroughs have been made by the International Relations Division which will enhance trade flows between SA and new trading partners.

Divisional head of International Relations Smithy Smith says the most recent major achievement has been the establishment of correspondent banking relationships with many banks in Middle East countries this year.

The initiative began when Absa visited some 30 banks in Bahrain, Oman, Egypt, Qatar, Saudi Arabia and Iran. All responded positively.

Its success follows similar negotiations which culminated in the bank reaching agreements with countries in the Far East, some African countries and eastern Europe — notably with Russia, Hungary, Poland, Rumania, Bulgaria and Czechoslovakia.

Its efforts have resulted in SA opening up banking channels to handle international transactions with all countries contacted.

Signatures

The essential banking tools, such as authorised signatures as well as telegraphic and swift authenticator keys, have been exchanged. "This is the first major step to be taken before any trade can take place," says Smith.

"Any client of theirs or ours can now route transactions through this bank and their banks, such as letters of credit, transfers or payments either way."

The International Relations Division is continuing to pursue this strategy as opportunities unfold in many other countries that have either opened their doors to SA or are set to in the future.

"This will include entering into formal banking relations with more banks in Afican countries which had previously been closed to trade with SA."

Smith says this is over and above an ongoing effort aimed at the cementing of old ties in order to accommodate the bank's clients' needs.

As part of its strategy to expand and streamline trade flows, Absa Bank has decided to become a major sponsor of an SA trade exhibition to be staged in Dubai next month and will take part there in a seminar on trade and investment opportunities in SA.

Aggressive dual issuer of Visa and MasterCard

CORPORATES, medium and small businesses are to be offered a number of innovative and tailor-made electronic banking products and services developed within the Absa Bank Card Division.

"These will be card-based and have been developed after a great deal of research by specialists in the Card Division," says Card & Electronic Banking operating executive Stander Jordaan.

The corporate range, which is available but has still to be formally launched, will meet the ongoing needs of the corporate business market, he says.

The cards, which couple value-added features and benefits with the standard functions of modern credit cards, will be available as a MasterCard or Visa business credit card.

Gold

They will be issued in gold for executives and silver for management and other staff, such as travelling representatives, and can be tailored to the requirements of the business client.

"We are the only aggressive dual issuer of Visa and MasterCard, which have a combined international market share totalling 87%.

"Worldwide support for American Express and Diners is less than 8% and 2% respectively."

Jordaan says both Visa and MasterCard are showing impressive increases in cardholders and merchant bank acceptance and have a consistent global image and universal recognition.

"I am impressed by the innovativeness of their product lines, operational support, risk management programmes and rigorous enforcement of standards worldwide."

The Card Division's aim is to service a client base conducting business in an environment where its banking needs for service and products have become highly sophisticated and

Comprehensive range of services

ABSA Bank Corporate Division started its operations officially on August 1, as a separate division of Absa Bank Limited.

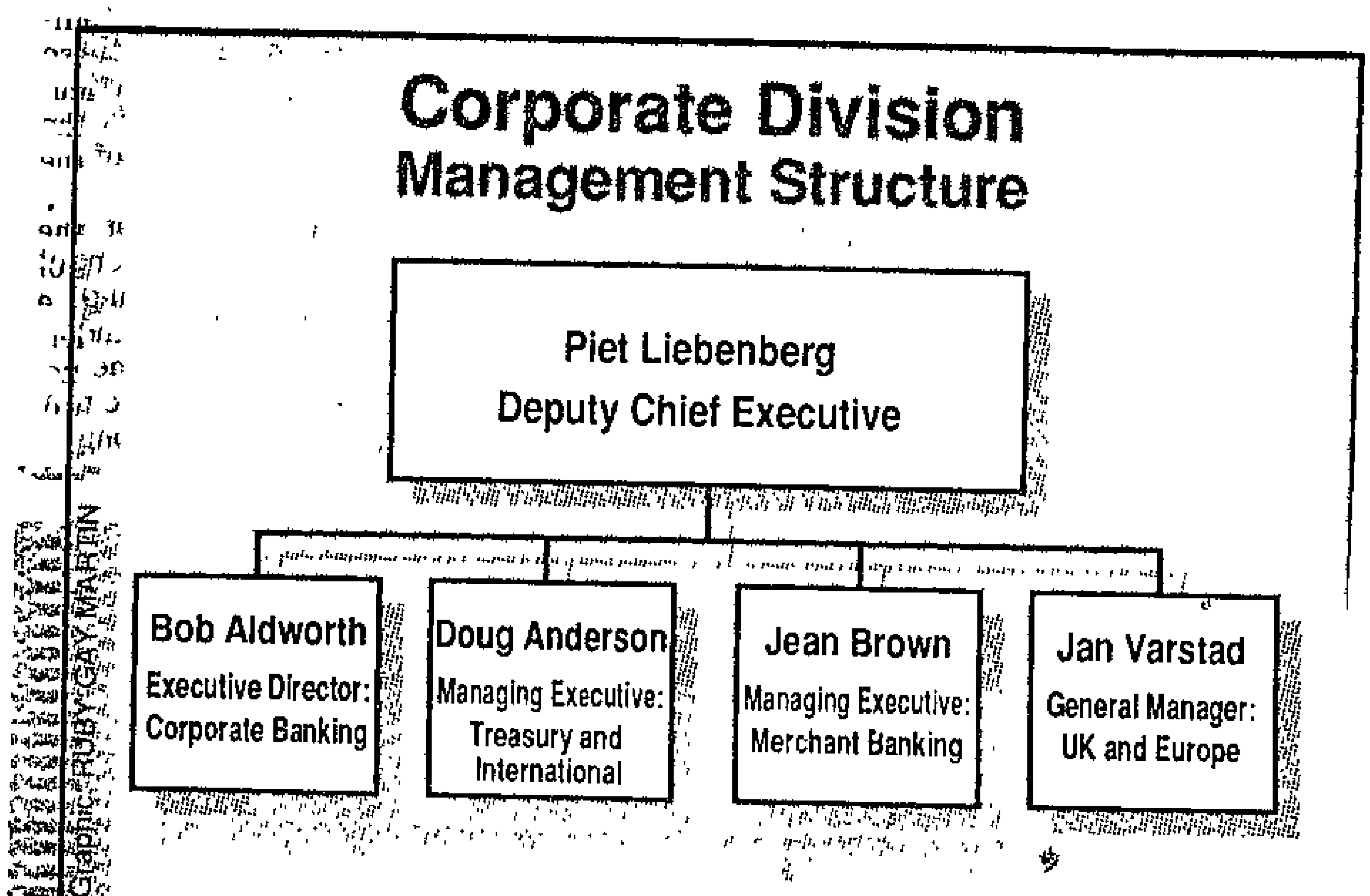
The division consists of four operating units headed by experienced executives, and utilises support services from the Electronic Banking Division, the Card Services Division and the Economics Unit.

Absa Bank Corporate Division clients can depend on:

- Skilled client relationship and transaction abilities;
- Highest integrity;
- Prudent and sound lending principles;
- Transaction capacity to service current and foreseeable growth requirements;
- Diversified management capabilities; and
- Market positioning in such a manner as to take full advantage of corporate market opportunities.

The division offers a comprehensive range of products and services.

These include corporate banking, financing, international treasury, domestic treasury, overseas operations, merchant banking, economic advisory services, electronic banking, card services and many others.



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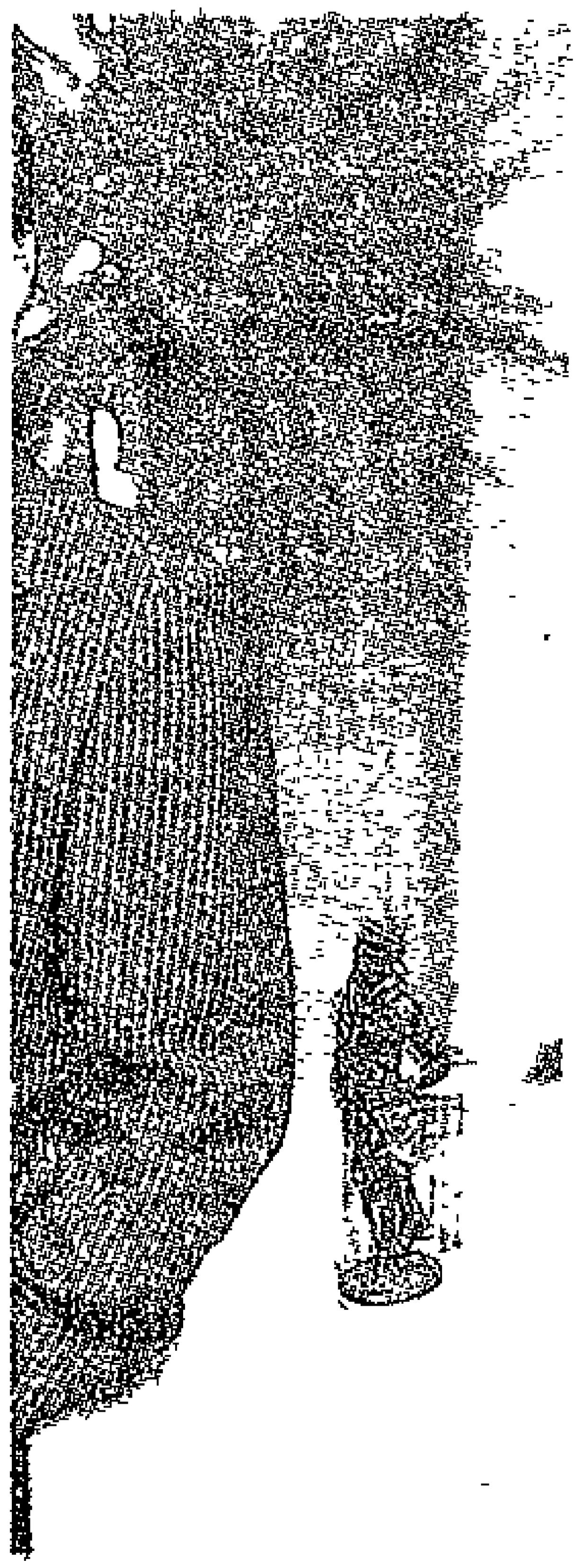

LIEBENBERG

Going for a greater slice of market share

AFRICA'S largest banking group, Absa, is making a major bid for a greater share of the corporate banking market through a new division, headed by Absa deputy CE Piet Liebenberg.

After much research, the bank has launched its Corporate Banking Division which combines its corporate, treasury, international and merchant banking activities in a single entity.

With assets approaching R20bn, it will place great emphasis on customer service and is to operate as a division of the giant banking group in preference to being a subsidiary company.

Liebenberg says a number of criteria have been fulfilled in the restructuring process and the decision not to create a subsidiary company gives the Corporate Banking Division greater operational flexibility.

So structured, it has a number of advantages.

Firstly, the division is consideredeffective in terms of management structure, with care having been taken to eliminate duplication of support structures.

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"I am most satisfied with the structure and implementation, as well as the cost benefits that will accrue to both our customers and shareholders."

Being SA's largest banking group, with equity of more than R4bn, Liebenberg says it has the stature to become the leading bank when it comes to financing the larger corporate transactions.

"Our message to the market is clear. We have made immense progress with the restructuring and integration of Absa's corporate banking activities, and we are now intent on making major additions to our already substantial corporate client base."

He wants the corporate bank's market share of about 20% to be increased in line with Absa's total market share of about 40%.

And he would also like to do business with SA's top 100 companies — not just the majority of them, as is presently the case.

"While we see the challenge in this environment being to service our customers, we also have the capacity and capability to meet competition when we begin to operate under more normal economic and political conditions."

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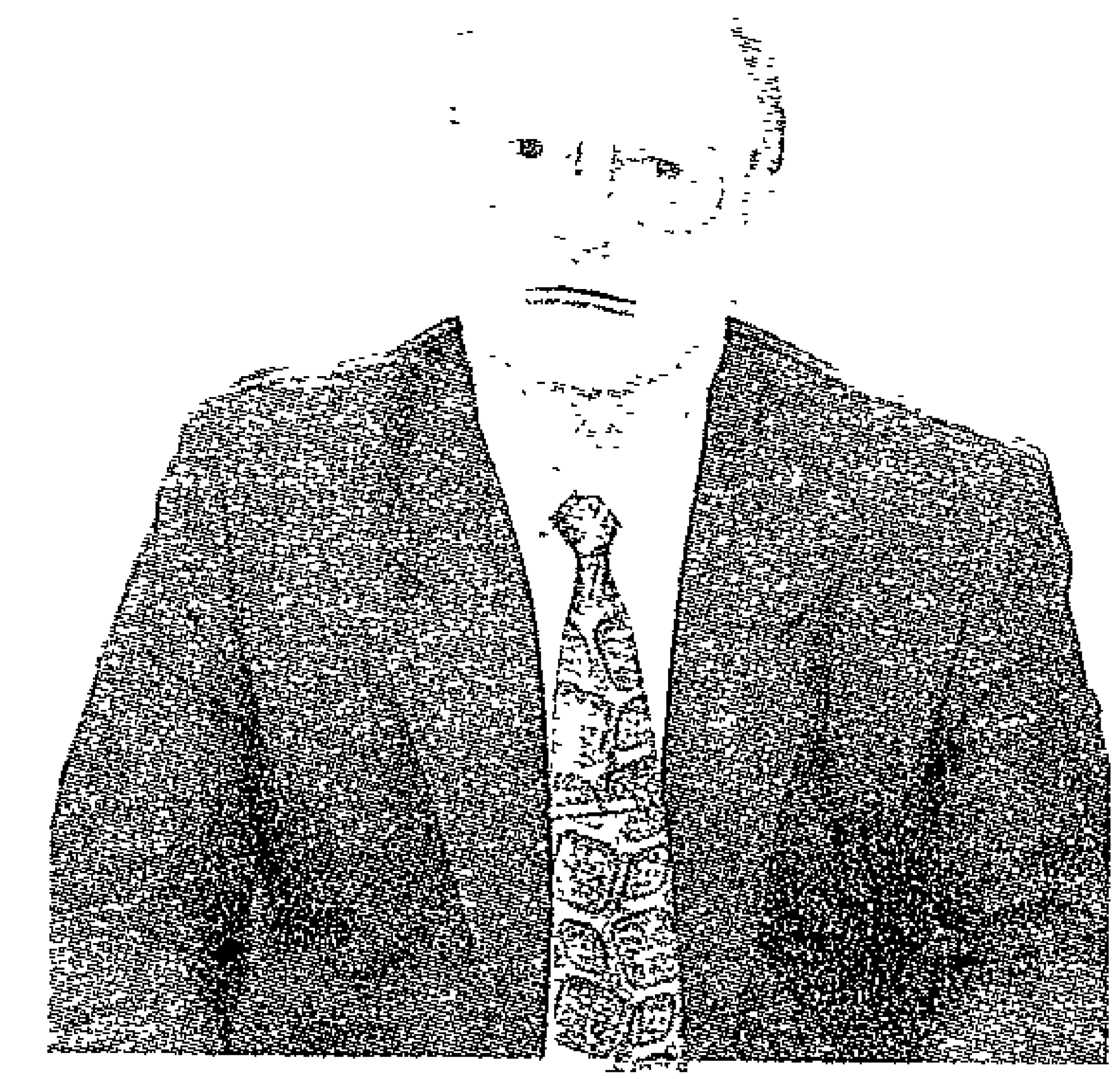

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Bankorp Holdings Limited

Domestic Treasury needs covered in full

THE Domestic Treasury ... ☐ Variable/linked rate ...

28 years of profitable experience at the helm

ABSA Bank vice-chairman and deputy CE Piet Lie...

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B/Day 16/9/92

Absa Bank Corporate Division

(58)

Ready to service offshore needs as trade doors open

B/Day 16/9/92.

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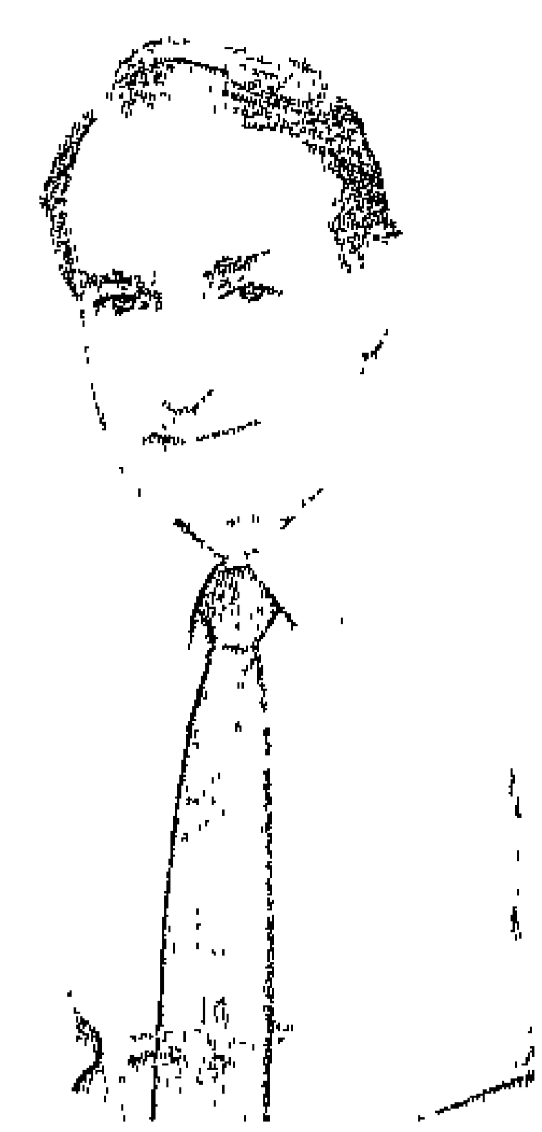

DOUG ANDERSON

He believes many in the market have been surprised at the speed with which the complex issues, such as dealing limits, interbank lines and principal correspondent relations, have been resolved.

Among TIB's more recent achievements are its leading role in Dubai and the establishment of trade links between SA and the Middle East.

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Anderson says the division's experienced management team will be looking to develop new products and enhancing existing ones. "We will also be providing structured financial packages to meet the specific needs of our clients," he says.

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Business Day SURVEY

Africa's largest banking group, Absa, has launched its Corporate Banking Division, which combines its corporate, treasury, international and merchant banking activities in a single entity. With assets approaching R20bn, the new division places great emphasis on customer service and will be making a concerted bid for a greater share of the corporate banking market. **LYNN CARLISLE** *reports.*

PIET LIEBENBERG

Going for a greater slice of market share

AFRICA'S largest banking group, Absa, is making a major bid for a greater share of the corporate banking market through a new division, headed by Absa deputy CE Piet Liebenberg.

After much research, the bank has launched its Corporate Banking Division which combines its corporate, treasury, international and merchant banking activities in a single entity.

With assets approaching R20bn, it will place great emphasis on customer service and is to operate as a division of the giant banking group in preference to being a subsidiary company.

Liebenberg says a number of criteria have been fulfilled in the restructuring process and the decision not to create a subsidiary company gives the Corporate Banking Division greater operational flexibility.

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Firstly, the division is considered effective in terms of management structure, with care having been taken to eliminate duplication of support structures.

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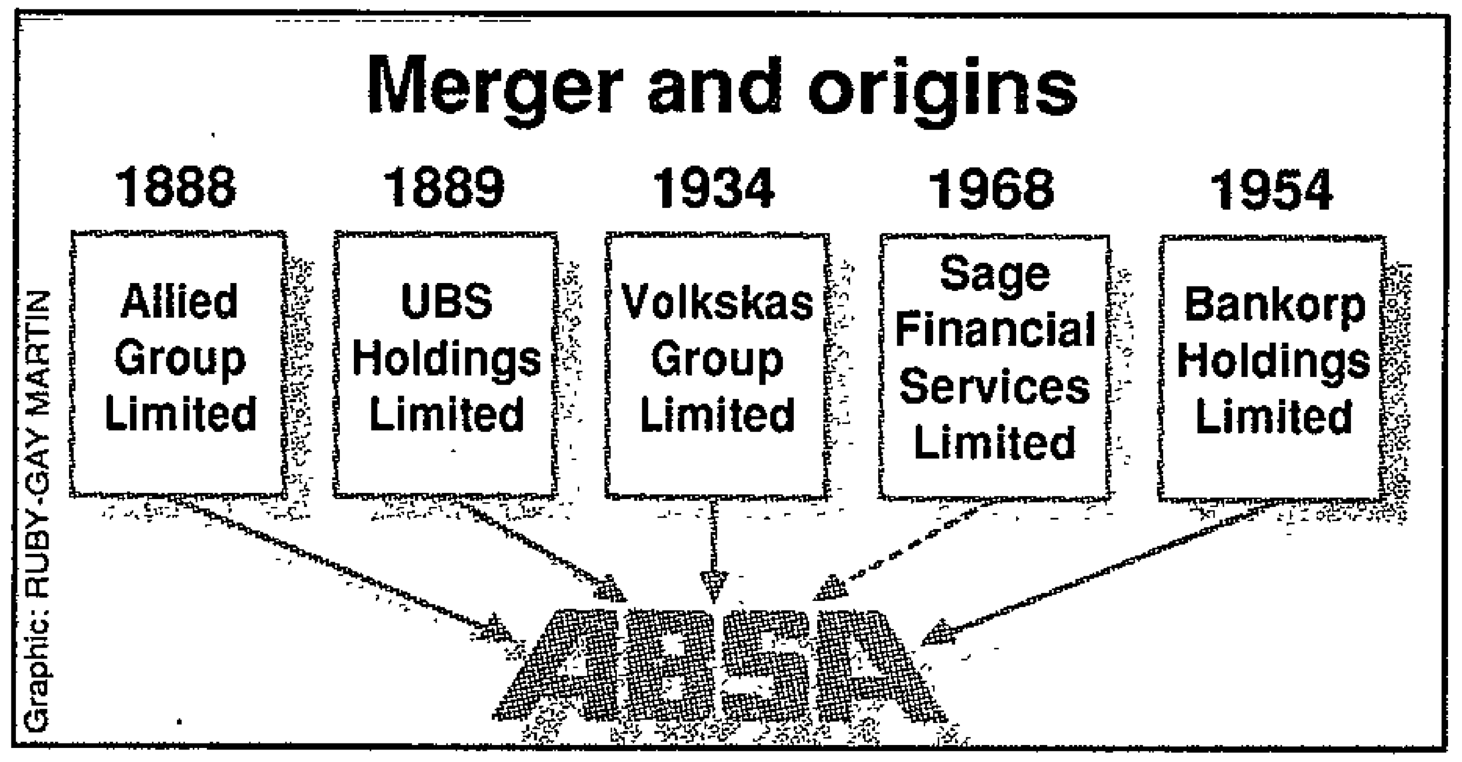
Merger created Africa's top banking group

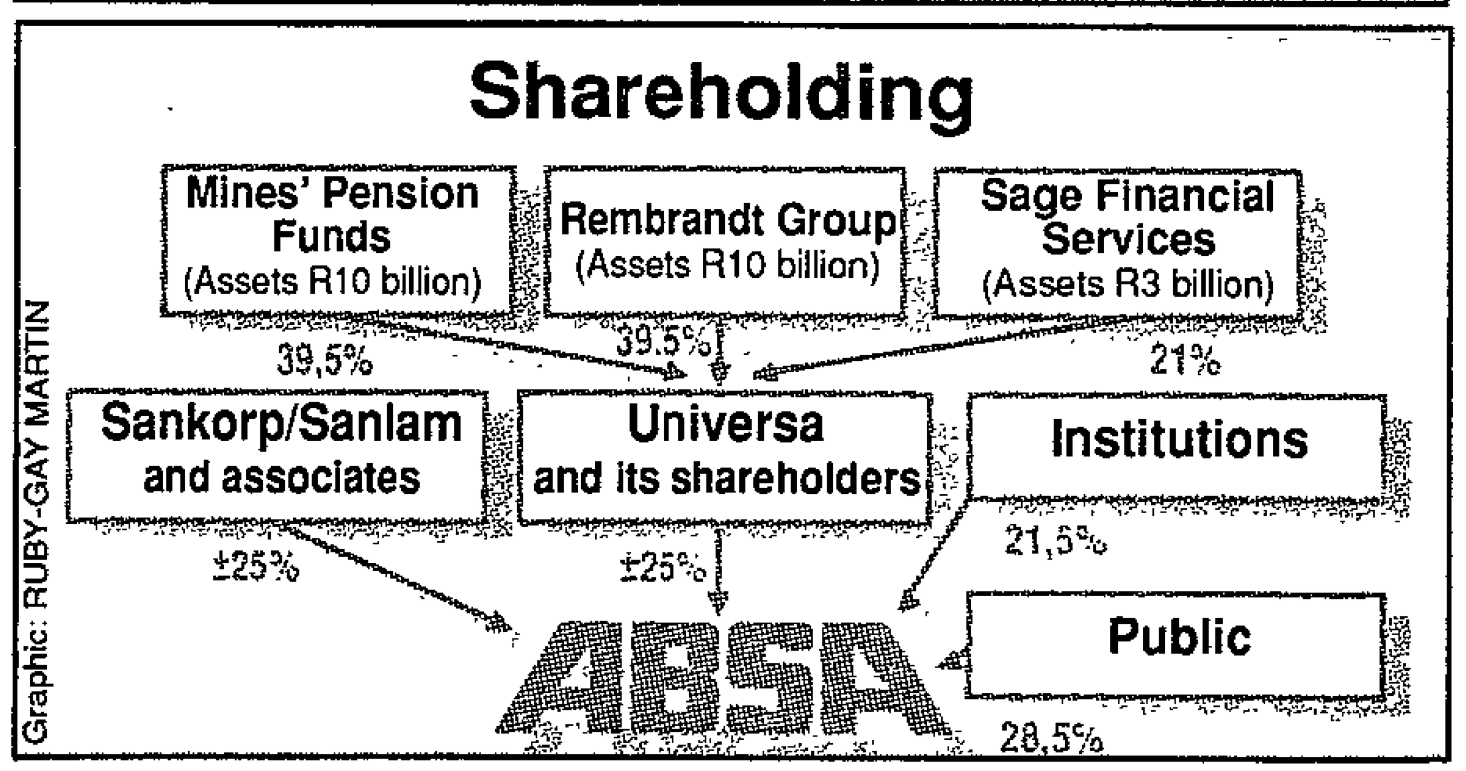
THE recent merger and rationalisation of five SA financial institutions into the Amalgamated Banks of SA Limited (Absa) has resulted in a banking group with the largest and most diversified financial services division in Africa.

Absa is the controlling company in respect of the deposit-taking institution, Absa Bank Limited, registered in SA and a JSE-listed investment holding company.

It has a neutral shareholding, its structuring making it impervious to takeovers — a feature which distinguishes it from most other major banks in SA.



Graphic: RUBY-GAY MARTIN



Graphic: RUBY-GAY MARTIN

Motivated

As a result of these recent developments, Absa Bank and its corporate and general banking divisions have bedded down most satisfactorily.

The divisions are fully geared and motivated to service a wide range of international and domestic markets with arange of modern and professional banking services and products.

Management throughout the group and its divisions is experienced and professional and the divisions and departments are optimally staffed and backed by technology systems, which facilitate swift and efficient response.

Having completed its restructuring programme, all divisions are now implementing their domestic and international business strategies.

The new banking group is set to benefit from itseconomies of scale coupled with minimum duplication of staffing, effort and equipment.

Domestic Treasury needs covered in full

THE Domestic Treasury department is set to provide corporate clients with a more cohesive grid of investment and funding options.

Operating under GM Fanie Leach, the Domestic Treasury department offers a full range of products supported by a strong and experienced corporate dealing team.

They operate from the main dealing room in Johannesburg and also the regional Treasury dealing rooms in Cape Town, Durban and Pretoria. Services and products include:

- ☐ Negotiable certificates of deposit;
- ☐ Call deposits;
- ☐ Fixed deposits;
- ☐ Notice deposits;
- ☐ Variable/linked rate deposits;
- ☐ Land Bank bills and Treasury bills;
- ☐ Money market instruments;
- ☐ Capital market instruments such as government, Eskom, Transnet, Telkom and municipal stocks;
- ☐ Commercial paper;
- ☐ Rand interest rate swaps and forward rate agreements;
- ☐ Derivative instrument trading; and
- ☐ Absa Securities and Settlement House.

Absa Bank is well advanced in the development of the commercial paper market and has a team under the leadership of Mike Lammas to advise its large corporate clients.

28 years of profitable experience at the helm

ABSA Bank vice-chairman and deputy CE Piet Liebenberg heads up the Corporate Banking Division's management team of experienced bankers.

His 28 years in banking started with the old Senbank in 1964. Before that he graduated at Potchefstroom University and then qualified as a chartered accountant.

He left Senbank in 1968 after holding the post of investment manager and became CE of Trust Accepting Bank, a merchant bank that was being formed for Trust Bank.

In 1970, he and three other partners started Finansbank which they built up successfully until Nedcor acquired 100% of its shares in 1987.

Liebenberg then switched from merchant banking to general banking to take up the reins of CE of the then troubled Nedcor Group. He turned it around into a profitable organisation and in June 1990joined Bankkorp at a time when it was also experiencing problems. He remained with the bank until Absa acquired Bankkorp early this year.

Liebenberg holds a number of outside positions, most notably professor extraordinary of the Graduate School of Management, University of Pretoria, and chairman of the Christian Communication Trust.

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An organisation's salary and leave management can be handled in accordance with unique needs by Absa's SalaryFocus.

All employee earnings are processed to suit the employer's requirements and the necessary deductions are made. Confidential sala-y advices are supplied, while pay envelopes are attached to wage payslips.

SalaryFocus also provides reports that enable the client to pay over the deducted amount, while complete management reports of the month's processing are supplied.

A CashFocus facility enables Volkskas Bank clients to conduct some banking business from their offices.

It provides valuable information for effective decision-making, including account and financial market information, and allows the transfer of funds between client and bank accounts at will.

The bank's Link products enable TrustBank clients similar convenience and information as supplied by CashFocus.

Another option, ReconFocus, facilitates the comparison of the cash book transactions of a business with its bank statement.

Here, an organisation with a computer able to read magnetic tape wishing to do its own reconciliation can obtain a magnetic tape from Absa which contains information of all the paid transactions over any period required.

Provide

However, Odendaal says the client must provide and maintain the necessary hardware and software.

Organisations without a computer capable of reading magnetic tapes may download information from the bank's mainframe to the hard disk of a PC.

The bank provides the software to access the mainframe.

An arrangement with the Automated Clearing Bureau has resulted in ACB-Focus, a product to facilitate computerised handling of payments and or collections.

Finally, there is Bureau-Focus for companies that do not have a computer to create magnetic tapes.

whole page.

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Absa Bank Corporate Division

58

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Bank response cool to plea from Keys

DEREK TOMMEY (58)

JOHANNESBURG. — Commercial banks have responded with little enthusiasm to the appeal by Minister of Finance Derek Keys for a reduction in the rate of interest they charge small borrowers.

The problem, it appears, is that after having absorbed hundreds of millions of rands of bad debts in the past two years, they are in no mood to lend to the small borrower at any rate of interest — high or low.

Mr Keys last Thursday endorsed the Reserve Bank's policy of maintaining positive real interest rates by keeping them above the rate of inflation.

But he pointed out that there was a considerable gap between Bank rate of 15 percent and the actual rates banking institutions charged their customers.

The gap was not fixed by regulation, and ought to be narrowing as a result of competition among banks.

He admitted that the heavy incidence of bad debts had been a restraining influence, as had the banks' desire to augment their resources to comply with higher capital adequacy requirements.

But Mr keys said: "I trust that as these restraints become less important, we can look forward to greater lending rate competition in the banking industry, to the benefit of the economy in general and to small and medium-sized businesses in particular."

Mutual funds for women rile critics

BIDAM 17/9/92.

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CHARLES FLEMING
in Paris

TWO FINANCIAL firms in Europe are selling mutual funds aimed specifically at women, and at least one more is on the drawing board.

The proponents of such funds say women need to be encouraged to manage their money better and that women money managers have a different, more intuitive relationship with money than men.

But critics — not the least, other women — angrily dismiss the concept of women's funds as "cotton candy" or "soap bar" merchandising, cynically packaged to exploit women as consumers.

Europe's first women's fund was set up late last year by Marion Weichert, a German financial adviser and insurance broker, together with asset management firm Universal Investment.

But playing into the hands of the more nasty critics, Weichert gave her fund a French name, Fonds pour Femmes (meaning fund for women), thus rendering it more evocative of Parisian perfumes and fashion than of a plain old bond fund.

Weichert says it was to get around German bureaucracy and its rules against explicit sexual discrimination that she picked a French name. However, the name Fonds pour Femmes is exactly the sort of condescending marketing tactic that riles other women in finance.

Fiona Price, MD of her own all-woman firm of financial advisers in London, Fiona Price & Partners, condemns such investment products as being pretty and sweet but with no real substance, rather like cotton candy. "Products that are branded 'for women only' are not healthy," she says firmly.

Instead, she says, she plans to set up a fund early next year whose investment targets, rather than the packaging, will appeal specifically to women.

In Paris, Miren Bergis, who helped set up a women's financial advisory service earlier this year alongside independent French asset manager Catherine Wajsman, also rails against investment products that treat women as mere consumers.

In fact, besides its name, there is little that is feminine about Fonds pour Femmes. Its modest DM1,2m under management is invested in German and Dutch bonds, and marketed by Universal Investment through various Hamburg-based private banks.

Weichert defends her choice of name as being aimed at raising German women's awareness of financial matters, and says it is intended to show there can be more to a woman's investment strategy than a low-yielding savings bank account.

Following Weichert's lead, six women asset managers in Europe and the US are teaming up to launch their own investment product, Women's Asset Management Fund Ltd (WAM). According to its promotional literature, the fund has set itself some ambitious goals.

Not only is it out to change the balance of economic power between men and women, it will also make money for investors — not the least of which will be US public pension funds that are required to invest a portion of their assets with minority-managed companies.

The fund's management group says the team of six women investment advisers, of whom the best known is Shearson Lehman Brothers' star strategist Elaine Garzarelli, will invest in the full gamut of equities, fixed-income and money-market instruments worldwide.

At the same time, it predicts, the fund "will help spur the growth of additional assets under management by women decision makers around the world".

The original idea behind WAM, says one of the fund's two European investment advisers, Mayri Voute of Paris-based Capital Management International, was to invest in companies owned and run by women.

But that idea was quickly pushed aside, she explains, because in Europe alone, with the notable exceptions of companies such as Britain's Body Shop plc and French yacht-maker Beneteau, there would be a pitifully small selection of investment targets.

Instead, the fund's managers say they will set aside 10% of their annual profits to plough into organisations that promote businesses owned by women. However, by giving free rein to the fund's six women investment advisers, Voute suggests the real advantage for investors will lie in the more intuitive approach adopted by women fund managers.

"Women function more on gut feeling," Voute explains, before asserting confidently. "No men work on feeling." — AP-DJ.

REVIEW

Perm sole supporter of Sanco's code

58

GRETA STEYN

THE Perm remains the only bank to accept in principle the SA National Civic Organisation's (Sanco's) call for a banking code of conduct after other banks refused to discuss the issue further.

Council of SA Banks head Tony Norton said yesterday the issue would not be raised again. "It is a point of principle that people cannot co-opt our industry," he said.

He added a task force had been set up to work on other aspects of concern to Sanco, such as bond-holders' financial problems and building quality in townships.

There was already an "informal" bond boycott of about a quarter of all township bonds, says Sanco. The Perm's agreement safeguarded it against formal action.

Norton said there were two issues — political and operational — and that the political issued was regarded as settled.

Asked whether a bond boycott would be averted, he said: "I don't know. It depends on whether the price is subversion of the banking system through co-option."

Banking sources said the main bone of contention preventing other banks from joining the Perm was Sanco's call to stop providing government with banking services until "an irreversible process of complete democratisation" was under way.

Asked whether the Perm would support

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Perm

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☐ From Page 1

this call, Perm development GM Denis Creighton declined to comment, but noted that its market was the private individual.

The other bone of contention was the concept of "community empowerment" which featured strongly in the code proposals Sanco's motivation for the code ~~stated~~: "Apart from certain isolated instances, the banking sector has . . . failed to establish a permanent presence within disadvantaged communities." It called for "affirmative action" in the provision of finance to disadvantaged communities.

On the management of defaults, Sanco said financial institutions should help in establishing community mechanisms to provide assistance.

Of major importance in the proposed code was the focus on defective workmanship in the building industry. Sanco said "a building industry code of conduct will prescribe certain minimum ethical standards to be maintained by developers. Financial institutions would be required to restrict support to developers who have agreed to comply".

The Sanco-Perm interim agreement said: "In practical terms, Sanco and the Perm have established the broad outline of a formal compact aimed at initiating socio-economic development programmes, housing development programmes, and home loan-related technical solutions to existing problems." It envisaged urban renewal and building rehabilitation in projects to be managed by the communities.

Rabie Investment gains from focus switch

BDAY 17/9/92. (38)

LINDA ENSOR

CAPE TOWN — Property developer Rabie Investment Holdings has sustained its return to profitability, posting earnings a share of 2,7c (1991: loss 2,1c) in the year to end-June despite a deepening of the economic recession.

To conserve working capital, no dividend has been declared.

Rabie's turnaround was largely achieved by its withdrawing from the black housing market and confining itself to upmarket developments.

Turnover declined by 21,6% but financial director Ken Maggs said comparisons of turnover were not accurate due to Rabie's involvement in joint ventures, income from which was included in turnover last year.

A strong improvement in margins after focusing on exclusive residences resulted in operating income soaring to R2,7m (R535 000).

"Although the downturn adversely affected trading, there was also a satisfactory contribution to earnings from Kwikspace Holdings, the prebuilt accommodation business," chairman John Rabie said. Rabie owns 40% of Kwikspace and Murray & Roberts 60%.

The gains at operating level were significantly diminished by the interest bill of R2,3m (R1,2m) which — after the addition of tax credits — left an attributable profit of R518 000 (loss: R7,4m). The tax credits arose from a reversal of deferred tax in Kwikspace Holdings.

Rabie attributed the sharp rise in finance charges to the losses incurred last year when the group's Natal operations were closed.

"Borrowings were reduced considerably during the year and management continues to focus on reducing gearing," Rabie said. Gearing at year-end stood at 95%, down from last year's 140%.

Rabie said developments in the Western Cape continued to trade above expectations despite the difficult market conditions.

INVESTEC TAKES RESERVE BANK BUILDING

FM 18/9/92

(58)

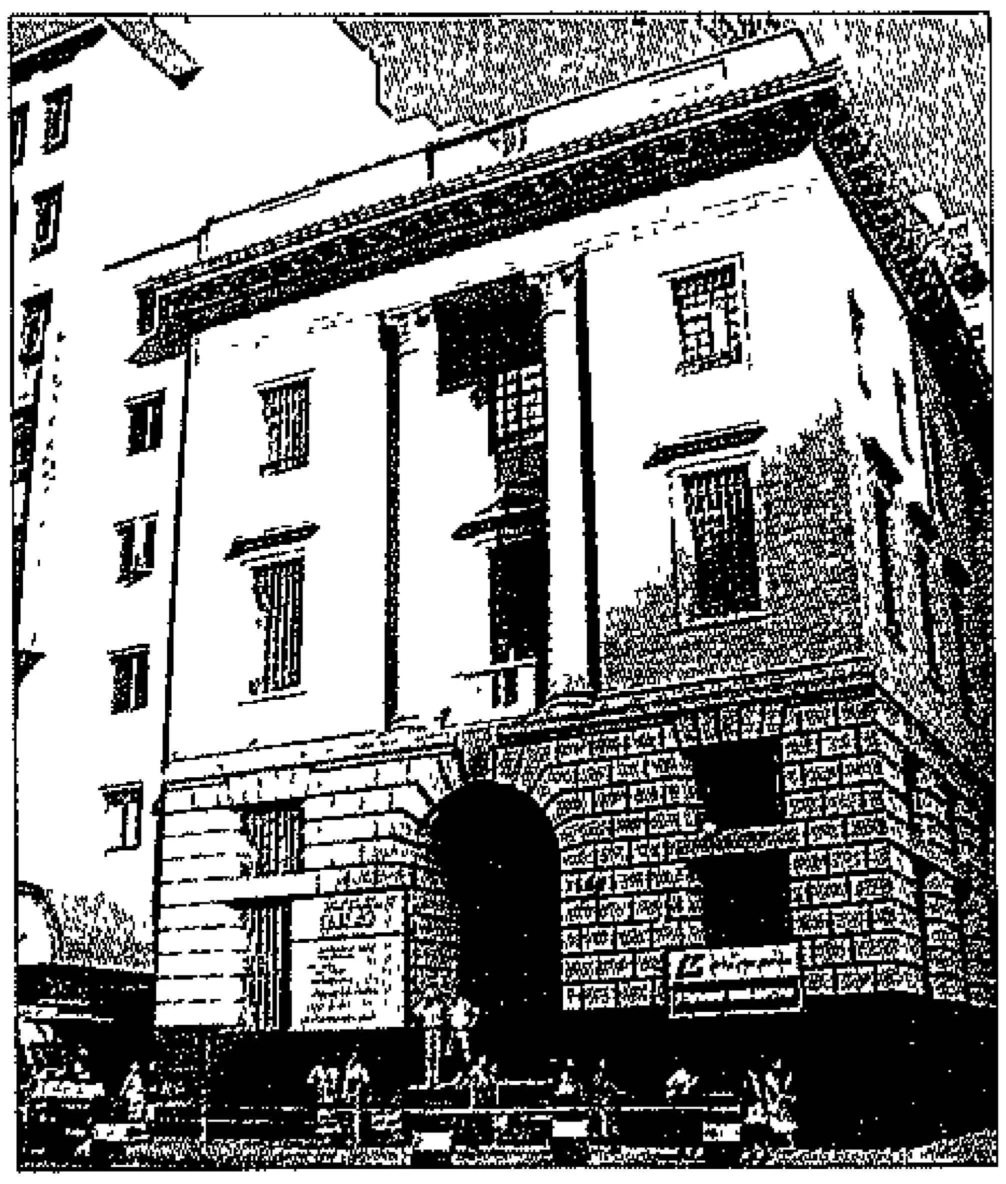
Investec Bank in Durban is on the move. It is crossing Smith Street to a prestigious new regional HQ in the Old Reserve Bank.

Will this have an impact on Durban's over-supplied office market? The bank doesn't think so — it will be leaving behind just two vacant floors at its present HQ in the 16-storey Fedlife House at 320 Smith Street. And that won't be until next July.

Meanwhile, the bank's new home — the 87-year-old former Reserve Bank building on the corner of Devonshire Place — is being refurbished and extended under a R7,6m contract by Group Five company, Stevenson Construction. The work, with support from the National Monuments Council, involves leaving the external facade of the building intact, but tucking in two new office levels within the existing structure.

Additional offices are being built in the space formerly occupied by the now demolished servants' quarters fronting Devonshire Place. According to Investec, 3 200 m^2 of office space will result — including about 600 m^2 which will be surplus to requirements. A management decision has been taken not to seek tenants since the bank expects its "phenomenal growth" to quickly absorb the excess.

The building was vacated by the Reserve Bank when it moved into its new R52m purpose-built headquarters in Commercial Road near the Workshop in April last year. Initial attempts by the Bank to sell the Smith Street property by public tender fell through when the single bidder failed to produce guarantees. It was also offered last year to Durban Corporation for R4m — and then R3m. However, the offer was declined on the grounds that the building was unsuitable



for civic purposes.

According to the Reserve Bank the building was eventually "quietly" sold on tender on March 24 for an undisclosed sum. Several bids were submitted.

Investec's move is one of several property developments which, taken together, are likely to exacerbate Durban's already over-supplied office market. Others include the NBS's move to its new headquarters, now under construction; Sanlam's new Embassy building; and Ampros's rebuilding of the Old Station Building in Commercial Road.

INSURANCE FM 18/9/92

Icebergs ahead

58

Most short-term insurers have reported good profits this year. But SA Insurance Association chairman Brian Seach says results so far are deceptive and those companies which report later in the year could produce less flattering accounts.

Two insurers now have solvency margins below the 25% level, which the industry regards as minimal — though the Insurance Act stipulates only 15%. The Financial Services Board has changed its reporting formula slightly and dropped the word "solvency" from its analyses because it is considered too

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emotive. Now it reports the ratio of surplus assets to net premiums, which effectively differs little from the old definition.

To some insurance authorities, margins are a clumsy measure of an insurer's financial strength. Other factors would include its financial base, the type of business it operates, its management expense ratios and its reinsurance programmes. The key ratio used by the board acknowledges reinsurance placed with Lloyd's and the locally registered reinsurers but not the cover provided in the rest of the international market.

Overall, analysis of the June quarter STI(1) returns shows a decrease in the surplus ratio of about 8% across the industry, compared with the same quarter last year. FSB Short-Term Registrar Nico Fourie emphasises there is, at this stage, no great concern but adds: "Of course, no-one thought the *Titanic* would sink."

After a disastrous 1990 year, when crime levels left most insurers with losses in personal lines business, the industry re-examined rating policies. Now, most insurers agree, personal lines are no longer the loss-makers. But Seach identifies other areas of concern:

☐ There is intense competition for commercial business, which is not being correctly rated. The claims experience in this part of the underwriting account has deteriorated. Seach and Mutual & Federal CE Ken Saggers are convinced that many fire claims are

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are fraudulent.

☐ Lloyd's rates have hardened, as the London market tries to repair its own results. But, says Seach, this does not create an immediate umbrella under which local insurers can rerate their commercial business. It will take time for the effects of international market prices to trickle through. Meanwhile, there is intense competition among some local insurers for market share;

☐ VAT gave insurers a one-off profit because they were able to take advantage of input costs incurred before the implementation of the new tax. This increased the ratio of premium income to claims and some insurers took full advantage of it to repair damaged balance sheets. On the other hand, other insurers adopted a conservative view of accounting the VAT "bonsella" and some used it to offset the upward pressure on rates; and

☐ There have been no significant catastrophes in the past two years. "It is inevitable there will be catastrophes and they could come when the investment accounts of insurers have taken a battering because of conditions on the stock exchange," Seach says.

According to Seach, the SA insurance market is overtraded, with about 20 active companies sharing R7,7bn of premium income. It is a low-growth industry because of a shrinking economy and the trend towards risk management in commerce.

Paolo Cavalieri, GM of Stangen, one of the companies with a low surplus asset ratio, is not convinced the market is overtraded, citing Australia, which supports three times as many short-term insurers as SA. The company's parent, Generali, one of Europe's most powerful groups, has indicated it wants Stangen to explore niche markets, a process which can initially raise acquisition costs and lower margins.

Cavalieri adds: "Generali did not bow to pressure in the Eighties to dispose of its assets in SA, so there's no reason to think it will do so now. On the contrary, it is thinking more on the lines that Stangen will be a springboard for developing business in other African countries."

Yet several insurers have hinted that those with powerful financial bases and the ability to absorb the effects of another rates war will take this opportunity to squeeze their less affluent competitors. If that is correct, Seach's prediction will also be right and there could be some shotgun marriages. ■

Sea Point residential property syndicated

CAPE TOWN — The syndication of an R8m sectional title complex in Sea Point, the Carribean, was launched yesterday by developer Two Oceans Trust. BDay

It is said to be the first syndication in SA of a residential property. 18/9/92.

The units, which cost a minimum of R10 000, offer projected returns of 40,25% a year, or 201% over five years.

Two thirds of the block, developed by the Two Oceans Development Company and Cape of Good Hope Bank, have been sold.

Prospur Portfolio Managers property

58 LINDA ENSOR

syndication manager Chris Smith said it was an attractive investment because much of the return would be capital.

Cape of Good Hope Bank has guaranteed base rentals until February 1995, and will provide finance to investors.

Smith said a total of R675 000 of the proceeds of the issue would be placed in a Buy-Back Trust Fund to facilitate the urgent repurchase of units. Interest on the fund would accrue to the investors.

Fairheads in new Cape venture

BIDAY 18/9/92.

LINDA ENSOR

CAPE TOWN — Fairheads, a long established financial services company in Cape Town, has acquired the property management portfolios of the Divaris Group which will be incorporated under a newly established company, Phoenix Property Management Corporation.

Fairheads director Tyrrel Fairhead said the company would be one of the largest property management services in Cape Town and would be run as an autonomous unit under the direction of Charles Keefer. It would also offer development and project management services.

The Phoenix company would link up with Fairheads' Cayman Island property syndication venture, which was formed to enter the US market and which had been highly successful. The company allows Fairheads to offer an international asset management service to its clients.

Fairheads also intended opening a Phoenix office in the US in the near future, Fairhead said.

The group offers the full range of financial services including asset management, trust administration, a money market agency, insurance broking, employee benefit consulting and administration, participation mortgage bonds, property syndications and so on.

Meanwhile, Fairheads' property arm has undertaken the syndication of the South Cape Shopping Centre in Mossel Bay. Fairheads clients have taken up units to the value of R6m with the balance available at a price of R22 022 per unit until September 30.

Fairheads has total assets under management of about R500m, confining itself to a select client base. The weighted average return on managed fund assets for the first six months was 11,2% while the weighted average performance of all funds in 1991 was 35%.

"The 1991 performance compares favourably with the 29,2% weighted average return for investment managers included in a recent national survey covering funds with a combined market value of about R25bn," Fairheads portfolio manager Andre Joubert said.

SECHOLD

Still a murky picture

FM 18/9/92 (58)

Activities: *Banking, securities trading, portfolio management and related financial services.*
Control: *Directors and staff 22,8%.*
Chairman: *J P Kearney; MD: A Kelly.*
Capital structure: *23,5m ords. Market capitalisation: R176m.*
Share market: *Price: 750c. Yields: 4,0% on dividend; 9,9% on earnings; p:e ratio, 10,1; cover, 2,5. 12-month high, 725c; low, 375c. Trading volume last quarter, 172 000 shares.*

Year to June 30	'89*	'90	'91	'92
Deposits (Rbn)	0,43‡	2,39	7,33	7,76
Total assets (Rbn)	0,50‡	2,44	7,39	7,86
Attrib profit (Rm)	11,0	12,0	14,4	17,5
Earnings (c)	42†	51	61	74
Dividends (c)	21	21	25,5	30
Net worth (c)	132	173	216	266

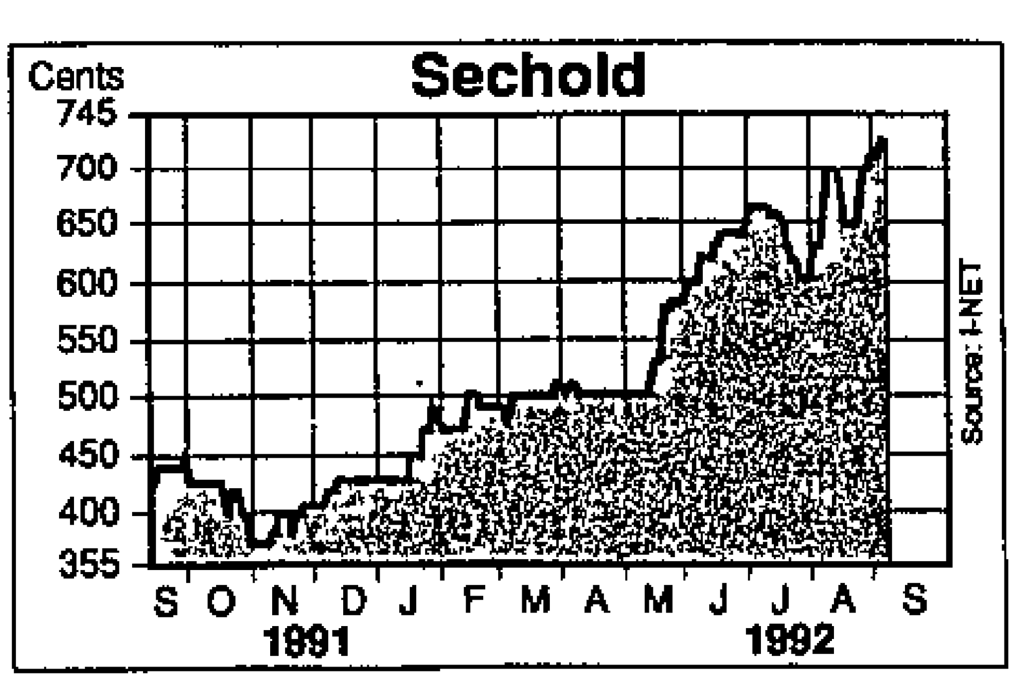
* 15 months; † Annualised; ‡ Figures not restated.

Sechold has moved towards slightly better disclosure in its 1992 annual report, but the picture of the group of banks offered in the holding company's accounts remains murky. From what can be extracted, though. Sechold appears to be a tightly run, highly profitable organisation, with good risk management and extremely conservative profit statement.

Sticking closely to the minimum disclosure requirements for deposit-taking institutions, Sechold does not reveal cash flow, turnover, internal reserves, provisions, or movements therein. Net income is only stated after tax and transfers to reserves. That doesn't leave an investor much to work with and while Sechold has consistently reported steady growth since listing in 1987, the figures have to be accepted on faith.

But the market has reacted well to the share. Over the past year, it has gained 70% to a new high of R7,50. Over the same period last year, its price gained 52%. Despite the rerating, some analysts still feel the share should have a higher rating, possibly above those of commercial banks. They believe Sechold has substantial reserves and, by updating exposure limits and asset quality daily, it has a healthy risk profile.

The group consists primarily of four banks and a portfolio management subsidiary. Two of the banks — Secfin (formerly Interbank) and NDH Bank — were acquired last year



and were largely responsible for the jump in assets between the 1990 and 1991 financial years (see table).

But figures have been restated, with creditors and other accounts added to deposits and a repurchase outwards of R5,5bn restated to liabilities. This triples Sechold's reported asset base, which puts it among the 50 biggest organisations in SA ranked by total assets, not far behind NBS.

This accounting practice may be questioned by some other banks, but for Sechold it is not particularly important. MD Arthur Kelly does not regard return on assets as a vital ratio. The group's assets consist largely of its deposits, which are made up largely of repurchase agreements (R6,3bn) and liquid assets in the form of secured deposits (R1,1bn).

Sechold emphasises return on shareholders' funds as the most meaningful measure of growth and this was maintained at last year's 31%, rising from the 29% return reported in interim results. Since listing, Sechold has achieved a compound average annual return on shareholders' funds of 47%.

This level of return, with the strong gains in the share price, should keep shareholders satisfied. Less satisfaction might be derived from the 17,6% increase in dividend, which, while quite respectable, shows Sechold's dividend policy to be as conservative as its profit statement.

Since 1989, dividend payments have grown by a compound annual average of 12,6%, against a 20,8% compound annual increase in earnings. This won't be more generous in the short term, as former chairman Jack Kearney (recently succeeded by Grant Thomas) says the intention is to lift the present cover of 2,5 to 3,0 times over the next five years.

Sechold has built up a reputation as an astute trader in gilts and money markets, but Kelly is sensitive to any perception that it relies on profits from these sources. He says earnings from "recurring sources" have been growing annually and now constitute about 70% of disclosed income.

But it is unclear what these recurring sources are. Financial director Eke Walker says they include portfolio management; repurchases where a position is not taken; and Secfin's new home loans division. Kelly also refers briefly to "niche markets" being cultivated by some of the banks. He won't reveal more, saying disclosure could aid competitors.

From what is revealed, Sechold seems hard to fault. A potential weakness is that it has to rely heavily on the quality of its staff. It is known to hunt key personnel aggressively, offer exceptional rewards to staff who perform and to be ruthless with those who don't.

A few key resignations could leave the group in trouble. On the other hand, recent diversification has brought in an increasing number of highly qualified management, lessening the risk.

The share is no longer cheap. Yet, at the 10,1 p:e, it seems to offer potential. The reservation is the limited disclosure, which makes it difficult for an investor to know exactly what he is buying. *Shaun Harris*

FM 18/9/92 (58)

SABLE HOLDINGS

Cash options

Activities: *Property investment and trading.*
Control: *Netherlands-based Isdale Holdings 68%.*
Chairman: *J Nash; MD: P H Nash.*
Capital structure: *7,5m ords. Market capitalisation: R90m.*
Share market: *Price: 1 200c. Yields: 3,8% on dividend; 11,3% on earnings; p:e ratio, 8,9; cover, 3,0. 12-month high, 1 200; low, 970c. Trading volume last quarter, 32 000 shares.*

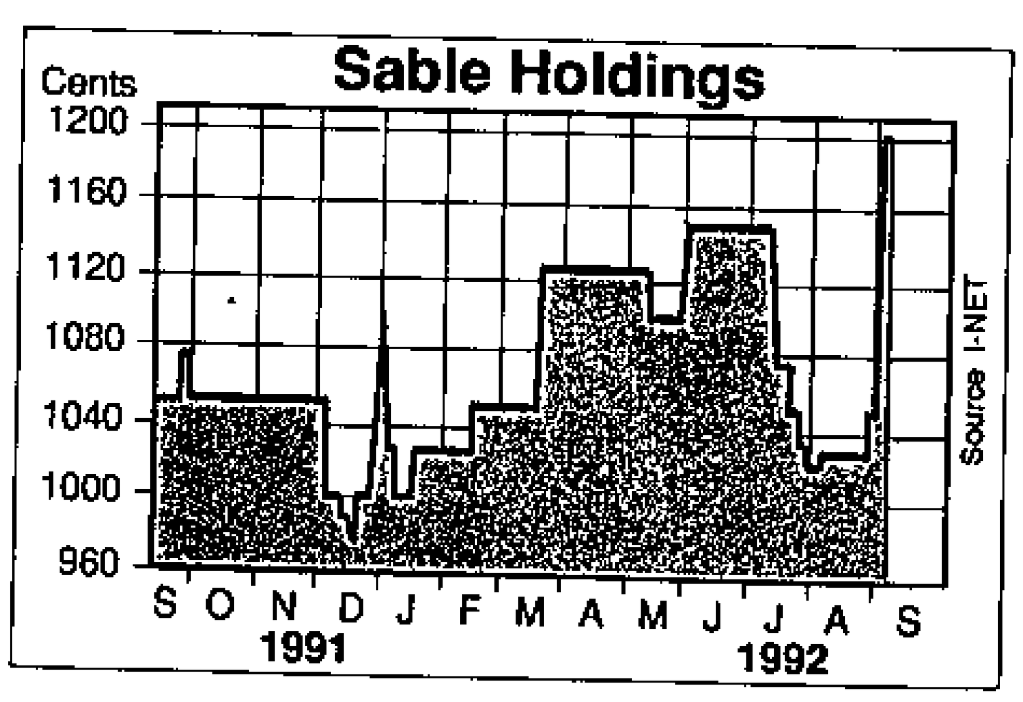
Year to June 30	'88	*'89	'90	'91
ST debt (Rm)	1,2	11,0	9,7	12,9
LT debt (Rm)	4,0	12,3	12,2	2,4
Debt:equity ratio	0,22	0,42	0,38	0,15
Shareholders' interest	0,71	0,46	0,51	0,73
Int & leasing cover	8,79	4,28	6,82	6,91
Return on cap (%)	16,1	†19,4	20,3	17,5
Turnover (Rm)	12,9	84,4	93,4	122,3
Pre-int profit (Rm)	5,3	20,1	18,9	23,9
Pre-int margin (%)	41,3	23,8	20,2	19,5
Earnings (c)	39,6	†84,5	104,7	135,4
Dividends (c)	20	†30	35	45
Net worth (c)	310	449	574	1 295

* 16-month trading period. † Annualised.

More than a year after selling the business of 60%-held Steiner Services (Pty) for R85,9m, Sable holds a cash pile of about R50m and must still decide how to invest this.

Proceeds from the sale, received in cash after the June 1991 year-end, are being held for reinvestment in either physical property — still regarded as Sable's core business — or in another industrial business. Financial director Andrew Bolleurs says the sale was "in the best interest of shareholders" but declines to be more specific.

Last year Steiner was responsible for half of Sable's attributable earnings It was bought only four years ago for R32,6m. The sale resulted in a capital surplus — treated as a nontrading item — of R43,7m or 584c a share for Sable. NAV more than doubled to 1 295c a share; so, from that standpoint, value was realised.



Cash resources now available equate to about 667c per share. If a further R20m held in the form of an endowment policy is taken into account, the figure rises to 850c a share. With no clarity on how the cash is to be invested, there must be a strong possibility of a special dividend.

Regrettably, the 1991 annual report was issued more than a year after the year-end, so the accounts are of limited value. The delay was blamed on the Steiner deal. Approval from the JSE and the Registrar of Companies was obtained. Preliminaries and interims were published on time, but Bidvest required a profit warranty period in the terms of sale and this resulted in the extraordinary delay in publishing the annual report. Bolleurs says 1992 preliminaries are due soon and the 1992 annual report will be out in October, on time.

Turnover trebled in 1991 as seven new sectional title schemes were started and Steiner's contribution to taxed profit was included in EPS. Interest receipts on the cash have contributed to income since year-end and the interim results to end-December showed pre-tax profit rose 24%.

Rental turnover was up 17% at the end of fiscal 1991 and chairman John Nash says earnings for 1992 will show further growth in real terms. But, he says, conditions in the property industry have deteriorated and the outlook for 1993 is less encouraging. Two properties have been earmarked for disposal.

Sable's share price reacted strongly to the Steiner deal, rising from 750c to R12. Prospects depend largely on how the cash is deployed, making the share look speculative but interesting.

Kate Rushton

PENSIONS FM 18/9/92

When you hang up your hat

(58)

Uncertainty rules as to what precisely is meant by the pensions promise

When Robert Maxwell, corrupt head of a UK-based international media empire, milked hundreds of millions from pension funds to prop up his investments, he unleashed a storm that is now lapping at our shores. The question of who ultimately owns pension fund moneys is being re-examined because either Maxwell was an outright thief or he used undue influence with the pension funds to redirect the money where it suited him.

The argument in SA centres on whether pensions are contractual deferred compensation — a promise to pay — or just a grace-and-favour benefit within an employer's discretion. If the former, the money — both the employer's and employees' contributions — is in effect the property of employees and may not be alienated. But some life assurers (and employers) argue that the money belongs to the fund itself, to reward only employees who reach retirement age with a particular employer or industry.

The issue urgently needs to be resolved. Since it involves individuals' retirement hopes, it would be best if it were decided by what is understood in the UK as a court of equity. SA labour relations, post-Wiehahn, have been administered on the equity principle and this could be applied to the pensions controversy. The Labour Court could be asked to rule on the issue, which is becoming important enough for such high-level clarification to be necessary.

The extent of disagreement is considerable. Several life assurers, all of which manage pension funds, questioned by the *FM* about fund ownership, came up with as many different answers. Liberty Life admits that there are at least two plausible answers.

Few people ask about pension rights when they accept employment. Usually they are just told they must join the pension fund and get a rule book, which few read. If they quit the job before retirement age, they are repaid their own contributions plus a rate of interest which is not market-related — and the payout is taxable. The employers' contributions usually remain in the fund, boosting the pension benefits of those (often, sadly few) members who do eventually qualify.

Normally an employer undertakes to put a percentage of the employee's package into the fund; the employee has to contribute a similar or lesser percentage. Once the money is in the fund, it is the trustees' duty to administer it.

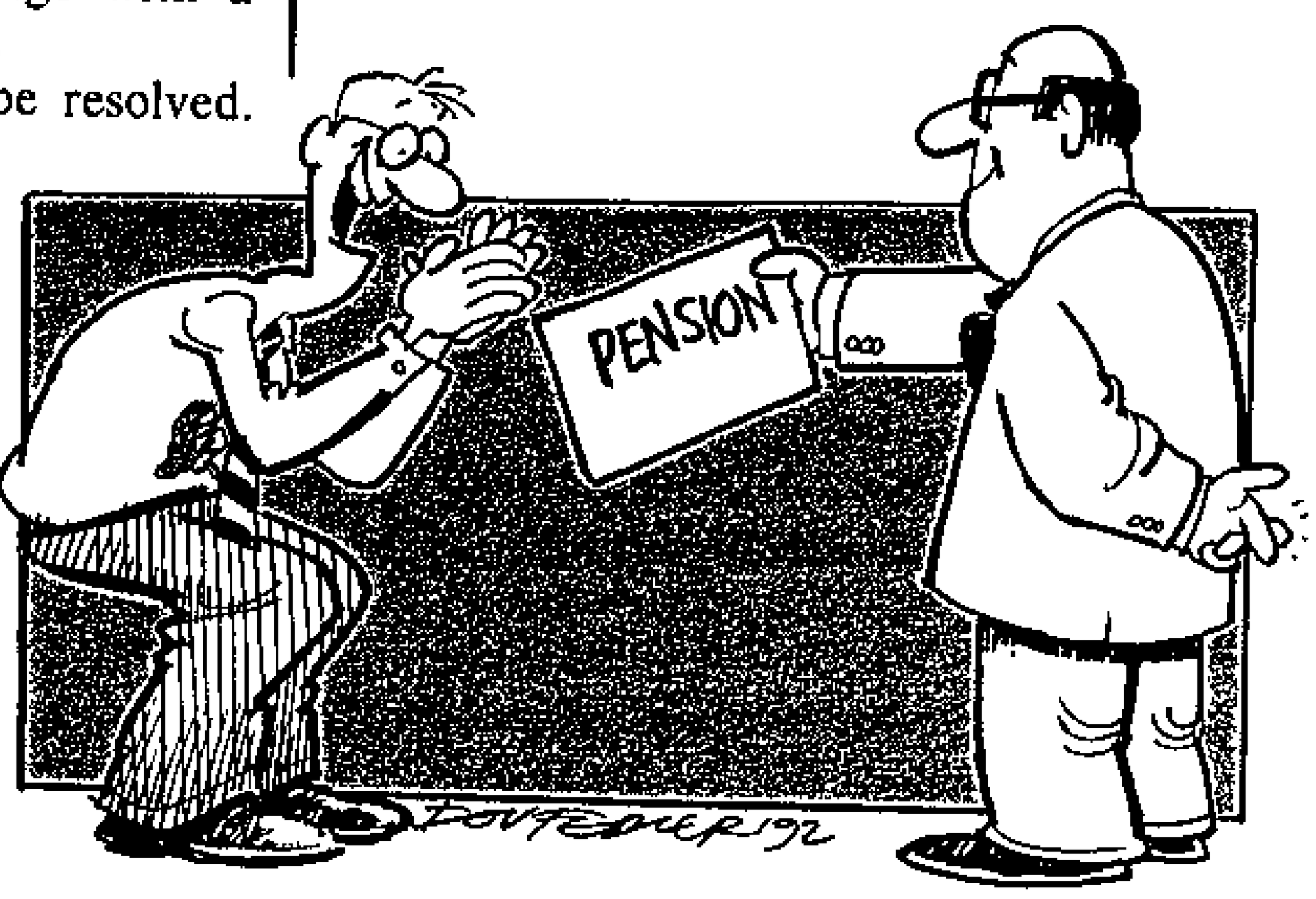
Trustees were by convention appointed by management, though this practice has been altered since the 1979 labour dispensation, which recognised union power.

Two years ago, an investigation by the Life Offices Association decided that any surplus a fund may have belongs to the fund — not to anyone who helped to create it.

If this is generally accepted, it would cast doubts on the legitimacy of the common UK practice of employers whose funds are found to be in surplus giving themselves a "holiday" on their own contributions while continuing to levy employees. Any relief should surely be shared by employer and employee.

More frequent in the US, perhaps, is the even more questionable practice of companies — especially if in financial difficulties, or after takeovers — clawing back pension fund surpluses into their own pockets.

Concerns over who "owns" a pension fund and unhappiness over the rigid yet uncertain benefits they offer, have contributed to another local development: the spread of provident funds, again with union pressure, which clearly define the contributions from employer and employee, definitely belong to the employee and pay out fully in cash on departure, irrespective of an employee's age or length of service.



The *FM* asked leading life offices questions: specifically, is a retirement benefit deferred compensation?

Liberty Life responded that it depends on how retirement funds are viewed and the contract entered into by an employee. "Two basic paradigms apply. The first is that contributions by both employer and employee are part and parcel of the employee's package, to which he has a vested right (as in UK law). The second is that an employer has a moral duty to provide for his employees and no right vests in an employee unless he retires from that employer.

"The first paradigm supports the contention that a retirement benefit is deferred compensation; the second does not."

It is a vexed issue, Southern Life agrees, "connected with the notion of a pensions promise, which is no clearer. This notion seems to have been assumed in certain government circulars on pension funds and unions support the concept."

Sanlam says it could be argued that employer contributions to defined contribution funds are deferred compensation gradually earned during membership and held in trust until a member reaches normal retirement age. It seems, however, that the same cannot be said of defined benefit funds because there is no direct link between contributions and benefits.

"The offer of a retirement benefit is seen by some as part of the total remuneration package. Especially in the higher age brackets, retirement benefits are an important factor in deciding on employment options. The view that retirement benefits are paid voluntarily for humanitarian or moral reasons does not seem valid where the employer creates the expectation of payment of retirement benefits."

The *FM* also asked whether, in an employee/recruit interview, the offer of retirement benefits constitutes a contract.

Sanlam feels that the promise to pay a pension can be regarded as a term of a service contract. "The nature of the term could vary . . the average employee does not discuss his retirement benefit in detail during the interview or when signing the contract. Normally, the contract stipulates only that the employee agrees to join the pension fund and be bound by its rules. To the extent that the rules empower the fund to amend the rules — which is normally the case — the average employee cannot be certain what his retirement benefits will be."

Liberty Life comments: "Clearly, the contract of employment is important. Should the employer make certain promises regarding the vesting of retirement fund proceeds on withdrawal or resignation, this would constitute a form of deferred pay.

"Should no such promises be made, the fund rules establish the position. If they provide for benefits on withdrawal or resignation, these would constitute deferred pay.

"It is, however, possible that not all contributions will vest in a member if he resigns. It is a requirement of the Registrar of Pension Funds that on withdrawal or resignation, a member receives at least his own contributions plus interest."

Southern adds that reference is seldom made to the pension fund other than that an employee must join it. This may be an implied term or part of a written contract. It is difficult to see the "promise" contained in this as constituting a right to a specific benefit or to specific contributions from the employer; it seems to be no more than a right to membership of the fund.

Do pension fund members have a right to know, perhaps annually, what share they own in the totality of the fund?

The Sanlam view is that, strictly, a member does not own any share in a pension fund. The fund itself owns all its assets. Until a benefit is paid to a member under its rules, a member has only an expectation — or possibly a contingent right — to receive a certain benefit in future.

Says Southern: "The pension fund cannot be identified with either the employer or the body of employees. Whatever 'promise' may be made in an employment contract, the fund is a separate entity with its own governing principles. It should be seen as a vehicle for funding whatever retirement benefits are agreed on in the employment contract."

Liberty adds: "The Pensions Fund Act gives every member a right to examine the rules, the last revenue account and balance sheet and the last report — if any — by a valuator. Other than that, the member is not entitled to any information."

Liberty concludes, however, that the premise that retirement funds do constitute deferred pay is likely to gain popularity.

What Liberty calls the two paradigms are so incompatible that the issue cannot be swept under the carpet. As we move into the new SA, which — like it or not — is likely to impose more social responsibilities on the corporate sector, provision of pensions and ownership of pension "rights" are sure to become areas of burning concern.

The traditional practice, whereby early leavers or those who often changed jobs lost out, in effect subsidising the pensions of long-serving employees, will no longer be acceptable. The corollary of this, of course, is that most pensions paid to long-serving ex-employees are individually under-funded; so if early leavers are to be treated more equitably, the overall funding burden will become more onerous — which will mean that, between them, total employer and employee contributions will have to increase.

Insurers, beholden to boards of trustees who give them money to invest, tend to be cautious in their views. But all know, and quote, the Barber case, which Peter Milburn-Pyle, of consulting actuary Alexander Forbes, sees as a signpost. "At issue before the European Court of Justice," he explains, "was whether pension funds could legally provide benefits for male members that differed from those offered females."

In the end, the court apparently settled a different issue when it ruled that "the concept of pay . . . comprises any other consideration, whether in cash or in kind, whether immediate or future, provided that the worker receives it, albeit indirectly, in respect of his employment from his employer."

So the European Court considered pension benefits deferred pay and that — though not enforceable in SA — seems persuasive and logical.

Milburn-Pyle also examines a fashionable development of this argument: "It has been suggested that if an employer did not maintain a pension or provident fund, he would grant higher pay equal to the fund contributions he would otherwise have to make. Therefore, employer contributions represent pay in a different form, whose benefit is received at a later date."

But Milburn-Pyle notes little evidence that payment in lieu of pension is widespread. So, "while in due course, the principle that the benefit constitutes deferred pay may gain ground, it is difficult to see how, on any grounds of logic or acceptability, the principle that employer contributions constitute deferred pay can be sustained."

The problems of recognising the contributions as deferred pay are, he elaborates, enormous, with implications for benefit design, disposition of assets, the level of financing of funds and their administration. Employers — or their appointed managers — would have to communicate regularly with employees, or their unions, to let them know their rights.

All the arguments can only confuse the average pension fund member. Certainty is needed; and should this force many pension funds to rewrite their rules, or employers to reconsider funding methods and amounts, so be it. ■

LEADING ARTICLES

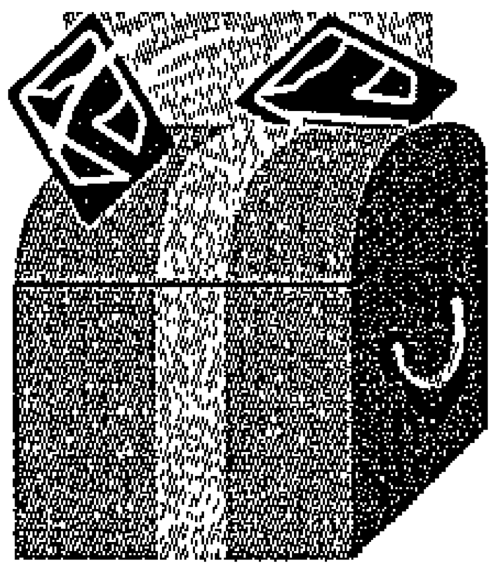
STANDARD BANK INVESTMENT CORP

FM 18/9/92

When a plan comes together

58

Latest strategic moves are a challenge for banking dominance in the Nineties



In 1987, Eddie Theron went to London. It was soon after financial sanctions were imposed on SA and Theron — at that time deputy to Standard Bank Investment Corp (SBIC)'s then group MD Conrad Strauss — was to spend most of the next five years running SBIC's representative office in the British capital.

The decision to send across an executive of his seniority was taken with a dual objective in mind — to build international contacts and prepare the ground for an international expansion when sanctions fell away.

In recent months, several SA banking groups have been expanding offshore. First National Bank (FNB) is negotiating to acquire a London merchant bank, Henry Ansbacher. Investec has acquired a commercial bank, Allied Trust Bank, from Barclays Bank Plc.

But SBIC, working confidently from the base established during the late Eighties, has moved on several fronts. This year, the subsidiary, Standard Bank London Ltd, became the first SA bank to be granted a banking licence in the UK since the moratiorium on SA debt repayments in August 1985. In May, SBIC acquired, for £10m, British merchant bank Brown Shipley Holdings, which is active in two international financial centres, Jersey and the Isle of Man.

In July, came confirmation that SBIC is negotiating to take over the African arm of ANZ Grindlays Bank, a subsidiary of the Melbourne-based ANZ. Details of this deal have not been disclosed, but if successfully concluded it would set SBIC up in eight African countries.

Chairman Strauss ... *a concentration on roots*

This week brought another milestone. Senior executives were in the UK for the official opening by Strauss of SBIC's new London subsidiary, at Cannon Bridge House. This is the flagship of an international network that also includes a branch in Taipei and representative offices in Hong Kong and Zurich.

This won't create a unique situation. Amalgamated Banks of SA (Absa) and Nedcor, for example, had banking licences in London before the debt moratorium was imposed. But it again demonstrates the capacity SBIC has shown over more than a decade to nurture long-term plans which it carries purposefully to execution.

Theron

Ratings of banking sector shares have fluctuated widely since the early Eighties, influenced partly by external factors such as swings in monetary policy and the debt moratorium. But since 1983, the stock market has taken an unequivocal view on which is the leading bank share (see graph).

A large, broadly based banking group, SBIC was regarded as a rather dour performer in the Seventies, when it rarely did much better than Barclays (now FNB). The share was rated broadly in line with the sector. Concrete reasons for SBIC's ascendancy are not easily pinpointed, but there are its high quality and continuity of leadership. Big mistakes have been avoided.

But much has changed in the banking environment. There has been extensive rationalisation, including the merger of Nedcor and SA Perm; and, more important, the emergence and expansion of Absa. FNB, too, is adopting a more aggressive stance. So much has changed, in fact, that it has to be asked how long SBIC will be able to maintain its leadership of the sector.

"If competitors were in some disarray in the past, that factor is not going to play a role for us in the future," says Mike Vosloo, MD of the commercial bank, Standard Bank of SA (SBSA). "There's more focus, the philosophies are emerging and I don't think the pitfalls of the past will easily recur. There are some tough guys out there in reasonable shape."

In SBIC's favour, however, is the momentum built up during its years of success. That starts at the top. Theron believes the main reason for the performance has been a team of people who have a highly disciplined approach, and a set of core values. Given the number of management upheavals among competitors, the continuity of senior executives and the depth of talent and experience among them must have been invaluable. Henri de Villiers, who retired as chairman at the AGM last April, was MD of Standard Merchant Bank before becoming group MD in the early Eighties and then chairman after Ian McKenzie retired.

He was succeeded in the chair by Strauss (56), who was group MD during De Villiers' tenure and, before that, ran the commercial bank. Theron (50) also rose through the merchant banking route. After starting his career at Central Merchant Bank, he helped Standard establish its new merchant bank and became MD of SMB in 1977 and chairman in 1983.

As a banking analyst points out, the senior managers such as De Villiers, Strauss, Theron and Vosloo are all "exceptionally sharp, no-nonsense guys with strong educational backgrounds . . . who don't spend time thinking about golf tournaments or acquisitions."

With that advantage, SBIC could concentrate on getting the basics right. It was probably the first of the banking groups to install really successful technology systems — a process overseen in the late Seventies by former senior GM Bill Jones. These systems have been steadily modernised.

Another important strength, in Vosloo's opinion, was that the group was ahead of competitors in taking a focused view of its markets. "We have our market segments conceptually in very clear focus," he says. "They are systemically differentiated and we can concentrate on serving them. It is particularly essential to have that in SA. There is a momentum there and it will progressively build over time."

Solid profit growth and conservative asset management have left SBIC with a comfortable capital position. Already the risk-weighted capital:asset ratio complies with the 8% level stipulated by the Deposit-Tak-

FM 18/9/92.

THE ECONOMY

A slight change of tune?

It may be clutching at straws, but there is at last hope that — however much the real economy remains mired in recession — the attitudes of some important players are changing.

And not just in the white establishment. Before leaving for Zambia this week, Nelson Mandela told *The Star* he's "deeply concerned" about the state of the economy, following a "frightening" report from Finance Minister Derek Keys. If Keys achieves nothing else, persuading the leader of the ANC of the importance of a healthy economy would on its own justify his appointment.

Let us hope Mandela will be sufficiently concerned — and able — on his return from Zambia to quash such damaging absurdities as rent and tax boycotts and to impress on the Marxist activists the long-term harm that mass action will do to the already slim chance under *any* government of creating enough jobs for the lost generation.

Meanwhile, those who look for coded messages also detect a distinctly more up-beat tone in Reserve Bank Governor Chris Stals's interview with Reuters this week than in his annual address only three weeks before.

Then, he talked about inflation remaining "stubbornly high"; now, though still emphasising the need for financial discipline, he's talking positively about a return to single-digit inflation next year, for the first time in 20 years. Stals claimed that the Bank opted for a "relatively soft approach" to get inflation down, rather than adopt harsher measures that might have worked faster but would have caused more hardship — especially given the recessionary environment.

It could be argued that it might have been more painful — but would have started the cure sooner — if we'd swallowed all the nasty medicine at once. But the immediate point is, these are not the remarks of someone who's getting ready for a further tightening of the screws.

Of course, none of this changes the fundamentals. The economy won't pick up until (a) there's a political settlement at home and (b) world markets for our key exports improve.

We have no control over the latter requirement, but the former lies entirely within our own power. At the same time, the *FM* has argued repeatedly and consistently that we cannot just sit back and wait for a political settlement before we tackle economic issues.

Framing a constitution, by nature, means arguing about specifics and details. Economic policy can be met by a broader, philosophical approach. If the NP and ANC could agree in principle that a new government will follow a broadly liberal, free-market approach, at least we would be able to take advantage of it when the other conditions for economic revival fall into place. ■

ANC/SACP ALLIANCE

Red for danger

FM 18/9/92

It has never been easy to work out where the ANC ends and the SA Communist Party begins. In theory they are two separate organisations in alliance; in practice, for historical reasons, there are several key leaders who occupy senior posts in both organisations. To complicate matters further, there is also an overlap with Cosatu, the third group in the alliance.

Which leader is wearing which hat when? The answer may not matter when everyone in the tripartite alliance is emotional and angry with government. But when negotiations resume — whether on the subject of violence, the transition or a constitution — no real progress will be made if the ANC is continually hamstrung by divided loyalties.

ANC president Nelson Mandela's image of being at one with the communists may well strengthen the hand of President F W de Klerk among moderate blacks when elections are held — yet the ANC remains in thrall to romantic revolutionaries.

Frederik Van Zyl Slabbert argued forcefully last week in *Vryeweekblad* that the ANC is "strategically the prisoner of its most coherent and questionable (*aanvegbare*) alliance partner, the SACP. The time has now come for the alliance to decide what profile it will offer voters in an election."

If there are differences between the ANC and the SACP on vital issues such as mass mobilisation, democracy and the economy, says Slabbert, "it is only fair that the voters must know . . . and if there is no difference, it is high time that we stopped the laughable pretence that there is one. The times are too serious for us to be misled by this kind of Mickey Mouse revolutionary politics."

Slabbert continues: "It does not help if individual members of the ANC say that militant communism is not the official standpoint of the ANC. What is happening in practice indicates that, for the present, the SACP and the communist-controlled unions are the most coherent and organised faction . . . the rest of the alliance is basically powerless against them."

Chris Hani is both secretary-general of the SACP and a member of the ANC's National Executive Committee. In which capacity did he, with the most intemperate language, exhort the mob near Bisho to march and overthrow the Ciskei leader, Brigadier Oupa Gqozo? And dismiss negotiations as unnecessary and petty?

It is on the clarification of such issues that Mandela may soon have to stake his political career — and, along with it, the future of the country. ■

ing Institutions Act for 1995, so a rights issues will not be needed unless something large and unforeseen comes up. Nothing that would require additional equity capital is planned now.

Acquisitions have not been a part of SBIC's culture in recent times and it seems a radical change to this approach is improbable, despite the talks with ANZ Grindlays A due diligence investigation is being carried out on the Grindlays assets. If that does not uncover major problems, it is expected a deal will be struck shortly, immediately giving SBIC branches in Zimbabwe, Kenya, Uganda, Botswana, Zaire, Zambia, Ghana and Nigeria. There are existing subsidiaries in Botswana, Namibia and Swaziland.

Theron says major foreign deals are unlikely to follow. And, despite speculation that occasionally surfaces, an acquisition of all or part of SBIC's former parent, Standard Chartered, is "not on the shopping list." No attempt will be made to compete head-on with the major international banking groups, or to compete in the UK domestic banking markets. "It would be foolish for us to think we could go to the UK and compete with, say, a National Westminster in commercial banking, or with a Warburg or Schroders in merchant banking," says Theron.

Instead, the offshore expansion is aimed primarily at facilitating what is seen as an inevitable outward expansion by SA corporates with sanctions dismantled. As Theron puts it, in pursuing its activities abroad, SBIC will concentrate on its roots, its established strengths and its client base — all of which are South African.

In London, for example, it is involved in such activities as trade financing, loan financing, trading in SA securities and moratorium debt and in seeking ways of facilitating the offshore development of local clients. A broad exposure elsewhere in Africa is being sought because SA is moving closer to assuming its natural role as the financial centre of sub-Saharan Africa.

In Africa, this will mainly mean financing trade flows. In London, the horizons are broader, as there may be opportunities to apply specialised expertise or to gain experience with swiftly developing markets such as trading in derivatives. That experience might usefully be drawn upon at home.

Far from envisaging any radical re-orientation, Theron contends that SBSA will remain the engine room and the anchor of SBIC. SBSA is by far the dominant profit source, having made after-tax profit last year of R384,9m (R309,3m from commercial banking and R75,6m from the leasing and instalment arm Stannic) of a group total of R523m. If the Grindlays deal doesn't come off, he adds, that need not matter. "One thing we are good at is starting new businesses and building them up."

There have been some striking examples at home. Some years ago, a decision was taken to go into the homelands market. After-tax profit of Standard Bank of Bophuthatswana has more than tripled from R6,8m in 1986 to R26m in 1991. There was also the rapid penetration of the home loans market, a sector in which Barclays had pioneered the entry by banks in about 1982

SBIC had a foothold in this market through Standard Building Society, but in the mid-Eighties, this operation was being run down. When new legislation allowed banks and building societies to compete on an equal footing, SBIC began to expand aggressively on its own account.

After growth of 25% in 1990 and 31% in 1991, by April this year the home loan book had ballooned to R8,9bn, giving SBIC a market share of about 13%, third behind Absa's 42% and Nedcor's 18,5%; FNB is fourth, with about 10%. Vosloo says SBSA will maintain a "competitive rather than a maintenance approach to this market until its client base is fully home-loaned."

Central to the growth of the operations has been the comparatively high profitability of the group's banking activities. SBIC, thanks to favourable market positioning, particularly in retail banking, and its efficiency in this area, has long produced better interest margins than its rivals.

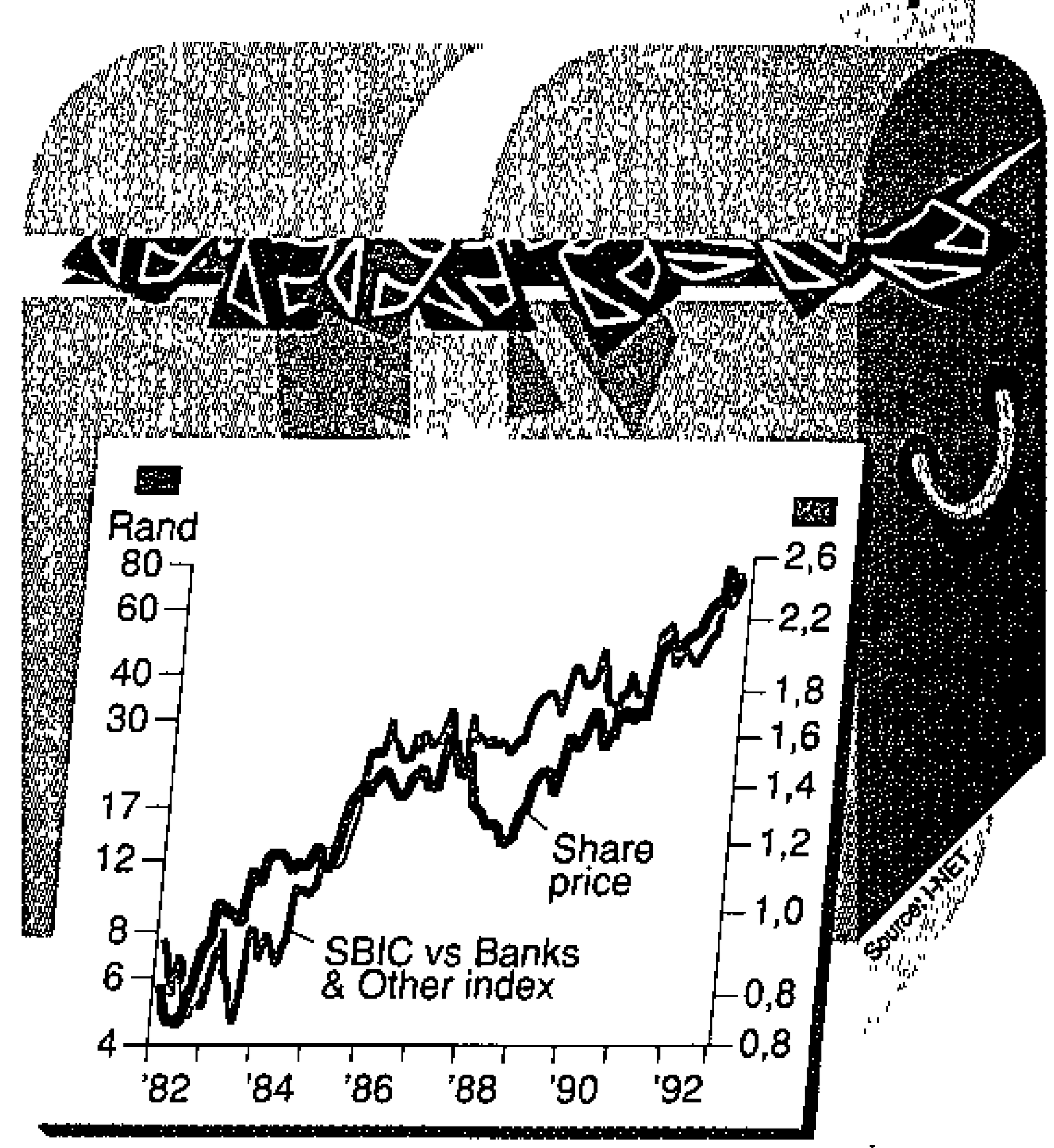
The trend in non-interest operating expenses has been less impressive. Operating expenses (less bad and doubtful debt provisions) grew 23,3% in 1990 and 20,4% in 1991. Staff costs rose 18,3% and 21% respectively, partly because more qualified staff are rising to higher-paid jobs. Spending on technology is also in a cyclical uptrend. Work has been in progress since 1986 on developing a new core system. This, says Vosloo, will simplify much of what goes through the branches, with benefits expected by 1995. After that there should be a proportional decline in technology expenditure.

This cost trend might well bring benefits later. But analysts believe the biggest threat

SBSA'S Vosloo . . . *'the philosophies are emerging'*

Holding the lead

Standard Bank Investment Corp



to SBIC will come from Absa, whose CE Piet Badenhorst is pushing through a ruthless rationalisation aimed at making Absa the lowest-cost producer within a few years. Its strategy of becoming the high-volume, low-unit-cost bank is well advanced. But that does not automatically imply best profitability.

As Theron points out, there are two sides to the profit equation. As well as the high-volume, low-margin business, he says, there are the "very important" low-volume, high-margin activities. And he adds that technology must be effectively applied.

Another important factor affecting prospects for SBIC's operations and share price is the 50% stake in unlisted Liblife Controlling Corp. This has been an excellent investment, in income and value. Liberty's latest ordinary and special dividend brings in some R50m cash for SBIC; the holding is now worth roughly R14,18 per SBIC share. Spice is added to the share price by the relationship with Liberty and the market's recognition that SBIC will appoint the next chairman Some foresee a role for the comparatively youthful Strauss.

This, with the tight institutional shareholding, has helped push the price to patently unrealistic levels. Even with the continued strong earnings growth — EPS were up 20,1% both for the 1991 year and in the June interim results — the share is hardly a buy at R69, on a 2,4% yield and 13,2 p:e. SBIC's growth in EPS has historically been linked to the trend in prime rate, suggesting a slower pace of, say, 14% growth in the year ahead.

There seems every prospect that SBIC will remain the top-rated banking group for a while yet. That should add to the momentum before the real battle is joined with competitors, especially Absa. The outcome will decide who will assume leadership of the banking sector for the next decade. *Andrew McNulty*

TIME HOLDINGS (58) FM 18/9/92

Restructuring plans

Activities: *Project management, property development, construction and life assurance.*
Control: *C T Hibbert 51%.*
Chairman and Group MD: *C T Hibbert.*
Capital structure: *38m ords; 3,3m conv red 6% prefs; and 9,9m conv red 14% prefs. Market capitalisation: R9,5m.*
Share market: *Price: 25c. 12-month high, 60c; low, 25c. Trading volume last quarter, 243 000 shares.*

Year to Dec 31	**'88**	**'89**	**'90**	**'91**
ST debt (Rm)	5,6	13,2	14,9	27,2
LT debt (Rm)	1,9	1,8	1,9	11,7
Debt:equity ratio	0,42	0,48	0,45	0,56
Shareholders' interest	0,30	0,34	0,34	0,34
Int & leasing cover .	14,0	4,1	2,3	1,9
Return on cap (%) ..	20,3	13,5	4,9	*8,9
Turnover (Rm)	182	231	†275	†281
Pre-int profit (Rm) ...	12,3	10,7	*10,8	*14,3
Pre-int margin (%) ..	6,7	4,6	*3,5	*3,5
Earnings (c)	26	25	7,3	†(25,8)
Dividends (c)	10	10	5	—
Net worth (c)	49,3	45,9	33,9	14,8

* Reflects continuing operations only;
† Aggregate operations.

More changes to the corporate structure of Time Holdings are on the way, after the group — which in 1991 posted its worst results since listing in 1987 — pulled back into the black in the 1992 first half.

Time Life, the relatively young and strongly performing life assurer, is at the centre of a restructuring, though details have not been finalised. Replying to market speculation that Time Life might be floated off, chairman and group MD Colin Hibbert says Time Holdings is in the middle of a corporate restructuring exercise and final details are not yet complete.

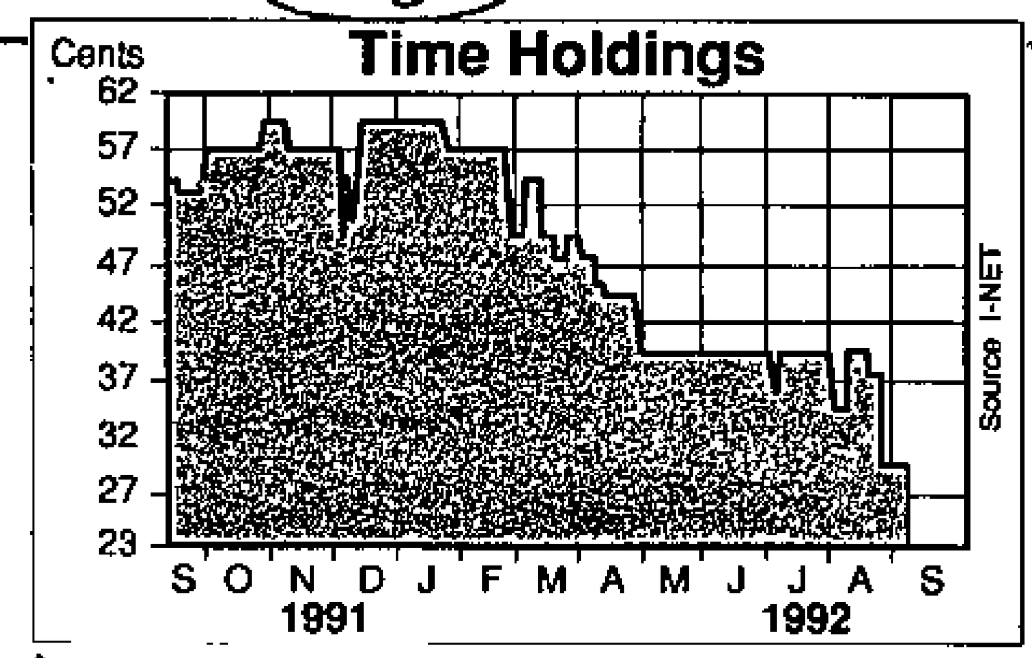
"The intention is to reduce debt and get

R24,6m at interim stage has been reduced by about R10m through the sale of commercial property assets, but debt reduction clearly remains a priority. Though one can only speculate now on what might happen to Time Life, the intention must be to reduce gearing.

It would be a pity if this means losing control of the assurance operation, which potentially is the most valuable long-term component of Time Holdings' business mix.

With the share price at a record low of 25c, nearly half net worth, an ordinary rights issue is probably not feasible. However, Hib-

(58)



bert says the group is looking at different instruments for recapitalisation. Over the past three years, Time Holdings has had two issues of preference shares.

While Hibbert is pleased with the return to profitability — EPS was 0,46c at the interim, after the year-end's negative 25,8c — he sees only modest profit for the rest of the year. Time Holdings does not declare an interim dividend, but it seems likely the full dividend will again be passed this year as the group conserves capital.

Much will depend on the present restructuring and what happens to Time Life. Hibbert says both the commercial property division and the Botswana property operations have been performing well and have been awarded major contracts. But some quite drastic action is needed to strengthen the balance sheet sufficiently.

Based on interim results alone, there seems little to suggest the share price will reverse its long decline. The restructuring could obviously affect this, though too little is known now to try to predict future movements. But that makes the share worth watching, in case future developments cause it to recover.

Shaun Harris

our interest charges down," he says. "There is considerable hidden asset value in our subsidiaries and we are looking at unlocking this."

Corporate restructuring was mentioned in the annual and interim reports and Time Life — which boosted premium income 44% to R12,1m at the interim and more than doubled life funds to R33,1m over the year — is the obvious candidate even though Hibbert says other subsidiaries might be involved too.

An earlier indication that the assurance operation might be separated from the rest of the group was an announcement last month that new corporate headquarters were being built for Time Life in Hyde Park.

Interest jumped 667% to R4,5m at the interim, as debt from the discontinued Time

Time's Hibbert ... *a plan to reduce debt*

Housing operation — sold to management for about R4m late last year — was transferred to the holding company's continuing operations.

Hibbert also confirms that Time Mining — whose turnover slumped by almost three-quarters to R2,3m at year-end — has been sold to management for an undisclosed sum, probably less than the R4m for which Time Housing was sold.

With mass housing operations discontinued, a substantial hole was left in Time Holdings' balance sheet, leaving the group in need of recapitalisation. Time Holdings, essentially a service organisation, did not have a strong asset base to provide support through the sharp downturn in the mass housing market.

Hibbert says the interest-bearing debt of

continued

Banks refuse to bow to Mayekiso

58

THE Council of South African Banks (Cosab) has refused to agree to a banking code of conduct put forward by the South African National Civics Organisation (Sanco), headed by Moses Mayekiso. WMail 18/9-24/9/92


Tony Norton

Cosab head Tony Norton ruled out what he said was "co-option" of the banking industry. The SA Perm, part of the Nedcor group, and heavily involved in the poorer end of the banking market, is so far the only bank to accept in principle Sanco's call.

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FINANCE

Good return on money

WMail 18/9-24/9/92. (58)

THE IDT has earned well over R700-million in interest since investing its R2-billion grant, and "unlocked" R1,225-billion from the public and private sectors for development.

Its own funds were granted 25 months ago in the form of government securities. Simply put, these are IOUs which promise to pay a certain sum at a future date, and pay interest in the meantime. They are easily convertible to cash.

The IDT spread its funds among six merchant banks, to be managed by their investment experts. The banks are ABSA, First National, Rand Merchant Bank, Standard, Syfrets and UAL.

IDT special projects director Jannie Kitshoff, who set up this arrangement, instructed investment managers to stick to gilt-edged marketable securities such as stock issued by Eskom, the Post Office and Transnet, and not take credit risks.

So far these investments have yielded more than R700-million, at a healthy average return of 18 percent per annum. They are also easily cashed in: 10 percent can be withdrawn on a month's notice.

The IDT Finance Corporation, set up to provide housing loans to poor people and with R400-million at its disposal, has identified 15 community organisations to help it disburse funds and manage repayments. It is also drawing in employers, who recover loans via payrolls.

The IDT has always known its R2-billion would not be enough to carry out its attack on poverty, so it has sought ways to tap other sources of finance.

It has used its funds as collateral to secure development investments by the private and public sectors, drawing an additional R575-million to 46 programmes already receiving IDT support. The private sector has also put a further R650-million into development projects as a direct result of the IDT's establishment.

In this way, the IDT has used its financial muscle to unlock another R1,225-billion for development. The IDT is also looking to overseas development agencies to partner it in funding South African projects.

Steyn, searching for funds for the longer term, has had several rounds of discussion with the South African government, and seen foreign governments, the European Community, the US Agency for International Development and the World Bank.

"We are hopeful," he says, "that either the IDT or some of the initiatives it has undertaken will receive support from a range of those committed to investing in the development needs of our society."

But international breakthroughs will probably have to await a transitional government.

"The World Bank contends that there has to be a genuine spark of legitimacy in governing structures. Then we as a development organisation will be able to enter into partnership agreements with international agencies that will enrich our capacity to make an impact on poverty," says Steyn.

Money back in time for Christmas?

JEAN LE MAY
Weekend Argus Reporter

SOME — but not all — Masterbond debenture holders could get a proportion of their money back before Christmas if an order granted in the Cape Town Supreme Court this week goes through unopposed.

Mr Justice Pat Tebbutt ordered that a basis of distribution proposed by the curators should be referred to all debenture holders for their approval. If the proposal is unopposed, a final order will be made on November 17.

Mr Horton Griffiths, administrative officer to the curators, emphasised that only debenture holders in schemes on which money had been recovered would be paid.

This excludes, for example, people with debentures in Fancourt, Club Mykonos and Marina Martinique.

But most others, including people with unallocated debentures, will be paid according to a complicated formula proposed by the curators if it is unopposed at the November 17 hearing.

All debenture holders should receive circulars within the next 10 days which explain the matter in detail.

There are 9 889 debentures holders with 15 000 investments.

The formula allows for debentures to be treated in three ways, according to whether bonds granted to borrowers were equal to, exceeded or were less than the amounts recorded in the register of investors.

'CCB brok

BRENDAN TEMPLETON
Weekend Argus Reporter

■ A senior Masterbond source has made startling allegations that millions of rand were filtered through CCB front-companies out of Pretoria Bank. The bank played a major role in the fortunes of the R600 million property investment company.

STARTLING allegations that millions of rand were filtered through CCB front-companies out of Pretoria Bank have been made by a senior Masterbond source.

Pretoria Bank played a major role in the fortunes of the R600 million property investment company which crashed shortly after the bank was put under provisional liquidation.

Since the fall of Pretoria Bank, details of lucrative kickbacks received by bank officials for approving shady loans have emerged.

The source believes many millions of rand were lost via the CCB fronts in this way. He has an intimate knowlege of Masterbond's workings and took part in decision-making at the highest levels of the company.

Masterbond intended taking over the bank last year, but balked when it discovered the bank's bad debts exceeded R40 million. The bank is now under curatorship.

Police and the Nel Commission have confirmed that the CCB fronts were bank clients.

However, the bank's curators have not unearthed any evidence of CCB links with it after 12 months of administering the institution's finances, said a source.

This may have dramatic implications for the police investigation into the bank because it is believed they are awaiting the curator's report before deciding if any further investigations are necessary.

The curator's source also expressed surprise when told that former bank director Mr Stan Lee worked as a financial staff officer for the CCB.

Mr Lee had not told them this during the curator's inquiry into the bank, he said.

Charges are expected to be laid soon against several people in connection with fraud in Pretoria Bank, but, police say, as far as they know none of them is connected in any way with the CCB fronts.

A police spokesman said the CCB companies were not being investigated in connection with fraud at the bank. He added that police would not hesitate to act if irregularities did surface and called on anyone with information about fraud to hand it over to the police.

The Masterbond source claimed the bank's collapse sparked off a series of events which eventually brought about the fall of Masterbond.

Advocate Hendrik Clem, who is assisting the Nel Commission's investigation into Masterbond, confirmed the CCB front-companies' link with Pretoria Bank.

"They were clients of the bank. They had made deposits, so it does not necessarily mean they were taking money illegally just because they made withdrawals.

"If anybody lost money because of them, I'm sure they can claim it back from the Department of Defence.

"I know some of the CCB fronts made money and some didn't. But, it wasn't their primary function to make money."

Mr Clem would not give names of any of the front companies, but promised to investigate the claims.

The source said Masterbond intended taking over Pretoria Bank to comply with the new Deposit Taking Institutions Act.

Masterbond had agreed to take over the bank's bad debts which it was told in November 1990 amounted to about R6 million.

However, on the eve of the takeover on April 12, Masterbond directors were horrified to discover that the debts exceeded R40 million.

Shortly afterwards, the Masterbond source said, Pretoria Bank and Masterbond director Lawrence Perrin told the other directors he believed the debts had been caused by money going to CCB front-companies.

Masterbond still hitting hard

JEAN LE MAY
Weekend Argus Reporter

IT has been a desperately hard year for many Masterbond investors.

Three of them, left penniless, committed suicide. Others, although they were past retiring age, found work.

Still others depended on friends and family for financial support.

A few became so desperate that arrangements were made for them to be helped by the Department of Social Welfare if they had no other source of income.

This help has proved meagre:

A Cape Town woman was offered R35 for groceries and was so humiliated by cross-questioning from junior officials that she never went back.

Weekend Argus was approached this week by several people in the Eastern Cape who had been affected by the Masterbond crash. These are their stories:

■ Mrs Yvonne Dickinson, 64, of Port Elizabeth is a widow with an incurable disease.

Part of her investment, in Phinda, was due to mature a week after the crash.

Phinda is one of the projects which has been "saved" and Mrs Dickinson will get most of her money back, but up to now she hasn't had a cent.

Other investments to the tune of R64 000 are in Club Mykonos, Fancourt and in unallocated debentures.

■ Mr Rex Guest of Port Alfred, 75, is a former Zimbabwean whose pension has been reduced by 50 percent due to the unfavourable exchange rate.

His investment was in Phinda so he'll get most of it back, eventually.

■ Other former Zimbabweans affected by the crash are Mr and Mrs Tony Fleming who now live in Port Alfred. Mr Fleming, 81, was a senator for seven years in the then Rhodesian government.

He told Weekend Argus that now he and his wife depended almost entirely on family and friends.

■ Mr Terrance Venn of Port Elizabeth was comparatively well-off until a year ago. Then came the crash and his R148 000 investment counted for nothing.

IN THE DARK: Electricity will change the lives of township residents

Banks funding small business

South 19/9-23/9/92. (58)

WHILE civics campaign for better and easier access to bank finance for grassroots communities, five major banks have joined forces with the Small Business Development Corporation to raise over R500 million over the next three years for small business.

Obviously aimed at combatting rising unemployment by encouraging small businesses to expand operations, the scheme is being underwritten by the government to the tune of R20 million.

The scheme underwrites a portion of the risk to which banks are exposed when considering small business loans. This enables bankers to retain their normal credit standards while reducing the collateral which small businesses usually have to supply.

To date, the scheme has provided loans worth R28 million to more than 130 small to medium-sized businesses, giving an average loan size of about R200 000.

The maximum loans allowed are for R400 000. A fee of 0,75 percent a year is levied on the amount granted and the interest rate cannot be higher than the prime overdraft rate plus four percent.

The banks involved are the African Bank, Boland Bank, First National Bank, Nedbank and Standard Bank.

'Millions filtered from Pretoria Bank

Masterbond – the CCB connection

(58) (280)

BRENDAN TEMPLETON

STUNNING allegations that millions of rands were filtered through Civil Co-operation Bureau (CCB) front companies out of Pretoria Bank have been made by a senior Masterbond source. STAR 19/9/92.

Pretoria Bank played a major role in the fortunes of the R600-million property investment company which crashed shortly after the bank was put into provisional liquidation.

Since the fall of Pretoria Bank, details of lucrative kickbacks received by bank officials for approving shady loans have emerged.

The source believes many millions of rands were lost via the CCB fronts in this way. He has an intimate knowlege of Masterbond's workings and participated in decision-making at the highest levels of the company.

Masterbond intended taking over the bank last year, but baulked when it discovered Pretoria Bank's bad debts exceeded R40 million. The bank is now under curatorship.

Police and the Nel Commission have confirmed that the CCB fronts were clients of the bank, but the bank's curators have not unearthed this fact after 12 months of administering the bank's finances

Evidence

A source close to the bank's curators said they had not unearthed any evidence of CCB links with the bank.

This may have dramatic implications for the police investigation into the bank, as it is believed they are awaiting the curator's report before deciding if further investigations are necessary

The curator source, who did not wish to be identified, also expressed surprise when told that former bank director Stan Lee worked as a financial staff officer for the CCB.

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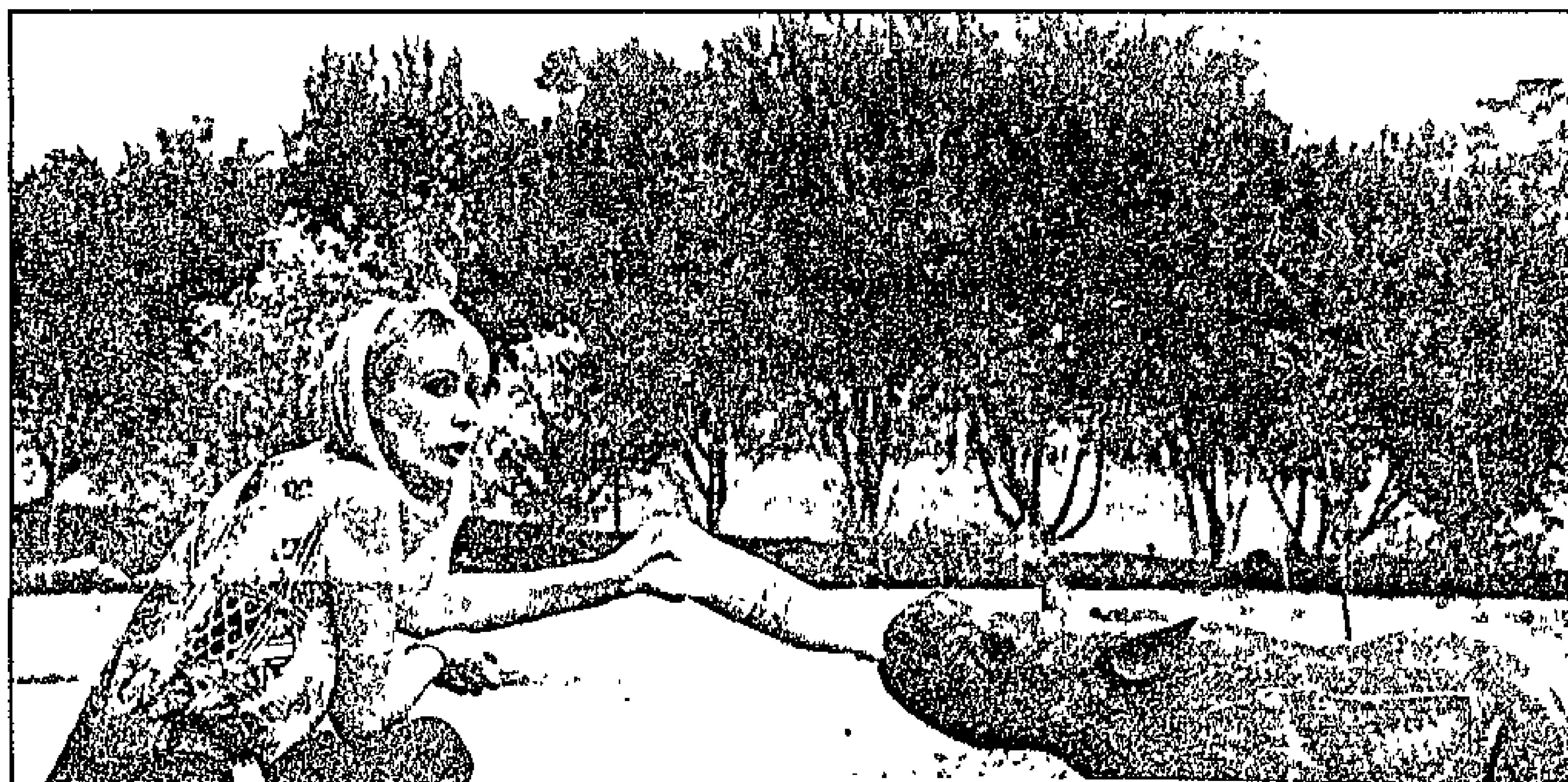

"mother", IKE BAKER

Masterbond

STAR 19/9/92 (58) (280)

● FROM PAGE 1.

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Masterbond had agreed to take over the bank's bad debts, which it was told, in November 1990, amounted to about R6 million.

But on the eve of the takeover on April 12, Masterbond directors were horrified to discover that the debts exceeded R40 million.

Shortly afterwards, the Masterbond source said Pretoria Bank and Masterbond director Lawrence Perrin informed the other directors that he believed the debts had been caused by money going to CCB front companies. "Perrin discovered (the funds were going to the CCB) at the end of 1990 and it was after April 12, after the bad news of the R40 million, that he said (to the directors) that the money had gone into the CCB."

Another employee at the bank had confirmed what Perrin had told them, he said.

Perrin would not comment when approached by Saturday Star. He said he had passed on all his information to the Nel Commission, which is investigating the Masterbond collapse. "I don't believe anything will be achieved by speculating in the press," he added.

Clem was also not willing to speak about Perrin's evidence because the Nel Commission had not started its hearings.

A former employee of Special Forces, Stan Lee, who was a director of Pretoria Bank, denied passing money on to CCB front companies. He told the Saturday Star that he was a financial staff officer with Special Forces before joining the bank.

"I know a whole lot of people are speculating, but the CCB got all its money out of the Special Funds Account. Pretoria Bank did not supply it with money.

"Someone in Pretoria Bank did come up with a weird idea earlier on, but we never implemented it," he said. He would not elaborate.

Another Pretoria Bank director, Piet Strydom, admitted during an inquiry held in terms of the Companies Act last year that he took kick-backs from companies in return for loans.

ROY ANDERSEN: Maintaining ethical standards a challenge

Police on trail of other scamsters

S/Times (BUSS) 20/9/92 58

By ZILLA EFRAT

CHARGES against other members of the financial community could follow this week's fines on two former stockbrokers involved in share-dealing irregularities.

But attempts by the JSE to bring infringers to trial have so far failed. Many brokers believe that irregular and insider trading will not be stamped out until there is an open trial and conviction.

This week former Ed Hern Rudolph brokers Kenneth Fouche and Andre Coetzee paid admission of guilt fines of R200 000 for 200 statutory offences in dealings on behalf of Old Mutual and four other institutions.

There had been fears that not all the details of this scam, uncovered early last year, would emerge.

This week's announcement that the case would not go to trial revived concern.

However, the two men are now expected to assist in prosecuting others involved in the same scam.

Investigations are almost complete and will provide the basis of the State's case against other institutional dealers, says a Department of Justice source.

In addition, the case against former Frankel, Max Pollak, Vinderine stockbroker Greg Blank goes to the Supreme Court next month.

Regret

The JSE, in an uncharacteristic move, distanced itself from the outcome of Mr Fouche's and Mr Coetzee's case.

It said it regretted the State's decision not to proceed with the trial of the two, and in particular to withdraw the charges of common-law fraud against them.

"The committee believes that it would have been in the interests of the investing public to hold a trial thereby enabling all the facts to be disclosed," the statement said.

The JSE also believed the trial of the two men would have facilitated its own internal disciplinary investigations into the matter.

JSE president Roy Andersen said at a banquet this week that one of SA's biggest challenges was to maintain ethical standards.

Mr Andersen said the JSE had taken the controversial step of issuing a statement about the decision not to take the two men to trial because it did not believe the decision was in investors' interests.

Members of the investment community are also believed to be unhappy about the outcome. The fines total less than the R650 000 estimated made through illegal dealings, although some of the takings could have passed into other hands.

SUNDAY

Second-hand life policy trade soars

(58)

S/TIMES (BUSS) 20/9/92.

By TERRY BETTY

THE second-hand market in assurance policies has blossomed. Long-term policies worth at least R1-billion will change hands this year.

Life-assurers expect a peak in lapses and surrenders of long-term contracts.

Sanlam senior manager, product promotion, Hanna Boeke says 772 000 policies lapsed or were surrendered in 1991.

Some sources believe almost a million more will be cancelled by the end of this year.

It is the norm for people to cancel policies in hard times because they cannot afford the premiums or need the savings.

Large

This recession has caused 50% more policies to be abandoned than in the one which ended in 1986.

This does not include policies sold on the second-hand market, most of which have surrender values ranging from R1-million to R100-million.

Brokers' commissions on deals can be large. Some are said to earn more than R1-million a deal. That is why many people operate only in the second-hand market.

This huge business is secretive about its activities. It has come in for sharp criticism by some who believe it is on the borderline of being ethical.

Sanlam regional general manager Johann Treurnicht says that although it is legal, it is not moral.

He believes the odds are usually weighed in the buyer's favour, the seller being tempted with large amounts of money. The sale price ranges from 3% to 15% more than the seller would get if the policy was surrendered to an assurance company.

Mr Treurnicht says few people realise they lose their life and disability cover at the same time. They will pay far higher premiums to take out a new policy.

He suggests that sellers pressed for cash should reconsider spending, or restructure the policy.

Pride Consultants joint managing director Bryan Hirsch says sellers have usually considered all their options, but they need the cash.

He says the market is large because it is one in which everybody benefits.

Many companies took out multimillion-rand policies a few years ago and they want to cash them in now because they cannot afford to have money tied up in contractual savings.

The buyers receive tax-free capital growth and income. According to the sixth schedule of the Income Tax Act, it is possible only if the policy has been in force for 10 years.

Damper

The buyer can increase the premiums and use the policy as a tax-free savings vehicle. Although bonuses paid on policies are about 15%, this is equivalent to a taxable income of 26% more for an individual.

The life assurers are better off because they keep the cash instead of paying it on a surrendered policy.

However, it is uncertain for how long the business will thrive. Sources believe that the amendment to the sixth schedule of the Income Tax Act will eliminate its advantages, putting it on a par with many other investments.

A Liberty Life spokesman says the advantage of the second-hand market is that it buoys the level of contractual savings.

Mrs Boeke estimates the large number of policies surrendered or allowed to lapse in 1990 and 1991 will lose the assurers more than R10-billion in premiums in the next 10 years.

Econometrix economist Tony Twine says people are sacrificing long-term gain for short-term consumption. This will affect the level of fixed investment, will impede economic growth and put a dampener on the size of an economic upswing.

Sanlam property portfolio now totals R6 200-m

ST Times (Cape Metro) 20/9/92

(58)

SANLAM PROPERTIES added properties with a value of more than R735-million to its portfolio during the first nine months of its present financial year, bringing the total market value of the portfolio to more than R6 200-million.

Presently under construction are building projects with a value of about R450-million, Sanlam estimates.

Since 1972 Sanlam has been one of the pioneers of the larger community and regional centres in South Africa, and has the largest number of shopping centres in the country with a total of 16, including Sanlam Centre in Parow and Westgate Mall in Mitchells Plain.

"There was a change in the shopping habits of consumers and in the patterns of retail distribution that resulted in shopping centres being brought closer to the suburban consumer," said Dolf Muller, general manager of Sanlam Properties.

"The changes occurred mainly because of ever-increasing traffic problems and insufficient parking facilities associated with the central business districts.

"Developers then started building suburban shopping centres to provide one-stop shopping with easy access and adequate parking.

"We caught on to this developing trend at an early stage and were able to provide for the acommodation needs of retail tenants."

However, opportunities for large new regional shopping centres had become limited, said Mr Dolf, although there were still opportunities for the right type of shopping centre in certain market segments and geographical areas.

He believed a demand existed for smaller neighbourhood centres in under-developed areas, both rural and urban.

Mr Muller pointed out that because of increasing urbanisation there were inadequate shopping facilities in under-developed urban areas, and the rural areas had also lagged behind.

Under-developed urban sectors were also under scrutiny by an urban reconnaissance mission of the World Bank when it visited South Africa in November and December last year.

It criticised the fact there was an "over-abundant supply of road infrastructure" in white urban areas and said resources made available to promote public transport had been "meagre".

Public transport efficiency to shopping and other centres could be "drastically improved" by the implementation of busways, the creation of modal interchange points and more accessible bus terminals.

The reconnaissance mission suggested a strategy for the setting up of an urban transport forum to develop a comprehensive urban transport policy.

It said the structure and responsibilities of this forum would have to be negotiated with all interested parties.

Koeberg bank returns to SA

S Times (Buss) 20/9/92.

By DON ROBERTSON

BANQUE de L'Union Europeene, the leading bank in raising finance for the Koeberg nuclear power station, is back in SA, but under a different guise.

In January, Compagnie Financiere de CIC et de L'Union Europeene (CIC Group) opened offices in Johannesburg to provide project finance for major developments. It also offers its services for mergers, acquisitions, debt swops, tourism and trade.

The CIC group evolved after the merger of Banque de L'Union Europeene and Compagnie Financiere in 1990 and is headed in Johannesburg by Philippe Uzac.

The group consists of 12 regional French banks dealing with medium-size companies, plus several specialised subsidiaries. It has 40 agencies and representatives in Africa, North and South America, Asia and the Near and Middle East with a staff complement of more than 23 000. It has assets of about R215-billion.

The CIC group is controlled by the French Government through the 82% interest held by GAN, France's third-largest insurance company.

Mr Uzac says the group will not compete with SA banks, but will co-operate with them in projects.

The group has scored several successes in Africa. It was the leading bank in the restructuring of the commercial debt of Mozambique. It is on the short list as possible managers of the railways and harbours in Mozambique after privatisation.

Trade between French and SA companies is also high in CIC's priority list. Two months ago CIC was responsible for bringing 15 delegates from French companies to SA. They will return in February.

CIC has a strong presence in eastern Europoe and Mr Uzac believes he can foster relations between companies in the two regions, particularly in mining.

CIC is also assisting the French Meridien hotel group, owned by Air France and UTA, in investigations into establishing a presence in SA.

Momentum and RMB set to pool assets

LINDA ENSOR (58)

CAPE TOWN — Momentum Life and Rand Merchant Bank (RMB) are expected to make an announcement soon about the formation of a combined asset management company with joint assets under administration of about R13,5bn.

A combined asset management company would allow Momentum Life to derive the full benefit of RMB's asset management skills following the two groups' merger in May, which resulted in Momentum acquiring RMB Ltd, a wholly owned subsidiary of RMB Holdings, for R386m.

An amalgamation would contribute to strengthening performance of Momentum's investment portfolios, the returns of which have tended to lag industry leaders over the past three years.

2/9/92 BDay

As at end-December 1991 Momentum had assets under management of about R8bn, RMB assets of about R3bn and its two associated asset management companies assets of R2,5bn.

Combining the investment skills and weight of funds of the two groups would probably benefit the components of a joint asset management company.

RMB has a 95% stake in London & Dominion Trust, which has assets under man-

☐ To Page 2

Momentum

BDay 2/9/92

(58)

☐ From Page 1

agement of about R1,5bn.

It also has a 70% stake in RMB Asset Management, which has assets under management of about R1bn.

RMB's property development company, Rand Consolidated Properties (RCP) — which identifies development opportunities, adds value and sells on the project — could also bring its skills and expertise to a joint asset management company.

Since the merger two RCP senior executives have been seconded to Momentum and have apparently already made a very significant contribution to the improved performance of its property portfolio.

Momentum MD Neil Krige says Momentum will capitalise on the expertise RMB has developed in the use of derivatives, a skill which he believes can add considerable value to the life assurer's portfolio.

He estimates that the effective use of derivatives could add 0,5% a year to the return of the overall portfolio.

On a combined RMB and Momentum portfolio of R13,5bn, this would mean an additional R65m.

● See supplement

Furniture industry hit by by sharp decline in sales

BDAY 21/9/92. (158)

MARCIA KLEIN

THE furniture index, which consistently outperfomed the financial and industrial index in the '80s, has been one of the worst hit sectors on the JSE this year, analysts said.

They said the index was at one of its lowest levels in more than a decade relative to the financial and industrial index, and its rating was not likely to improve in the short to medium term.

Retailer Liaison Committee figures showed that furniture sales had declined in real terms since April last year, and analysts said nearly all companies in this sector showed no immediate prospects of recovery.

While they recommended holding shares in better rated companies like Ellerine and JD Group, they were advising staying out of furniture until there were signs of an upswing.

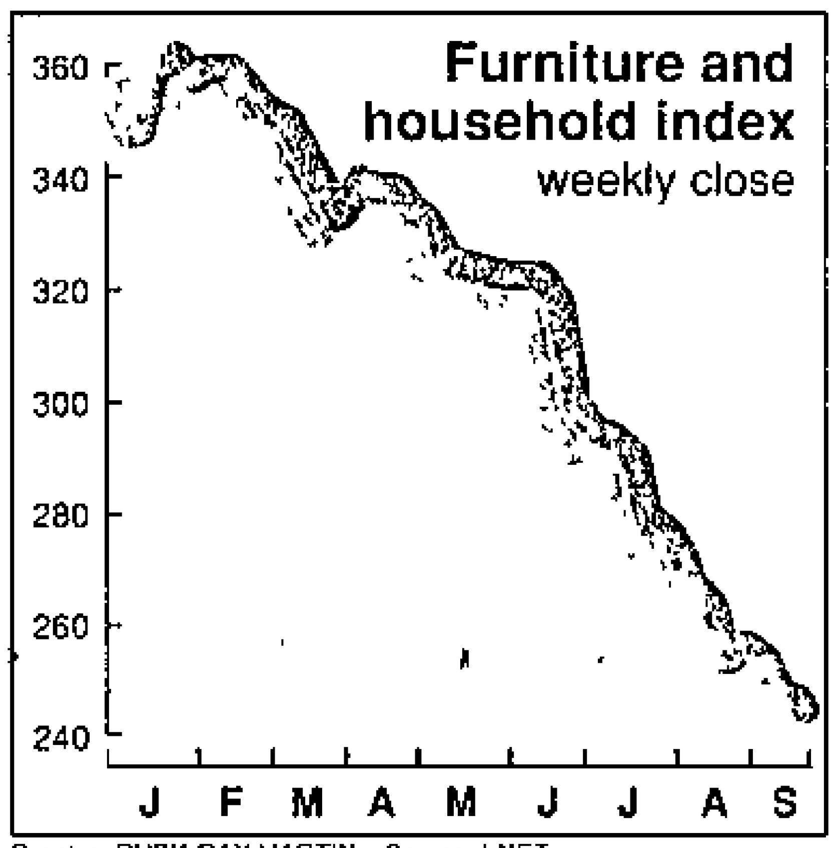
This would only come about when there was a prolonged period of lower interest rates and a change in consumer sentiment. But they said there could not be much more of a downside, as most companies ended trade on Friday at yearly lows.

An industry source said consumer spending had plunged over the past year and a half and this was reflected in the latest results of most of the major groups. In addition, an increase in violence and political uncertainty affected furniture sales more than most other industries.

Afcol and Amrel's earnings declined by 35% in the year to end-March, and the JD Group reported a 38% drop in earnings in the six months to end-June.

Ellerines, which many analysts consider the leading company in the sector, saw its earnings decline by 32% in the six months to end-February. In the 12 months to end-March, Morkels' earnings dropped by 57%.

Although furniture retailers made a significant amount of their annualised profits in the last quarter, analysts said shareholders should not expect fireworks.



Graphic RUBY-GAY MARTIN Source I-NET

Abcon result 'satisfactory'

BDAY 21/9/92. (58)

PETER GALLI

RECENTLY listed Abcon Properties has posted a total distribution of 27,925c a linked unit for the six months to end-August — slightly ahead of its prospectus forecast.

The property loan stock firm was listed in December, so there are no comparable figures.

"We are most satisfied with the results, which were achieved on the back of income rental growth and the fact that we anticipated the fall in call rates and fixed our cash at higher interest rates in January," MD Nikki Vontas said.

If annualised rental income for this period was compared with annualised rental income for the first three-month reporting period to end-February, it reflected 11% growth, he said.

Income before debenture interest of R11,695m was reported, with R11,672m being paid in interest. This left pre-tax income of R23 000 of which R11 000 went to tax and the remaining R12 000 was paid out in dividends.

Dividends of 0,058c a share and interest of 55,384c an unsecured debenture, giving a total return a linked unit of 55,442c were forecast for the annualised 15-month period to end-February 1993.

The share was untraded on Friday but reflected a buyer at its June 17 low of 490c and a seller at its subscription price of 500c.

IDU goes in search of foreign equity partners

BDAY 21/9/92

LINDA ENSOR

CAPE TOWN — The newly created Investment Development Unit (IDU) set up by the life assurance industry has established contact with foreign embassies and organisations in the hopes of facilitating equity partnerships with foreign companies willing to invest in SA.

Life Offices' Association executive director Dick Geary Cooke — speaking at the annual conference of the Cape Assurance Industry Liaison Committee at the weekend — said the IDU aimed to be regarded as the pre-eminent funding agency and the first "port of call" for development agencies.

The unit was established to channel some of the R30bn in annual life office cash flow into socio-economic upliftment projects by making secure investments with an adequate return.

"It is intended that close interaction be maintained with the various business organisations such as Nafcoc and Sacob. Furthermore, contact has also been made with the foreign embassies of some of SA's traditional trading partners as well as organisations such as the Overseas Private Investment Corporation and the Confederation of British Industries.

"It is hoped that once foreign companies are prepared to invest in SA, possible equity partnerships attractive to such companies may be instituted."

Geary Cooke said a survey among life office executives had found that they believed the state should play a facilitative role by providing investment incentives via, perhaps, securitisation or tax credits. It had been found in the US that fiscal incentives were a major inducement for social investments by life and health companies.

He said the IDU would give a lot of emphasis to health and education projects and areas of investment which provided maximum leverage. He said health and education were seen as crucial in breaking the cycle of "low incomes and no incomes".

A major thrust would be investment in job creation activities through expanding commercial and industrial capacity. "In this regard, the unit, in addition to applying job creation criteria will also be more interested in projects which will stimulate exports or contribute to import replacement. When addressing housing the view is that such investments should provide sustainable employment and a kickstart (for) the economy as the chief benefit rather than the houses themselves."

Octodec posts 2,5% increase

(58)

B/DAY 22/9/92

DUMA GQUBULE

PROPERTY loan stock company Octodec has reported a 2,5% increase in net income before debenture interest to R20,2m from R19,7m for the year to end-August.

Chairman Alec Wapnik said the company offered an attractive reliable return on its issue price of 18,9% at a time of soaring property vacancies and stagnating rentals.

Rental income advanced by 5,4% to R24,2m (R22,9m) and operating income by 2,5% to R18,54m.

Interest received came to an unchanged R1,8m, reflecting the reduction in rates during the year. The lower rates also affected interest paid which declined by 31%.

Distributable income was up 2,5% from which debenture holders received R19,5m compared with R19m last year. This left a pre-tax profit of R748 000. Tax absorbed R362 000, which resulted in attributable income of R386 000 (R380 000), equivalent to earnings of 0,81c a unit. A dividend of R384 000, or 0,8c a share, was paid.

The total return on linked units rose to 41,64c (40,61c), which yielded 14,4% on the current price of 290c and 18,9% on the issue price of 220c.

The directors expected profit in the current year to remain the same as 1991.

Syfrets fund earns kudos

SIDAY 22/9/92

LINDA ENSOR

CAPE TOWN — Syfrets Managed Assets (SMA) has been rated as the country's top performing investment management company for the period to end-June in a survey conducted by consulting actuaries Alexander Forbes Shepley & Fitchett.

SMA, which manages more than 50 pension and provident funds worth more than R4bn, beat nine other firms and the managed funds of the life offices, Syfrets said yesterday.

SMA had shown the best investment returns over seven of eight periods surveyed, Syfrets said.

The annualised average return achieved was 26,1%. SMA MD Leon Campher said R1bn of new pension and provident fund business had flowed into SMA in the 1992 financial year.

Cape commercial sales defy recession

B/DAY 23/9/92 (58)

LINDA ENSOR

CAPE TOWN — Seeff Commercial Properties has sold a R4,7m Cape Town property to a Johannesburg investor, bringing the total capital value of its 17 sales of investment properties from January to August this year to R37,4m — equal to the total 1991 figure.

Seeff Commercial Properties MD Theodore Yach said the performance reflected the underlying strength of the sector, which had remained relatively impervious to the recession. It was one of the few sound and secure investment opportunities still left in the local market.

Although vacancies were high in some buildings, Yacht predicted they would be taken up within two to three years.

Seeff's most recent sale was the Satbel Centre in Green Point, a property with a lettable area of 5 106m².

Yach said prices fetched for Cape investment properties were substantially higher than elsewhere.

He cited the latest Rode report which showed that yields were lowest in the Cape for reasons such as security, way of life, the relocation of business to the province and the preponderance of institutional head offices.

PROPERTY

Declining property sales cut down banks' returns

BIDAY 23/9/92 (58)

PETER GALLI

POLITICAL uncertainty and declining sales of residential property have resulted in some banks that bought an equity stake in residential property companies not achieving the initial returns they expected.

Market sources say the main reason is the uncertainty, causing a decline in activity in the residential market and fewer bonds being placed with these institutions.

While in most cases the agencies are fulfilling their obligations and placing the required percentage of bonds with the banks — believed to be about 75% — the number of house sales and bond applications has dropped sharply over the past few months.

Absa's GM: marketing development Tienie van der Berg said the return on its investments depended on two sources — the return on equity and the number of bonds channelled through it.

The return on equity depended on the performance of the company, which was linked to the effectiveness of its management, while the number of bonds registered was influenced by factors such as the economy, which were beyond control of the agency.

"In almost all cases the companies are well managed and, while we are getting less bonds than expected, our strategy is working well. In most cases, we are close to achieving the return we wanted," he said.

Some of the agencies had embarked on an expansion policy as one of the bank's objectives in taking an equity stake was that they expanded nationally in the first few years

"Some of our return is being used to finance this, and we are generally quite pleased with our investments in Seeff, Aida, Wakefields and J H Isaacs," he said.

Seeff Organisation Holdings chairman Lawrence Seeff said the residential market was less active now than it had been for some time, resulting in less sales and less bond applications — a factor outside its control.

"We are, however, passing the required percentage of bond applications their way," he said

Leading residential estate agents have expressed concern at the decline in activity in the market, blaming political and economic insecurity.

House prices have dropped by as much as 35% over the past two years and are expected to fall even further as potential buyers demand bargains.

Estate agents hard hit

Sowetan 24/9/92

■ Scores quitting the profession because of recession:

By Joshua Raboroko

SCORES of estate agents were quitting the profession as a result of the recession, the Transvaal director of Pam Golding Properties, Mr Ronald Ennik, said this week.

There was, however, still a desperate need for trained, dedicated professionals in the job, he said.

"In fact, we are presently expanding and recruiting and have already been approached by a number of top agents from smaller companies."

But the market may be vibrant for a few black estate agents because of the shortage of homes.

Secretary of the Soweto Builders Forum Mr Chris Jiyane said there were few black estate agents as a result of the policy of apartheid.

But the market was open and "we are working hard to compete favourably with our white counterparts", he said.

Ennik said in sharp contrast to the general trend, his company was expanding and they needed highly professional staff to support that growth.

"The exodus is from the bottom end of the market and consists of the people who in boom times think they can make easy money. The recession quickly flushes them out.

RMB aiming at Far East

(58)

BIDAY 23/9/92

SHARON WOOD

RAND Merchant Bank (RMB) yesterday announced the acquisition of a 72% stake in one of Australia's biggest money and capital market dealing operations, Australian Gilt Holdings (AGS), in a R17m deal.

RMB was the first SA bank to set foot in the Australian financial sector and the bank meant to use its latest acquisition as a springboard to outside markets, particularly the Far East, corporate finance executive director Richard Spilg said.

AGS was negotiating setting up a joint venture with a major international bank in the Far East, Spilg added without giving further details.

Opportunities presented by the deal were in cross-border corporate financing and in derivative market activities.

Total assets of AGS had increased to A$24m in 1992 from A$11m in 1988 and consolidated after-tax return in this year was A$2m, representing an 18% after-tax return on equity.

Banks expect civics to avoid bond boycott

BTDAY 24/9/92.

GRETA STEYN

(58)

BANKERS expect the SA National Civic Organisation (Sanco) to stop short of calling for bond boycotts at a mass meeting on Sunday.

Bankers, speaking off the record after the Association of Mortgage Lenders (AML) met Sanco yesterday, said their impression was that Sanco wanted to "avoid these extremes". They did, however, expect some form of protest action.

Sanco president Moses Mayekiso said yesterday FNB remained a target for mass action. This would be discussed at Sunday's report-back meeting. He would not confirm that there would be no specific call for bond boycotts.

He said much ground had been covered at yesterday's meeting with the AML and that there would be another meeting next week. He said all parties were serious about addressing the housing crisis.

Sanco and the AML are hoping to find a solution for the present non-payment of instalments on about a quarter of township bonds. Banks' total exposure to the townships is estimated at about R6bn.

Sanco last week named FNB a "primary target" for mass action for, among other things, not providing figures Sanco said it needed to arrive at the true picture of the township housing crisis, such as details of amounts owed and property values.

FNB senior GM Norman Axten said compliance would be time-consuming because the bank had no reference to race or ethnic origin in its records.

Sanco is also protesting at "the lack of financial services in disadvantaged communities at a time when bank profits are high and banks are expanding overseas".

New bank study

SHARON V[illegible] 58

THE Community B[illegible] aimed to com[illegible] and viability st[illegible] Community Bank [illegible]-October, Community Bank [illegible] spokesman [illegible] yesterday. B10AM 25/9/92

He said a team [illegible] figures and model [illegible] document would be published next month [illegible] and model of the bank.

Former S[illegible] Bob Tucker is centrally involved in the establishment of a Community Bank. It will cater for smaller borrowers and lenders, a segment of the market largely uncatered for by the formal banking system.

RAND MERCHANT BANK

FM 25|9|92

Out of the closet

(58)

Now that relationships between SA and Australia are returning to normal, Rand Merchant Bank Holdings (RMBH) has decided to formalise its links with an Australian company.

Paul Harris, MD of subsidiary Rand Merchant Bank (RMB), says the need to downplay the connection is falling away, as international perceptions of SA improve and business opportunities are increasing So a strategic decision was made to acquire a direct stake in Australian Gilt Securities (AGS). RMBH paid R17m, for 72% of Australian Gilt Holdings (AGH) which owns 63% of AGS.

The connection was established in 1987, when Harris left his job as head of RMB's trading division, where he had been "working with analytical systems relating to derivatives." He went to Sydney to establish an "an Australian capital market operation, Tecfin." An opportunity to expand came with the stock market crash that year, which left AGS, an established gilts trading company, vulnerable to a takeover by Tecfin. AGS was recapitalised with finance arranged by RMB.

"Apart from its capital and money market operations," says Harris, "AGS is also a market maker and trader in interest rate options and derivatives, provides portfolio

FM 25|9|92 (58)

services to major institutions, is a floor member of the Sydney Futures Exchange and has a corporate finance division."

Total assets, says Harris, "have increased from Aus$11m in 1988 to $25m in 1992. And consolidated after-tax profit in 1992 was $2m, representing an 18% after-tax return on equity. The company employs about 50 people, of whom eight are South African.

Harris believes RMB-AGS can dominate the financial business generated by deals between SA and Australia because "we are the only company with a direct presence in Australia."

RMB's backing has enabled AGS to acquire a licence as an official gilts dealer, which places it in a position similar to that enjoyed previously in SA by the discount houses. Says Harris: "The official status will make it easier to expand our international client base. This is especially important in relation to Japan, which holds about 25% of all Australian bonds."

Technology has played an important part in the success of AGS, says Harris, who took three computers and his own software to Austalia in his container. He employed two computer technicians and set up in business, finding himself with a small technological edge.

However, competition is fierce; apart from local opposition, the deregulated and open Australian financial market has attracted multinationals such as Westpac, Bankers Trust, Hambros, Merrill Lynch, Rothschilds, Schroders and Deutsche Bank. Harris was soon forced to rewrite his systems to keep pace. And when he returned to RMB last year as deputy MD, he introduced the modernised version.

When former MD Laurie Dippenaar was appointed chairman of RMBH subsidiary Momentum Life, Harris succeeded him. But he remains chairman of AGS. ■

'Blessings for hard work'

WORKING 16 to 18 hours a day would bring South Africans wonderful blessings, Dr Piet Koornhof, former South African Ambassador to the United States, told delegates at the annual conference of the Cape Assurance Insurance Industry Liaison Committee (CAILCOM) held in Cape Town.

He said hard work, humour and a positive mental attitude could carry South Africans through into the New South Africa, which would be an example to the world of how to live in peace and harmony. (58) (58)

ANC economist Patrick Ncube urged the promotion of small business to help create jobs. 27/9/92

He suggested innovative banking, credit guarantee schemes, group loans and the establishment of special financial institutions as a means of lending to the small and informal business sectors. S/Times (Cape metro)

NKP to convert to variable loan stock status

BDAY 28/9/92

PETER GALLI

NEW Kleinfontein Properties (NKP), which had acquired a property portfolio worth R101,6m, would be converted into a variable loan stock company, MD Grant Fisher said at the weekend.

As the company was originally listed in 1894 it already held a London listing, which would make it the only local loan stock company with an offshore listing.

About 10% of shares were held offshore. All offshore property acquisitions would be funded by the issue of linked units on the London Stock Exchange.

The change of listing and issue of new shares would take place at the end of November, after shareholders' approval was obtained.

"The scheme means existing shareholders will realise the full net asset value of their shares, which will be paid out in the form of a special dividend.

58

"This will then have to be channelled back into the company and two linked units comprising a share and an unsecured debenture of 620c each will be issued," he said.

This meant shareholders who held an ordinary share with an underlying NAV of 970,6c would, on implementation of the scheme, hold two linked loan stock units with a NAV of R223,07c, Fisher said.

In addition, 13,4-million linked units of 620c each would be placed with financial institutions to raise the additional R83,16m necessary for the acquisition of the eight properties in the new portfolio.

Abcon MD Nikki Vontas, who will become an executive director of NKP, said the company intended to grow the portfolio to about R500m — with about 75% invested locally and 25% in western Europe — as soon as market conditions improved.

The scheme did not run the risk of rejection as AFC Investments, which held 62% of NKP, supported the move and would buy all of NKP's non-income-producing assets, its debtors and Van Leer House for R26,66m.

Fisher said the increased number of units would improve the tradeability of the share.

AFC's holding would fall to 18% of the 17,4-million units in issue.

The share was untraded on Friday.

MONEY MARKETS by Hilary Gush

Activity remains subdued

ACTIVITY on the money and capital markets was again subdued last week.

Liquidity remained a problem and rates continued static.

Some excitement was, however, seen on Friday when the Reserve Bank lifted the total amount offered in three-month Treasury bills (TBs) to R200m from the R150m on offer each week since June.

The total provided on tender in six-month bills was dropped to R50m.

Bank GM Andre Kok said the six-month paper would mature in the next financial year, and would show up as "outstanding bills" on the Bank's balance sheet.

Kok said the Bank wanted to scale down the amount of outstanding bills — currently at about R6bn — by the financial year-end to about R2,6bn, which is what bills in circulation totalled at the end of the last financial year.

Liquidity is usually tight at month-end as VAT and other tax payments drain cash from the system. September will be no exception.

In fact, off a base of an average shortage of R3,07bn since the beginning of the month, liquidity is sure to dive this week. Market speculation is that the shortage could reach as much as R6bn before October.

Over the past few months the Bank's Corporation for Public Deposits is believed to have actively bought money market paper, providing between R1bn and R2bn of liquidity to the cash-strapped banking world.

The gilts market seems to have recovered from recent volatility.

On Friday mildly bullish sentiment was evident and by early afternoon rates had started sliding.

Towards the close the yield on the benchmark E168 was at around 14,04%, and the rate on government R150 stock was at 14,05%.

BIDAY 28/9/92 58

M3 bodes well for rate cut

HILARY GUSH

HOPES of an official Bank rate cut were enhanced by the weekend release of lower money supply growth figures for August.

At 8,72%, year-on-year growth in M3, consisting of cash in circulation and deposits with banks, returned to the 7% to 10% guideline range specified by the Reserve Bank from a revised rate of 10,11% in July.

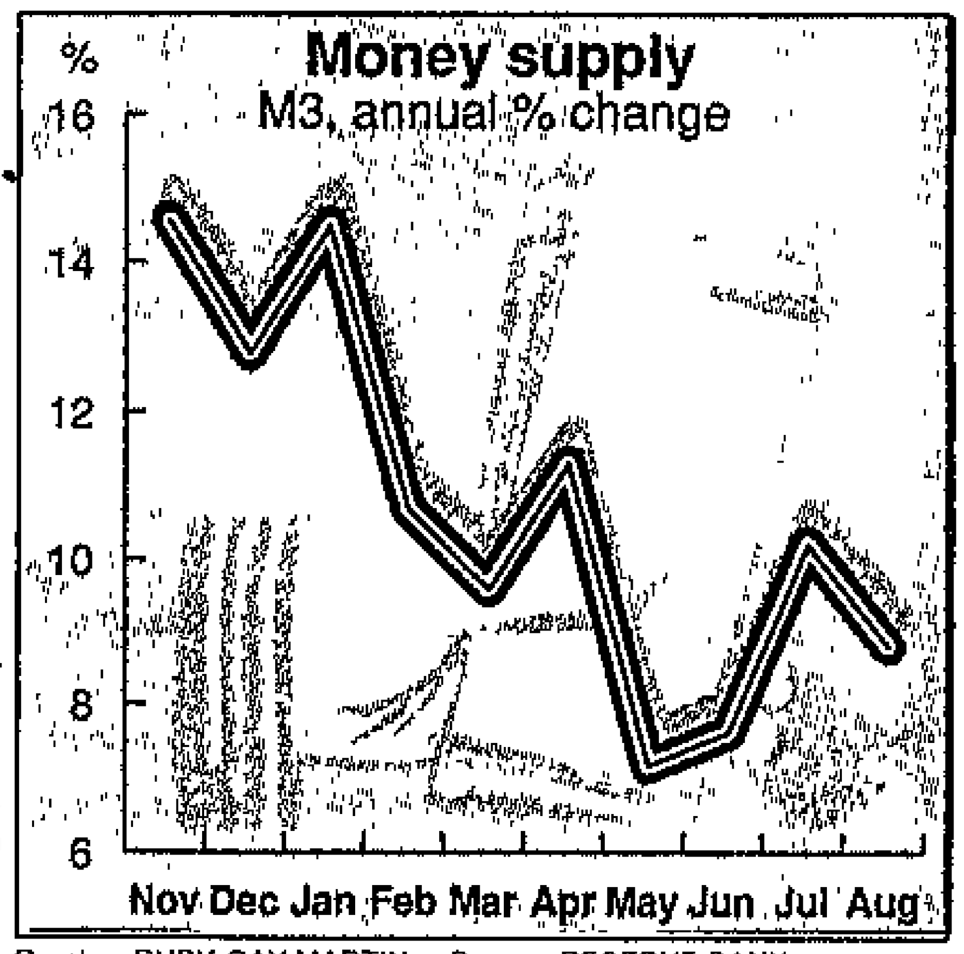
Growth from the base of the guideline year (fourth quarter 1991) dropped to 8,73% from a revised 10,52%.

Econometrix chief economist Azar Jammine said the lower figure suggested monetary growth was "really under control".

"The figure enhances the probability that the Reserve Bank will reduce the official interest rate when inflation falls below 14%," he said.

58

The lack of business confidence had led to poor demand for credit and hence lower growth in money supply. Total credit extension, although up at 8,26% in the year to August from July's 7,56%, had slowed from 15,6% in January.



Graphic RUBY-GAY MARTIN Source RESERVE BANK

Financial services merger

BDAY 28/9/92

58 GAVIN DU VENAGE

MOMENTUM Life and Rand Merchant Bank (RMB) had merged their asset management services to create a new financial services group with a combined portfolio of R10bn, Momentum Life chairman Laurie Dippenaar said at the weekend.

This follows the acquisition of RMB's total issued share capital by Momentum last May, and RMB Holdings' takeover of the controlling interest in Momentum from Absa and Rembrandt in July.

Dippenaar will be chairman of the new company, RMB Asset Management, which he said had been formed because of the need for stand-alone asset management.

RMB Asset Management, as it was before the merger, had achieved a return of nearly 25% on investments, ahead of the industry average of 18%, he said.

Momentum, on the other hand, had lagged behind the industry, but the merged company would benefit from RMB's superior investment skills and increased focus and motivation.

One of the key aspects of the new company would be the independence of its management, who would be free to make quick decisions according to the market, and less encumbered than previously.

Although Dippenaar did not expect an instant boost to returns under the new formation, he said on a portfolio of R10bn, a return of a single percentage point could yield R100m — R90m for policy holders and R10m for shareholders. 28/9/92.

He added that the restructuring of the group was not complete, as the Financial Services Board was unhappy with the risk to shareholders — and to policyholders in particular — that came from placing a bank under an assurer.

Meanwhile, Momentum's results for the year ended June 30 produced a net taxed surplus increase of 17% over the previous year to R21m (R18m). Earnings per share were also up 17%, to 30c (25,7c).

A final dividend of 9c (8,25) per share was declared, bringing the year's total to 16,5c(15c), a 10% improvement over the previous year.

Recurring premium increased slightly to R716m (R709m) but single premium income decreased from R300m to R179m.

Gloomy outlook for property market

BIDAY 28/9/92 (58)

PETER GALLI

THE outlook for the current financial year did not hold out hope for any real improvement in the economy or the property market unless strife and uncertainty were quickly addressed, Pangbourne Properties chairman John Whiting said.

In the latest annual report, he said regardless of who would ultimately govern the country, it had to be obvious to all South Africans that the present strife and uncertainty was mostly affecting those who could least afford it.

"This behaviour is also hardening the attitudes of many employers who are seriously thinking about replacing manpower with machines," he said.

The group had a vacancy factor of 6,3% at the end of the financial year, substantially higher than the previous year and, while it was trying to fill this space, there were few tenants and competition was fierce.

The company had made a number of changes to its portfolio in the face of changing population shifts and the political situation.

A total of 16 properties were bought in the period under review, mainly in the Transvaal. Most were industrial properties. The issue of deferred units provided most of the funds.

Estate concept ensures secure lifestyle

STAR 29/9/92 (58)

***Landscaped** residential estates, together with their adaptation into business parks, is an area where Ampros is enjoying considerable success.*

Since the early '70s Anglo American Property Services (Ampros) has been developing exclusive landscaped residential estates with the emphasis on providing a secure and peaceful lifestyle.

This concept, together with its adaptation into business parks, has become particularly relevant in SA as the country undergoes radical political, social and eco-

Ampros's residential and business estates continue to enjoy exceptional success, notwithstanding the general business climate in SA.

The basis of the concept is that individual stands are marketed on a freehold basis where buyers can design and build their own homes to suit their needs.

The four essential elements of these developments are: Environmental enhancement, a secure lifestyle, recreational and community facilities and a Home Owners' Association.

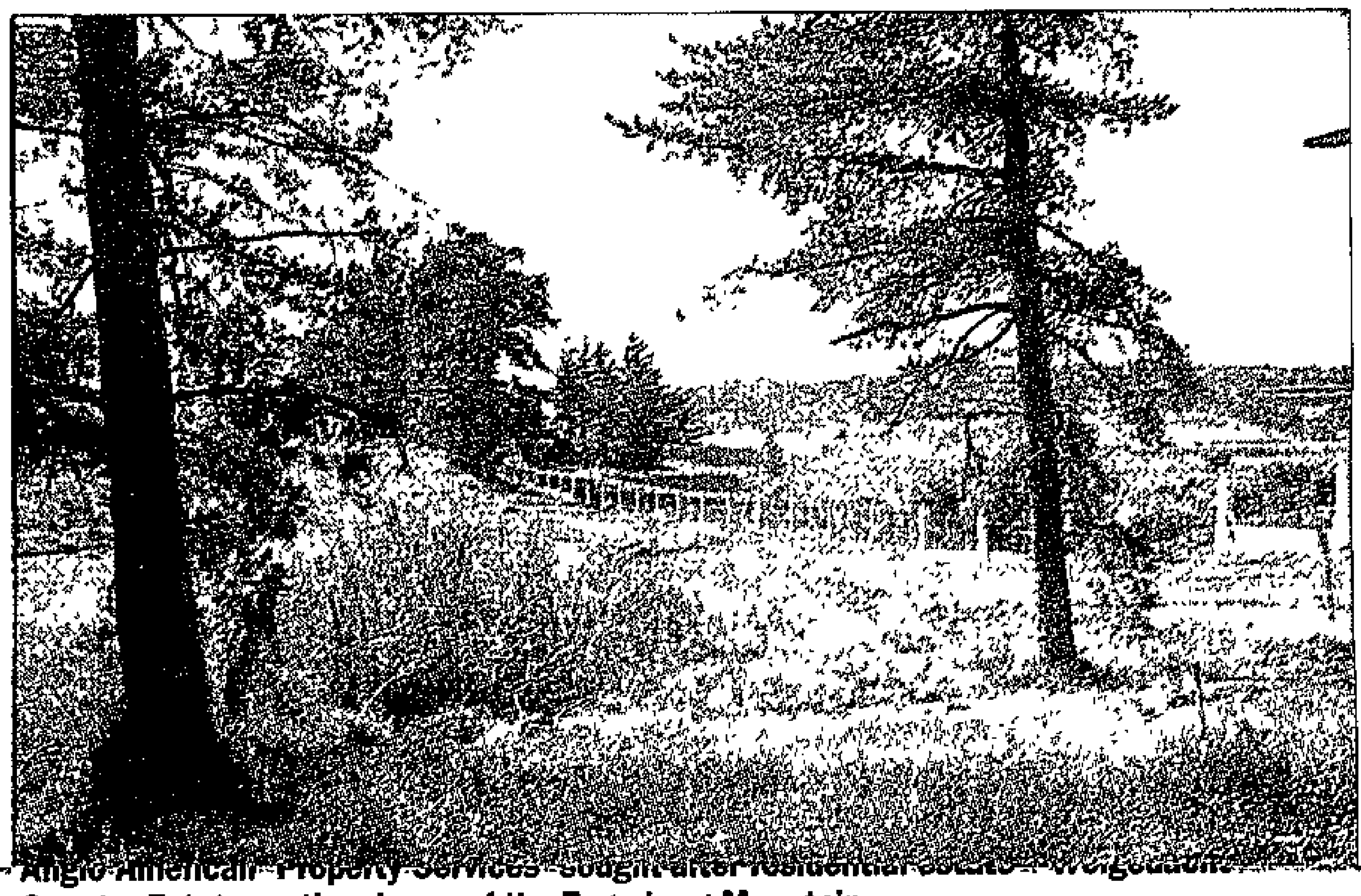
Ampros recognises that the environment is a finite resource and the importance of environment as a setting for residential life and recreation. For this reason, an Ampros residential estate achieves a fine balance of residential development and environmental enhancement through the allocation of a significant portion of the project budget to landscaping of parks and sidewalks and conservation of both fauna and flora. Typically an Ampros estate development would include bird sanctuaries, water features, walks, open spaces, landscaping, roads, street lighting, and full services. The result is a delightful park-like setting for homes and a harmonious blend of privacy, pleasing vistas, and an attractive, distinctive and functional living environment.

Security is very much part of the estate lifestyle and through the use of perimeter walling, patrolling security staff and access control, homeowners are assured, as a community, of being able to enjoy peace of mind.

Children are free to roam and play and parents are assured of their safety irrespective of the hour of the day. Moreover residents are able to make use of the recreational and community facilities in complete freedom without concern for unwanted elements or danger to life or property.

Each estate has a Home Owners' Association charged with the responsibility of continued management and maintenance of the estate.

A typical Home Owners' Association is made up of experts in specific fields and is funded by a small levy from residents. Part of the association's task is to "vet" proposals for fresh residences in the area. The objective is clear: to maintain overall architectural and aesthetic standards. However, conditions are not inflexible. Full freedom is given to architectural expression and individual taste. Rather the emphasis is on ensuring harmony in matters of overall architectural appearance affecting aspects such as roofing and wall finishes.



Anglo American Property Services sought-after residential estate – Welgedacht Country Estate on the slopes of the Tygerberg Mountain.

Once the essential basics of the design have been accepted by the Home Owners' Association the plan is submitted to the relevant municipal authorities.

Internal security and maintenance of the natural and community areas form part of the management function of the Home Owners' Association.

It is not surprising to find that homes or land in an Ampros residential estate show remarkable appreciation in value.

Developments currently being marketed in Ampros's residential estate portfolio, include:

- Silver Lakes Country Club Estate – Pretoria.
- Kyalami Estate – Midrand.
- Welgedacht Country Estate – Bellville.
- Santorini – North Coast, Natal.

Welgedacht Estate is a prime example of the residential estate concept. This superb project has been developed in an area of considerable natural beauty on the slopes of the Tygerberg within the northern reaches of Belville.

Welgedacht offers a superior quality lifestyle in an unparalleled environment complete with 24-hour access control and natural recreational facilities.

A system of trails is being developed to link the various areas within the estate and will provide residents with the opportunity of exercising in a safe and natural environment.

These internal trails are linked in turn to the extensive open space system adjoining Welgedacht through the Fynbos Reserve which extends along the picturesque ridge of the Tygerberg Hills. The estate is within easy reach of schools, community and sporting facilities and the Tygervallei Centre which is soon to become the largest regional shopping centre in the country.

The project will ultimately comprise about 400 residential stands averaging 1 100 sq m and within the estate will be four independent neighbourhoods each with elevated view sites and water features.

Business parks

Ampros business parks apply many of the principles that have been developed in the residential estates.

Indeed the concept has been successfully adapted to meet the needs of the business community and the business parks are in keeping with Ampros's awareness that environmental conservation and enhancement can and must be made to pay its own way in all development spheres.

Estates Development Division director Peter Gardiner says: "The environment is a finite resource and more developers are recognising the importance of the environment in which we work."

At Kyalami and Waterfall Business Parks in Midrand, well designed work environments set in park-like surroundings are seen as a major contributing factor to attracting and keeping the right calibre of staff and improving productivity in the work place.

"The problem in the past has been that landscaping was regarded by so many as a cosmetic treatment – something to make a project "pretty" once the real planning work had been completed. We don't see it that way. We believe the entire project has to be harmoniously blended to optimise its qualities and to recognise the fine balance between economic development, environmental responsibility and quality of life."

Kyalami Park

"Kyalami Park, for example, has well-protected rich flora and various bird and small game within the ridge line reserve. Wide reserves of all streets have been extensively planted with hardy but sturdy ground covers and a variety of indigenous trees.

"In addition, tree belts have been established using high quality predominantly indigenous trees such as white stinkwood, bushwillow and Karree species within a 3 m reserve in either side of the main boulevard running the full length of Kyalami Park. Because of the problems of the past where ongoing and continuous maintenance has been inadequate, a Park Owners' Association has been set up to take over maintenance responsibility funded by a small levy from all property owners.

"And to enforce building design guidelines, ensuring that all buildings blend with the natural environment, an architectural review committee has been established.

"The rural parklike of the area has been retained and substantially enhanced, utilising the view to the full and including elements such as attractively landscaped water features."

Moreover, said Mr Gardiner, the mixed-use zoning of the park allows for an attractive and functional mix of offices and distribution centres.

Overlooking the internationally famous Kyalami Grand Prix racing circuit, this multiuse office park is based on the best of overseas business parks concepts adapted to local conditions.

Waterfall Park

Waterfall Park, also at Midrand, is another classic example of the estate concept applied to business parks. It provides the discerning company with office sites and leasable accommodation set in low-density landscaped parklands located on the Ben Schoeman Highway right in the heart of Midrand.

tions on the highway and has appeal to both smaller businesses and larger corporations.

Features of the park include strategic position relative to Pretoria and Johannesburg – and the PWV in general – landscaped parks, and sidewalks, 24-hour security patrols, secure perimeter detection and fencing, and easy access to the highway and the amenities of Midrand.

Recognising that Midrand is superbly positioned for current market needs, Ampros has already completed two buildings at Waterfall Park, a third is nearing completion as a joint venture with Kirchmann Hurry Construction and another three are being built for Strategic Concepts, Alpret and the second phase of a highly successful Sectional Title office scheme.

Waterfall Park comprises sites totalling 23 ha with a floor area ratio of 0,4 and allowable coverage of 30 percent. The site sizes vary from 3 000 sq m to 11 000 sq m and height restrictions may be increased to three floors with consent from the Midrand Town Council.

The park setting is linked by a road system that blends harmoniously into the landscape. Careful design has made it possible to reduce the impact of the presence of vehicles. A spine road meanders through the centre of the site and is extensively landscaped so that a high environment quality is maintained.

A central fountain feature is integrated with the winding central boulevard running from north to south and a series of water features adjacent to the boulevard has been established, giving the park a tranquil character.

As in the case of the residential estate developments, values at Ampros's business park developments escalate strongly.

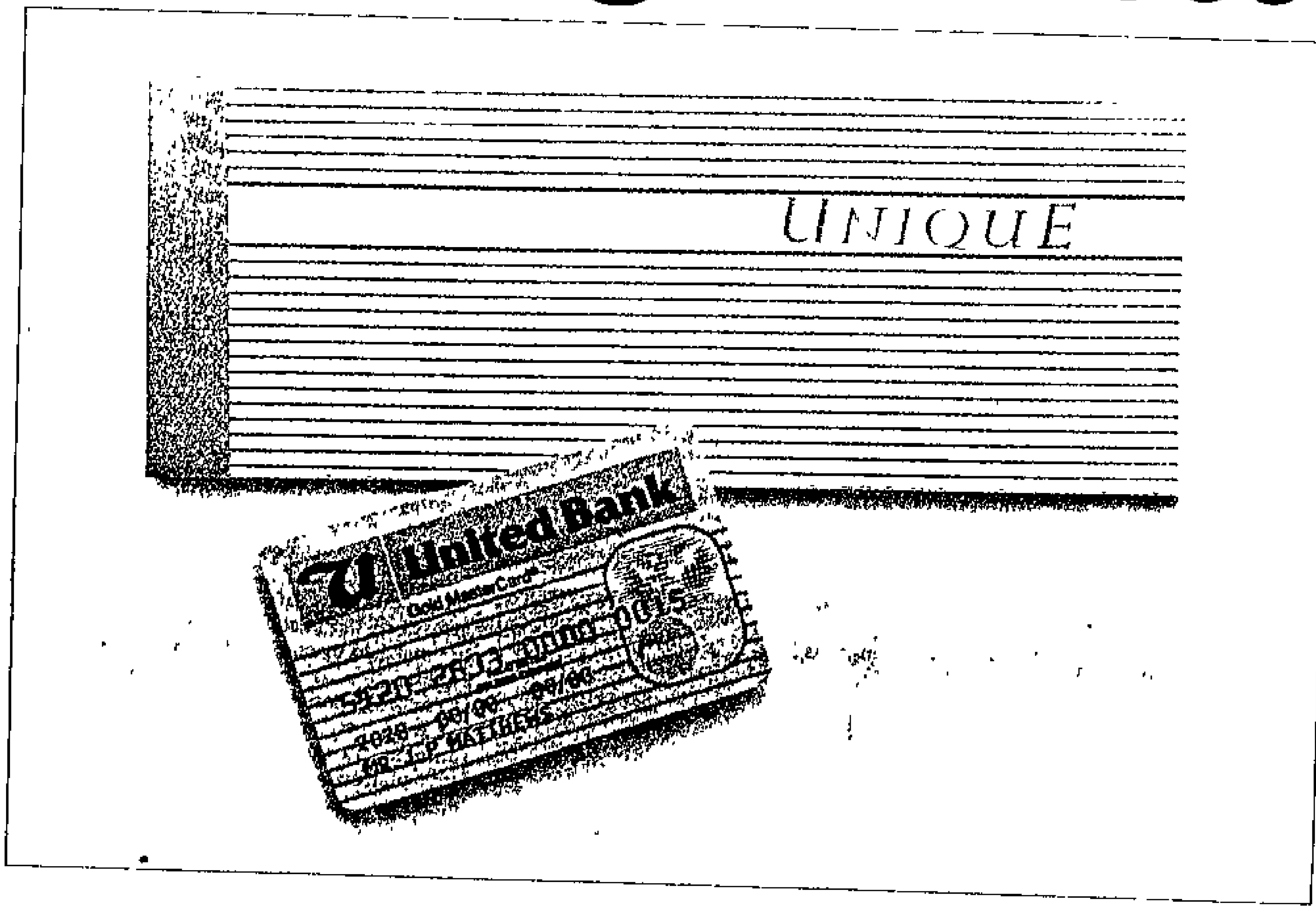
The basic characteristics of residential and business park development are the same although obviously the nature of the structures are totally different.

For this reason, investors in Ampros business parks enjoy not only prestige, quality of working lifestyle, the benefits of worker productivity and workforce stability, high security and a prestigious environment, they also benefit in a practical and financial sense from ownership of a sought-after, exclusive property.

Contact Andre Volbrecht on (011) 491 9239 for further information on these and other developments in the Ampros portfolio.

Affordable banking in the '90s

***Innovation** marks the five-year history of the United Bank. And that focus has not changed says the bank's operating executive, ER Bosman.*



United Bank has always been a pioneer. When it ventured into banking by joining up with Volkskas in 1987, it was the first building society-based institution to enter this field, setting the pace for what was to follow throughout the banking sector. STAR 29/9/92

The new bank was determined to maintain its innovative lead and from the outset it followed a policy of providing competitive banking products together with a firm consumer promise of affordable banking, tied to realistic bank charges and competitive debit and credit balance interest rates.

That focus has not been lost, says ER Bosman, operating executive of United Bank. "We still apply our original policy of providing competitive banking products for all. Moreover with our substantial asset base and the benefits of rationalisation arising from the formation of Absa we have been able to maintain escalating banking costs to a minimum and to pass on the benefits of scale to our clients."

Consequently he says, United Bank today offers a vast array of competitive benefits covering effectively every facet of a retail banking for the consumer.

"We're active in every sphere of retail banking, including the vital youth market, credit cards and the important senior citizens market," says Mr Bosman.

An example of the bank's innovative thinking and competitive stance in the market place are the unique benefits attached to its cheque account packages. These include the same account number for life, high interest on credit balances and low service and transaction charges.

In terms of United's top-of-the-line Unique account package you qualify if you have a gross annual income of R100 000 and a net worth of R150 000.

That puts you in line to benefit from mortgage loan, cheque account, credit card and other facilities of the package.

In terms of mortgage loans, competitive interest rates are set at 0,50 percent below the prevailing normal United bond rate for the life of the bond and up to 100 percent loans are obtainable including bond costs.

Conditions for qualifying for a mortgage loan are not onerous either – the bank will take into account monthly repayments of up to 30 percent of the gross combined (husband and wife) income of your household, with repayments periods of up to 30 years.

So that home you have had your eye on is not so beyond your reach any longer, particularly as mortgage rates generally have come down substantially in recent months.

There is also a superb facility called the Help-U-Home Loan, through which you may borrow the difference between your current bond balance and that of the original bond. In other words you can borrow the amount of money you have effectively "paid off" on your bond and at an interest rate equivalent to that of the bond itself.

Unique's cheque account is operated via a special and very prestigious branded cheque book (with a guarantee of R1 000 a cheque), presented in a handsome holder together with the Unique cheque card which gives you access to any of the huge United, Multinet and Saswitch network of ATMs.

You also qualify automatically for an overdraft facility of R20 000 at the prime rate of interest – that puts you in the same category as the most highly rated borrowers in the country – and even bigger limits are negotiable after that!

What's more, service fee and transaction charges are at a preferential rate and are actually negotiable. For instance you have the option of a nominal R35 a month management fee which replaces service fees and transaction charges.

As for credit card accounts, Unique account holders also qualify for an automatic credit limit of R10 000 on a United Gold MasterCard.

Interest rates are highly competitive on both debit and credit balances and Gold MasterCard holders are automatically covered by free lost card protection.

The first six months use of the card is absolutely free of annual card charges and even thereafter only a nominal R55 a year is charged for your primary card and R12 a year for additional cards. Incidentally additional cards are issued free of charge.

The benefits don't end there, however. There are full service Garage Card facilities linked to the United MasterCard – also at a nominal fee.

And this really outstanding package also offers instalment financial facilities of up to R60 000 at the prime rate plus one percent – and even greater limits are negotiable.

Then there are personal loans up to 10 percent of your original mortgage loan value – also at prime plus one percent and once again, this limit is negotiable even beyond the amount.

Mr Bosman says: "This gives you some idea of the core components of the Unique package. It's a highly flexible one that can be tailored to suit the financial needs of our higher net worth clients.

United's "Performer" Package, which is the only one aimed specifically at clients with a annual income of R70 000 or a technikon or university qualification with the potential to earn R70 000 within two years, offers benefits for the discerning young professional who has the potential to qualify for the Unique package in due course.

Here too the Performer package's benefits apply to the full spread of services: mortgage loans, cheque accounts, credit cards and other facilities.

On mortgage loans for example, competitive rates of interest are set at 0,25 percent below the normal United bond rate for the life of the bond, a unique benefit insofar as this type of package is concerned.

You can negotiate home loans of up to 100 percent (cost included) up to a maximum of R150 000 and up to 90 percent on the balance of amounts greater than that and you qualify if the monthly bond repayments don't exceed 30 percent of your combined family income – once again that of husband and wife.

You have the option of extending the life of the bond over 30 years and in this package you can also defer bond payments for the first three months giving you that financial breathing space for those extras that a new home always needs.

You can also use the Help-U-Home Loan plan to give you access to the equity that your repayments have built up – as in the "Unique" Package.

On your cheque account under The Performer package you qualify for an automatic overdraft of up to R10 000 (more on negotiation), while service fees and transaction costs are also at a preferential rate.

The account is operated via its own distinctive Performer cheque book – which incidentally also guarantees cheques up to R500.

Moreover, the cheque book is accompanied by the Performer Cheque card which gives you access to the widespread United, Multinet and Saswitch ATM networks.

As for credit-card facilities, depending on income, the Performer account-holder qualifies automatically for a R10 000 credit limit on their Gold MasterCard or R5 000 on the ordinary United Master Card.

Here too you'll find interest rates on debit balances are highly competitive and Gold MasterCard holders have free lost card protection while ordinary MasterCard holders pay a nominal fee for the facility and there is free usage for the first six months on both cards.

And remember, your United MasterCard gives you access to a full service Garage Card – no more cash problems at petrol pumps or when you have your car serviced.

Then there are the instalment sale facilities up to R35 000 at preferential rates and personal loans of up to 10 percent of the value of your original mortgage loan value – also negotiable beyond that.

The list of benefits for both the Unique and the Performer packages is simply astounding, says Mr Bosman.

"Both these packages are exceptional for the variety of services and facilities they offer and for their extremely competitive rates on both debit and credit balances. You could almost say the combination of the two is 'a Unique Performance'."

Bankers' council 'to address new SA's needs'

BDay 29/9/92 (58)

SHARON WOOD

THE recently formed Council of Southern African Bankers (Cosab) intended addressing urgently the banking needs of the new SA, director-general Tony Norton said yesterday.

He said while Cosab was not deaf to rural poverty, community banking and affirmative action, sustainable growth required a competitive, market-driven banking industry.

Cosab had held discussions with Bob Tucker's initiative, the Community Banking Project, and was "all for the development of the concept". He believed a community bank could work but it would have to be developed carefully.

He said the formal banking sector could contribute meaningfully to the development of a community bank. "The banks can help with expertise, technology and systems but cannot put the depositors' money at risk."

Norton had suggested a community bank should follow a franchise model, where there was a central operating unit and small banks, situated in the community, franchised to provide banking services.

Capital for the central operating unit could be provided by international aid agencies and Norton was sure SA sources would also be forthcoming. Branches in the community should be able to draw capital from the community, he added.

When asked whether it was true the major banks were considering selling off their home loan books to the proposed community bank, he said: "This is a fairly substantial and ambitious suggestion which is premature at this stage."

Other priorities Cosab would be dealing with included the nature and efficiency of financial services regulation, the image of retail banking and the tax laws, he said.

NKP restructures as income plunges

BDDM 29/9/92 (58)

PETER GALLI

NEW Kleinfontein Properties posted a 34,1% drop in attributable income before extraordinary items to R2,3m in the year to end-June from R3,5m in the comparable period last year.

NKP chairman John Mackenzie said the deepening economic recession and an uncertain political climate had ended the group's growth pattern of the past five years.

MD Grant Fischer said although the results were disappointing, they were not unexpected as extended recessionary conditions inevitably affected the performance of property development companies.

Turnover fell by 17% to R7,3m from R8,8m, while operating income dropped 31,2% to R4,1m (R6m).

An extraordinary item of R1,87m due to a write-down of the book value of its Ergo shares saw net attributable profit plunge 91% to R436 000 (R4,7m). As a result, earnings a share were 34,3% lower at 114,5c (174,5c) but the dividend was maintained at 62c. Accordingly, the dividend cover eased to 1,9 times from 2,8 times.

"The extent of the reduction in earnings was greater than what the 17% decline in turnover suggests as increases in development costs reduced the gross profit margin.

"While the short-term prospects for the property market are not good, the restructure announced yesterday will go a long way to alleviate NKP's volatility in earnings," Fischer said.

Under a scheme of arrangement, NKP will convert to a property loan stock company and has acquired a decentralised property portfolio worth R101,6m.

McCarthy plans to maintain earnings

EDWARD WEST

MCCARTHY group planned to maintain earnings at last year's level by stringent cost control measures in spite of the decline forecast in the vehicle market this year, chairman Brian McCarthy said in his annual review. BDAM 29/9/92

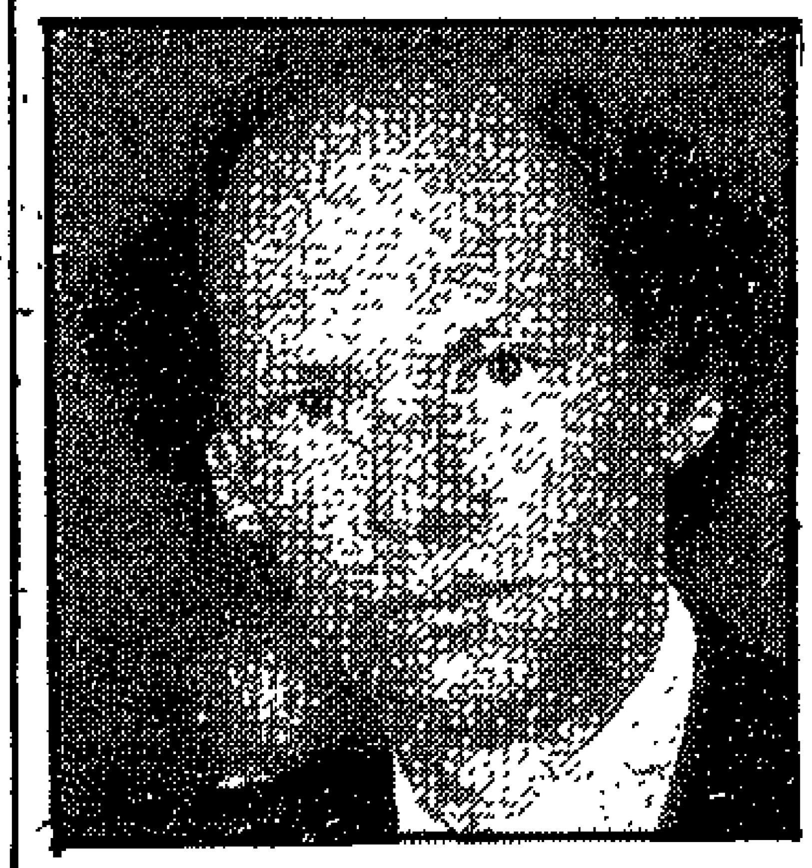
He pointed out that should the R4,5bn McCarthy merger with Prefcor Holdings get the go-ahead from shareholders next month, budgeted consolidated earnings should increase significantly.

Reviewing the year to end-June 1992, in which McCarthy Group sold one in seven of new vehicles sold countrywide, McCarthy said vehicle trading margins were under pressure, particularly in the second half. The group service division was the only division to achieve real growth, he added.

During the year R72m was spent in acquiring the Durban-based Volkswagen dealership Beachway Motors, two Toyota dealerships in the UK, a Toyota and MAN heavy truck dealership in Maritzburg, a Volkwagen dealership in Middleburg and a Nissan dealership in Umhlanga Rocks.

Referring to the group's non-retail motor interests, he said the Yamaha division remained the market leader in its motorcycle, outboard engine and power products sectors. (30)(192)

Midas, in which the group held a 36% interest, increased its market share.



Credit Guarantee managing director Chris Leisewitz.

Insurance cover for foreign investments

Local businessmen looking to acquire at least a 25 percent share in the equity of an existing or new business in a foreign country can insure their investment against political risk in terms of a new insurance policy available from Credit Guarantee Insurance Corporation.

The new policy protects a local investor against political actions by the host government, such as nationalisation or expropriation. CIM 30/9/92

The investment must have the approval of the host government and the SA Reserve Bank and be for a minimum amount of R100 000. It must be made with the object of earning an income for the investor, and promoting SA's export trade or the economic development of the host country, or both.

Long-term loans or guarantees for such loans will also qualify for protection provided they are connected with the acquisition of a share investment. Payment for the share acquisition or loan disbursement need not necessarily be in cash, but may be in the form of goods, services or technology.

Risks insured will include loss or damage due to war, civil war, rebellion and insurrection. Cover will be provided for a minimum of five and a maximum of 15 years and the indemnified loss will be 90 percent.

Sable property group rewards its investors

BDay 30/9/92 (58)

PETER GALLI

PROPERTY group Sable Holdings achieved real growth in the year to end-June, posting a 21,5% rise in attributable income to R12,31m from R10,14m in the comparable period last year.

Earnings of 164,5c a share were achieved (135c previously) and, as substantial cash resources from past earnings had accumulated, a dividend of 600c (45c) a share was declared — almost half of its present share price.

"This dividend is a practical means of rewarding our many longstanding shareholders for their support over the years . . . and the decision was influenced by the fact that money market rates have shown a steady decline," the directors said.

This payment would see Sable's net assets drop by about 42%, but the company would still have an extremely strong balance sheet which would, with its good record, enable it to make sizeable acquisitions, they said.

After the dividend payment, the share would have a net asset value of 853c (1 248c).

Turnover from rentals and sectional title sales for the year amounted to R31,45m (R122,34m in 1991), but this included revenue from the sale of Steiner Services.

The reduced asset base after the sale of its interests in Steiner would see profit drop, but the company would continue to develop in niche areas.

"The investment property portfolio continues to perform consistently and vacancies remain at acceptable levels. The property trading division produced good results and several successful commercial and residential schemes were completed in the first half of the year," they said.

Profit earned "more than compensated" for the very depressed market in the latter half of the year.

The share was untraded at its ruling price of R12,75 yesterday, but refleted a buyer at R12,25.

PROPERTY

Laws needed to give teeth to new body

Bdam 3/9/92. (58)

PETER GALLI

THE recent launch of the Public Property Syndication Association (PPSA) has been welcomed by the industry as a good start, but enabling legislation still needs to be passed before the association has any real powers.

The association was formed to keep an eye on the industry and prevent schemes which promised unrealistic returns.

A formal constitution and a code of practice have been adopted to deal with the problem of how to make the industry "responsible", and encourage acceptable business behaviour.

However, one of the limitations facing the PPSA is that it has no real powers over the industry, as membership is voluntary and no enabling legislation is in place.

The only power the PPSA has is to discipline or expel a member, while non-members fall outside its control. It has a membership of between 10 and 15, but expects this to grow substantially.

"If a member blatantly breaches the code of practice the association can discipline or expel him. The code is designed to enable unsophisticated members of the public to take an informed opinion," said steering committee member Kevin Moore.

He added that while the association could help prevent the public from being misled, it could not guarantee protection against financial loss.

Problems could not be solved overnight, but the formation of the PPSA was a step forward and its future depended on the Financial Services Board (FSB) providing it with powers which "gave it teeth".

Jerry Anderson of the FSB said the board generally believed in maximum exposure and did everything possible to promote this. However, as the PPSA did not have legal standing, the board could not enforce this policy.

The FSB was formulating legislation to give the PPSA statutory power, and the plan was to have it tabled in Parliament next year. It is understood the legislation wouldenable the association to prevent anyone from launching or promoting a property syndication scheme of which it did not approve.

Critical to the statutory authority would be the PPSA's right, in association with the FSB, to draw up an advertising code as part of the code of practice.

As the PPSA was not in a position to monitor and check every scheme, each member would have to sign an affidavit saying the promoter adhered to the code, and produce a statement signed by the promoter's attorney or accountant saying the proposed syndication complied with all legal requirements.

The PPSA operates as a division of the SA Property Owners Association (Sapoa).

Sapoa executive director Brian Kirchmann said the requirements would force promoters to disclose significant amounts of information about syndication schemes.

House prices rally in cheaper suburbs

LINDA ENSOR (58)

CAPE TOWN — House prices in lower-priced suburbs were rallying strongly on a national basis, though weaker growth had been experienced in the upper end of the housing market, says the Rode report on the SA property market in the second quarter.

"Latest indications are that lower-priced suburbs are growing at about 28% on a year earlier, middle-class suburbs at about 16% and upper-class houses at 4%. House prices, in particular the lower and middle priced suburbs, are happily outperforming the inflation rate."

However, strong regional differences exist, with the largest improvement shown by Port Elizabeth.

An average increase in house prices of all classes of 11% this year and 12% next year was forecast, with rental rises for flats predicted at 17,9% and 17,4%. In some areas there had been a small increase in apartment vacancies.

BIDay 30/9/92

Residential prices and rentals were showing greater resilience in the face of the recession than nominal rents of non-residential properties, which had stagnated.

Negative or zero growth in office rentals was forecast for 1992 and a 10% growth in prime CBD office rentals in Johannesburg, 17% in Sandton, 7% for Pretoria, 4% for Durban and -7% for Cape Town in 1993.

Most nodes had more than 8% of their A-grade office space empty and some much more. Take-up of combined A, B and C office space for the Johannesburg CBD was expected to be negative in 1992 and 1993.

Pretoria still had high office vacancies, while A and B vacancies in the Cape Town CBD had increased steadily. Pretoria rentals were expected to lose more ground, while Cape Town and Durban would continue to suffer the aftermath of "building binges".

Retail rentals had continued to plummet, while most centres were struggling to equal mid-1991 levels of industrial rents. No change was forecast for the next 18 months. Industrial vacancies were rising.

In the industrial market, the central Witwatersrand was holding on in nominal terms but there had been a decline in the rest of the Witwatersrand.

Rode forecast an average 5% increase in industrial rents on the central Reef this year, rising to 14% next year.

Building costs were expected to rise 6% this year and 13% next year.

New Seeff company

BI DAY 30/9/92 (58)

PETER GALLI

IN line with its aggressive policy of trying to improve waning perceptions of the investment value of property, Seeff Holdings has launched a new marketing and sales company, Seeff Projects.

"It is responsible for the sales and marketing of townhouse and cluster home developments and complements the Seeff Residential Properties company," said MD Paul Cowan.

Seeff Projects had undertaken marketing responsibility for an established portfolio of more than R300m, which included the R45m final phase of the Willows Estate development near Northcliff, La Camargue, Impressions and Island Court in Sandton, he said.

Other properties in the portfolio included two developments in Bedfordview, one in Pretoria and several low-cost developments soon to be launched in Randburg, northern Johannesburg and Sandton.

Almost half of the portfolio consisted of developments in the western Cape.

It would also market developments undertaken by Seeff Slot Projects.

Cowan feels property values are set to increase dramatically over the next two years. "There are a number of reasons for this, including overseas interest, pent-up local demand and lack of confidence in the JSE," he said.

He believed the property market operated from a perception point of view and the market needed only "a little shunt", such as positive political developments, to trigger renewed activity.

All Rand Merchant Bank divisions shine

SHARON WOOD

SOLID performances in all of its divisions saw Rand Merchant Bank Holdings (RMBH) lift earnings by 22% in the year ended June 1992. (58)

RMB MD Paul Harris said it was unusual to find all divisions doing well and attributed the good performance to the quality of the bank's team.

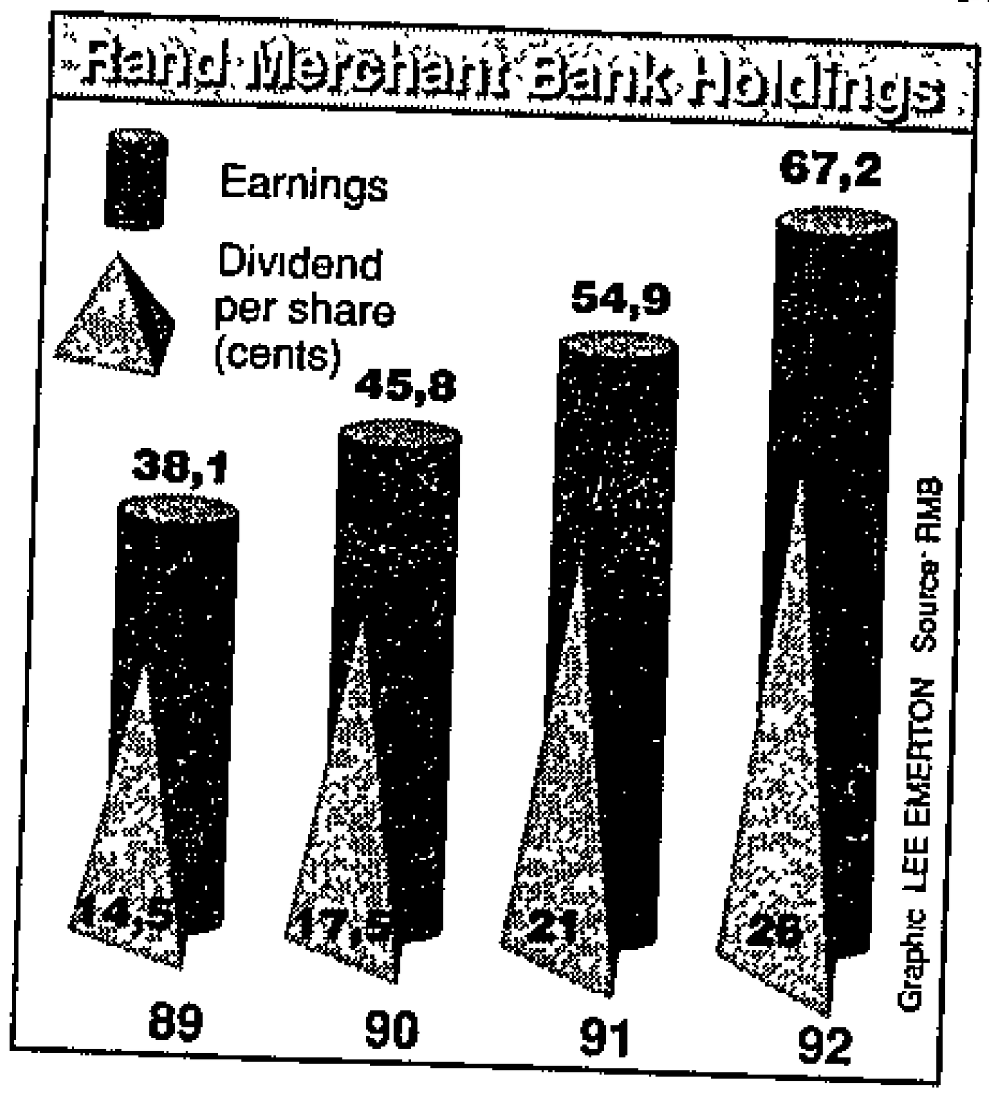
The bank had benefited from the recent bull run in capital markets and had generally profited from volatility in financial markets. BDay 30/9/92

Earnings rose to 67,2c a share (54,9c) and dividends increased by 24% to 26c a share (21c). Net income was R37m, a rise of 22% from the previous year's R30,25m.

RMBH retained its target level of more than 25% on shareholders' funds and the actual return based on primary capital for 1992 was a healthy 25,3%.

The group strengthened its balance sheet during the year when it raised secondary capital of R100m by issuing subordinated irredeemable debentures.

Harris said this was a significant increase in capital and would allow the bank to become involved in much bigger transactions. The balance sheet grew to R2,96bn from R2,76bn the previous year.



The group was well above the target 1995 capital adequacy requirements of 8%, with a risk adjusted capital to asset ratio close to 13%.

Harris expected another good year for its corporate and project finance business because RMB had a good client base.

During the year under review RMB had been busy in the project and structured finance field, he said, and there was always potential in the market if innovative financing packages were offered.

The corporate finance business had also been buoyant. RMB had been involved in the rights offers for Huntcor, HLH, Rainbow and Malbak. It had also been involved in the Bonny Bird/Rainbow Chicken merger, the Murry and Roberts acquisition of Unitrans, the Fralex takeover of Waste-Tech, the Malbak takeover of Fedfood and SA Druggists, the Malbak/Murray and Roberts restructuring and the Bearing Man/Steelmetals merger.

A number of divisions in Momentum Life had been restructured during the year and Harris said after some initial hard work, the acquisition of Momentum would provide shareholders with a sound long-term investment and superior returns.

The restructuring had involved the merging of all asset management business in RMB and Momentum into a RMB asset management company with assets of more than R10bn.

Harris said this put it into the big league.

Profit maintained at Sasfin despite risks

DUMA GQUBULE (58)

TRADE and equipment finance ~~company~~ Sasfin has posted a 3% advance in attributable earnings of nearly R2,5m for the year to June. BDay 30/9/92

MD Roland Sassoon said profit had been maintained despite a worsening economic environment coupled with increased credit risks.

The group's performance improved consistently throughout the year with the second six months showing an increase over the first.

Operating income before tax was up 2,5% to just over R2,5m. Tax and preference dividends absorbed R65 000 and attributable income came to nearly R2,5m (R2,4m), equivalent to 21,9c (21,2c)a share. An unchanged interim dividend of 8,5c a share was declared.

Sassoon said the group had become an increasingly sophisticated and significant asset-based financier and was now a meaningful player in the office equipment and rental market.

It was well placed to move into the future with gearing remaining well within the industry norm, he said.

Rise in insurance complaints noted

BDay 30/9/92

ANDREW KRUMM

A RISE in the number of complaints to the short-term insurance industry ombudsman is not linked to the difficult period in which the industry finds itself, says Ombudsman Bill Schreiner.

Reviewing his role for the year to March 1992, Schreiner said the number of cases his office took up rose 73% to 599 from 347 last year.

"I doubt the rise is connected to the difficult period through which the industry is passing, and a subconscious tendency among insurers to look for reasons to repudiate claims."

Schreiner said the increase was probably due to the public's increased awareness of their ability to complain.

However, he warned dissatisfied claimants that neither his office nor the media should be used as a lever to persuade an insurer to a favourable decision.

Schreiner also criticised the small number of insurance companies that refused to negotiate in good faith, and closed their files on cases in dispute.

"We can only act as a mediator where there are two parties to a negotiation. So, where a small minority of insurers refuse to participate, I can do little."

Of the 599 cases his office handled during the year, less than 30% had led to a decision in favour of the insured person.

"This is not out of the ordinary. In the Ombudsman Bureau in London there was a finding in favour of the insured in around 30% of the cases undertaken last year," Schreiner said.

Malawian democrats seek SA aid

BILLY PADDOCK

EXILED Malawi Democratic Party leader Kamlepo Kalua is trying to persuade SA businessmen to lobby President Kamuza Banda into democratising Malawi. BDay

In a statement yesterday Kalua, who with other party members fled Malawi after the detention of opposition leaders, said repression under Banda was reminiscent of the abuses of former Ugandan president Idi Amin. 30/9/92

His party's aim was to institute multiparty democracy.

"We want free and fair elections. We want a government which is accountable to the people. We want an economic system where there are opportunities for all and where market forces will bring growth and create wealth for all," he said.

He called on the business community in general and "those dealing with Malawi in particular, to apply pressure on the Banda government".

He said the threat by Banda that opponents to the government in Malawi would become "meat for the crocodiles" indicated that elections would not be held without severe pressure being applied.

Thabo Says

Investment advice on Fixed Deposits

Sowetan 1/10/92.

58

I HAVE previously mentioned that the South African economy is an integral part of the world economy.

Hence, the decline in interest rates and the recession experienced by our country's major trading partners such as Japan, Germany, the US and the UK, have an impact on our economy.

Admittedly, our economy has been in recession for more than three years, meaning, there has not been any real growth and we have high levels of unemployment and inflation.

For the investor at the short-end of the market, this is not good news at all. Short-term interest rates have dropped by an average of 3 percent over the past eight months, with inflation coming down only one percent.

Although the capital market investments (investments in gilts) is following the money market trend, such investments still outperform inflation and investors enjoy capital appreciation as rates come off.

In the light of what I have said, let us look at what banks and building societies offer to short-term investors.

FIXED DEPOSITS AND NOTICE ACCOUNTS

In your financial planning, you'll be expected to meet your short-term obligations, therefore you cannot tie up all your investments over a long period.

A *Fixed Deposit* (FD) is a lump sum of money that you can invest for a fixed period of time, from 6 to 36 months at a fixed rate of interest. You have a choice, depending on your income needs, as to when you receive your interest. Interest on a Fixed Deposit is paid out monthly, quarterly, half-yearly or at the end of the term of your investment.

It happens at times, that an investor gets into financial difficulty and needs to withdraw his capital before it reaches maturity. This is not allowed, except under circumstances which can only be approved by the bank. In a situation where you cannot withdraw your capital before maturity, you can pledge your FD as security to borrow money which may not exceed the value of your FD.

The only advantage of a FD is that your guarantee on your capital is invested at the rate of interest offered when you took out your investment.

On the other hand, *Notice Accounts* (32, 64 and 88 days) do not have stipulated fixed periods, but are only payable after you have given notice for withdrawal, depending on your particular notice contract. Unlike in a fixed deposit, interest rates on Notice Accounts fluctuate depending on the ruling rate at the given time.

COMPANIES

Barprop dividend goes up 6,1%

PETER GALLI

BARLOW Rand Properties (Barprop) has declared a 6,1% higher dividend at 12,23c a share for the year to end-September from 11,53c in the comparable period last year.

A final loan-stock interest payment of 62,832c per 700c unit brought the total payment for the year to 125,56c a unit (118,37c previously). (58)

Directors said in a statement the results were in line with those forecast in the last annual report and at the interim stage.

Turnover grew by 9,7% to R53,6m (R48,9m), with operating income rising 9,8% to R47,2m (R42,98m), but this was offset by a 19,9% drop in investment income to R9,1m (R11,36m).

The group had continued to reinvest in prime facilities. "Investments in revenue producing properties and new developments saw cash held on short-term deposits fall, which, combined with lower interest rates, resulted in this drop," they said.

As a result, income before loan-stock interest edged up 3,6% to R56,3m (R54,34m), but a 6,2% rise in loan-stock interest paid at R37,7m saw pre-tax income fall 1,2% to R18,6m.

However, an 8,1% lower tax rate at R7,3m resulted in taxed income growing 3,8% to R11,3m. B/DAY 1/10/92.

Metfund sees cash outflow

(58)

ANDREW KRUMM

THE Metfund unit trust experienced a net outflow of cash in the quarter to September as investors reacted to the unhealthy equity market. B/DAY

Investec fund manager Stephen Mills said assets under administration had dropped to R25m from R30m at the beginning of the quarter. 2/10/92.

However, Metfund outperformed the JSE All Share Index for the 12 months to September, recording a 6,8% total return to the index's 0,8% rise.

A liquidity increase sheltered the unit price from fluctuations.

Selling off all De Beers, Iscor and Royal Corporation shares, the fund was now looking for resilience in earnings in the banking and insurance sectors.

Best yields from Natal resorts, say developers

58

B Day 2/10/92

PROPERTY developers are divided as to which coastal area offers the highest capital growth and the best return on the investment.

Anglo American Property Services (Ampros) estates development director Peter Gardiner says the return on coastal property investments in Natal has been far better than in the Cape.

Seasonal

"Natal is better off than the Cape for two reasons. Firstly because of the Cape's seasonal weather and, secondly, it is closer to the Reef. For these reasons, Natal has higher usage and better returns," he says.

Rode Report editor Irwin Rode agrees, saying that since the end of 1990 Durban properties have been showing better capital appreciation than other areas.

"Durban is merely catching up with the rest of the market after underperforming in the late 80s after being seriously hit by a lack of investor confidence following violence at that time and is presently showing annual growth of about 30%" he says.

Port Elizabeth is showing a similar trend after being hard-hit by riots in the mid-80s and Ford's pull-out, which saw confidence in the area plummet.

"As a result, new house completions lagged behind the rest of the country, but demand began to increase steadily and is now exceeding supply, resulting in annual growth of about 40% at present.

"However, both Durban and PE will probably see this growth rate decline sharply be the year-end," Rode says.

Gardiner says there is a dire shortage of coastal land where development is environmentally acceptable. A thorough environmental impact assesment prior to the go-ahead is imperative.

However, realty agent and North Coast property specialist Fred Pearson says the Natal North Coast has seen property values outperform those of Plettenberg Bay and the Natal South Coast.

Proves

"A recent study by our company of rises and falls in coastal property values over the past 18 years proves the conventional wisdom that has seen the North Coast become a haven for smart money," he says.

Gardiner says many families have begun to feel their annual holiday costs are too high and are therefore thinking about buying a second-home at the coast, which often becomes the home to which they intend to retire.

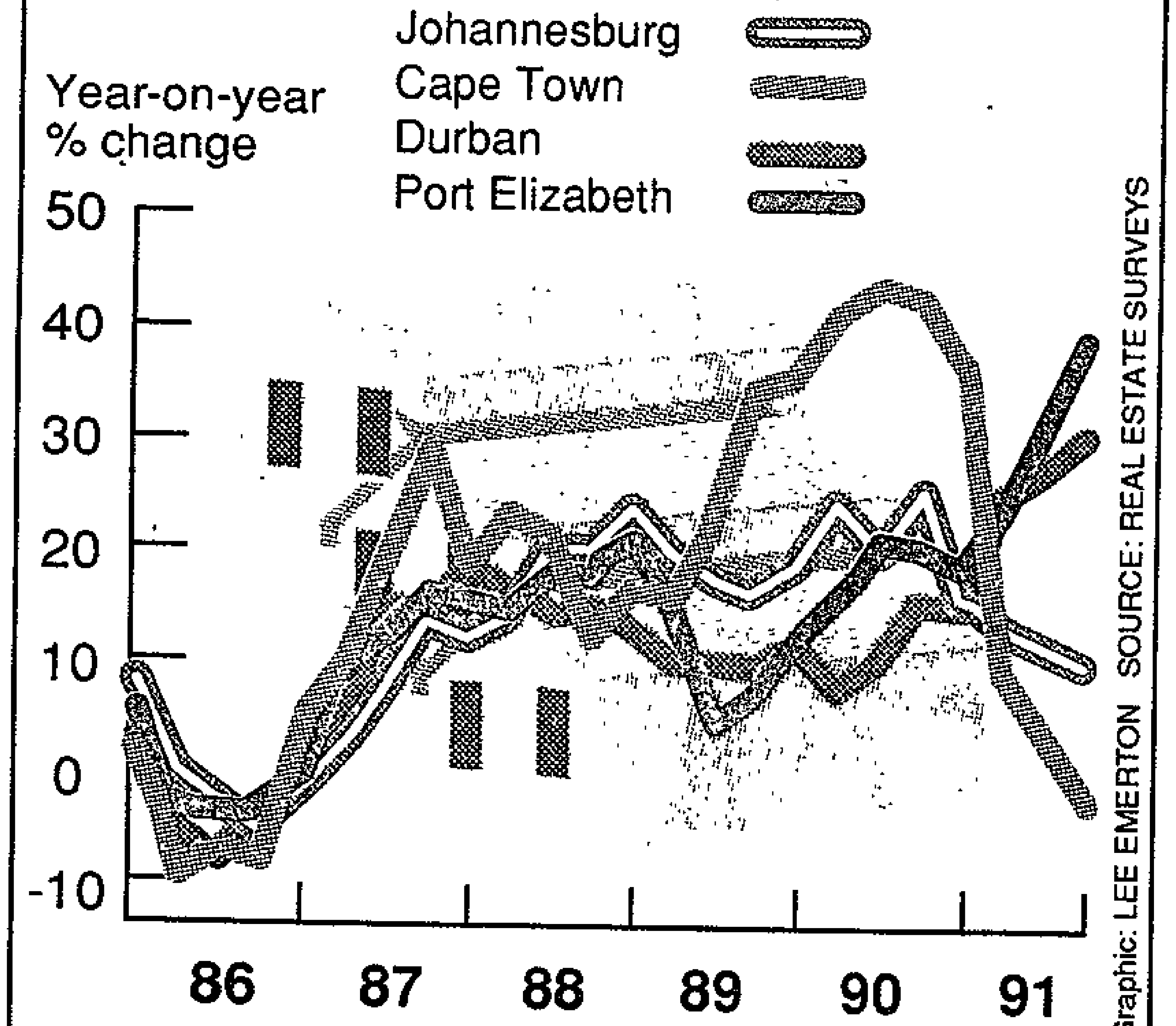
Some 65% of buyers at Ampros's Santorini complex on the Natal North Coast have been Reef dwellers, but this is changing as the new freeway has brought it within 20 minutes of Durban.

Another North Coast development, The Islands at Chaka's Rock, has seen 17 of the 20 simplex units sold for a total of R6m.

Developer Jack Pearson says: "The development has escaped the rigours of an ugly recession because it caters for a niche market drawn from families with a tradition of wealth and less prone to the cyclical moves of the SA economy".

Gardiner says the lack of political consensus remains an investment disincentive, and resorts are the first to get knocked in a depressed economy.

Rode's house price index
Growth rates compared



Graphic: LEE EMERTON SOURCE: REAL ESTATE SURVEYS

BEERS, up 10c to R52,75, and RICHEMONT which edged up 10c to R37,60. Richemont came off a high of R38,25 but dealers said a price of over R40 would have been more in line with the softer finrand.

ABSA's steady rise was stemmed as the shares slipped back 25c to 975c with NBSHOLD, up 25c to R10,75, and GDM, up 10c to 230c, the strong spots in the bank sector.

MERVYN HARRIS

NBS Hallmark grows marginally

(58) ANDREW KRUMM

NBS Hallmark Mutual Fund grew marginally in the third quarter to R43m from R42,2m in June, says MD Ken Burns.

The fund declared a dividend of 22,1 cents a unit for the financial half-year to September. BDM 2/10/92.

Burns said a sales inflow, coupled with net selling in the portfolio, enabled fund managers to increase liquidity from 20% in June to 33% at the end of the September quarter. The high liquidity was indication of the managers' caution in the present stock market uncertainty both locally and overseas.

During the quarter the fund quit the gold board and disposed of its holding in Amcoal. It also baled out of Anglovaal debentures, Sasol, Powertech and Pick 'n Pay. Managers offloaded half the fund's holding in De Beers, and switched R3m in Elfi Bear stock to medium long-dated gilts.

"We are positioning the fund to take advantage of good buy opportunities that will result from further weakness in the JSE and overseas stock markets in the next few months."

He added that the rand was expected to weaken against other major currencies, and fund managers would thus focus on rand-hedge shares in the fourth quarter.

Metlife performs in line with other funds

ANDREW KRUMM (58)

BDM 2/10/92

WITH the all-share and industrial indices showing negative returns of 12,5% and 7,2% respectively, Metropolitan Life unit trust, Metlife, showed a negative yield of only 2,1% for the quarter to end September, MD Eric Turner said yesterday.

Declaring a maiden distribution of 7,9c a unit, Turner said the fund's performance was in line with the dividend yields of other general funds.

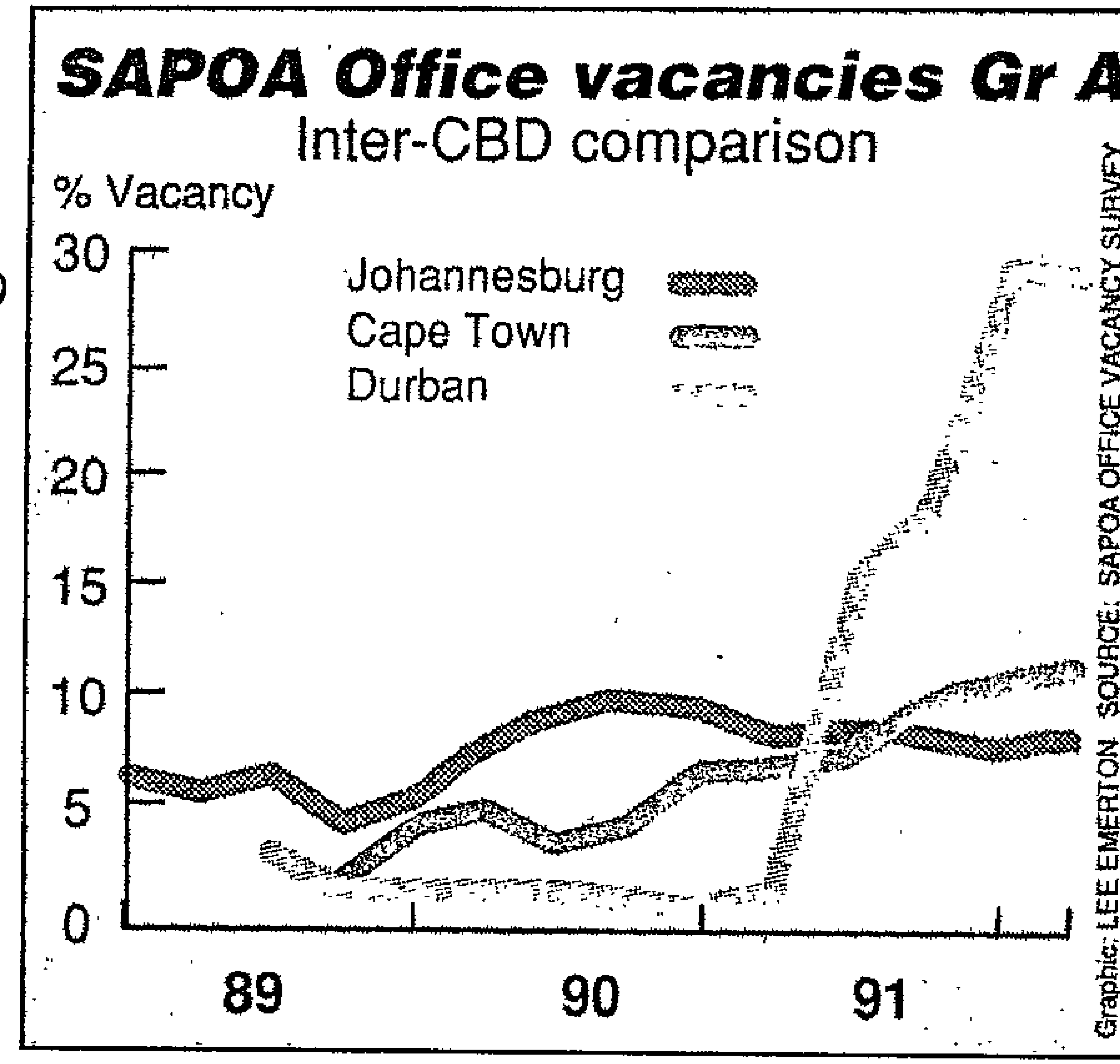
He said investors were bearish about the course of corporate earnings over the next 12 to 18 months, while socio-political conditions continued to have a negative impact on market sentiment.

In view of this, managers had increased the fund's level of liquidity to about 37%, and would maintain it there for some time.

Downturn forces developers into niche markets

BLOOM 2/10/92

58



PROPERTY players generally agree coastal areas have not escaped the problems of oversupply, lack of tenants and buyers and declining prices and rentals.

Office rental levels are under tremendous downward pressure, the industrial market is quiet and, although retail developments are continuing, these are in niche areas and are demand driven.

Alternatives

"The present political and economic environment is resulting in many prospective developments being held back and developers are being forced to find alternatives or niche markets," says RMS Syfrets Cape MD Coenrad van der Bergh.

On the commercial front, the company is still receiving inquiries for space but not many deals are concluded, as existing landlords are prepared to offer a number of incentives to keep clients.

While Cape rental levels are under downward pressure, this is not as severe as in Johannesburg's CBD despite vacancy levels being much the same, about 12% in Cape Town.

Anglo American Property Services Cape Town branch manager John Laws says commercial and industrial markets in Cape Town have not been sheltered from oversupply, lack of tenants and a decline in real rentals.

"Although the situation is not as dire as in Johannesburg, rentals have declined and an oversupply is developing," he says.

Van der Bergh says present retail development tends to be demand driven, and the market is more buoyant than other sectors as retail development often lacks commercial and industrial.

"Alternatives have to be found to conventional developments as, on the retail side, areas such as Cape Town, Port Elizabeth and East London are oversupplied with major shopping centres and growth appears to lie in regional centres," he says.

Decrease

On the residential front, brokers agree the value of coastal properties has been affected by the present recession. "It is definitely a buyers' market, and the recession has caused a decrease in real term values and rentals.

"Prices are static at the moment and a buyer of a year ago would probably get what he paid if he were to sell today," says Pam Golding Properties' Helderberg branch agent Norman Millar.

There is a noticeable influx of Transvalers eager to escape the security stresses of the Reef and to start a new way of life in the western Cape, he says.

The branch has also dealt with many inquiries for guesthouses or properties suitable for conversion to this. In Somerset West alone, two new guesthouses have opened, while a third is being expanded by new owners, he says.

Garden Route branch manager Alastair Wallis says after a few years of tremendous growth, property prices and values along the southern Cape coast have stabilised and are holding.

"This is with the exception of urgent sales where sellers are accepting lower prices. Rentals of commercial, industrial and residential property have risen by 25%, securing a better return for the investor," he says.

ager alone, two new guesth- coast have stabilised and tor," he says. However, certain prime

Potential buyers wait for signs of political stability

Blom 2/10/92 133 58

EVEN though coastal property markets are more protected than others, conditions are extremely tough and competition is fierce, says Rabie Property Developers chairman John Rabie.

"While our level of trading is satisfactory, to move property today requires a lot of effort as the market is extremely tough due to both political and economic uncertainty," he says.

Prospective buyers are looking for confirmation of future political stability before committing themselves to the purchase of a house, and the establishment of an interim government would help in this regard, he says.

The company covers the full property spectrum, from residential to retail and commercial. It has been notably successful in the western Cape sectional title market, particularly in Hout Bay.

Present economic conditions are forcing developers to be cautious. "As a listed company we cannot take chances so all of our developments are pre-sold, either off-plan or from a show village.

There is light at the end of the tunnel and although it will take time for the market to improve, those companies which have identified niche markets will survive, Rabie says.

J H Isaacs Umhlanga branch manager Alan Rowe says owning property at the coast is a good investment — properties at Umhlanga and Ballito are holding their 1991 levels.

Constant

"While fewer properties are being bought now than at the beginning of the year, the prices being fetched are constant.

"A lot of new coastal developments are coming on stream, with quality properties available around the R300 000 mark, well below the norm for established parts of Umhlanga," he said.

Tight market conditions have resulted in cut-throat competition for available building contracts, with some companies even tendering below cost.

Despite this, Group Five Building-R H Morris has started work on several new Cape projects since completing a R30m contract for the University of Cape Town's Graduate School of Business, overlooking Cape Town's Waterfront development.

The completion by the company, on schedule, of the university project was "a genuine feat" as the company was given only 13 months to complete the R30m contract.

"The market is presently extremely tight and our problem was to replace the university contract and keep our staff busy, but fortunately a number of contracts were signed," says MD Frank Wright.

"R H Morris is now busy on the second phase of the Fancourt country club development, outside George. Phase 1 was completed in April this year," he says.

The group has also become increasingly involved in refurbishment contracts and has developed a high level of expertise in the field, he says.

Green development gains pace

Visit our Sales

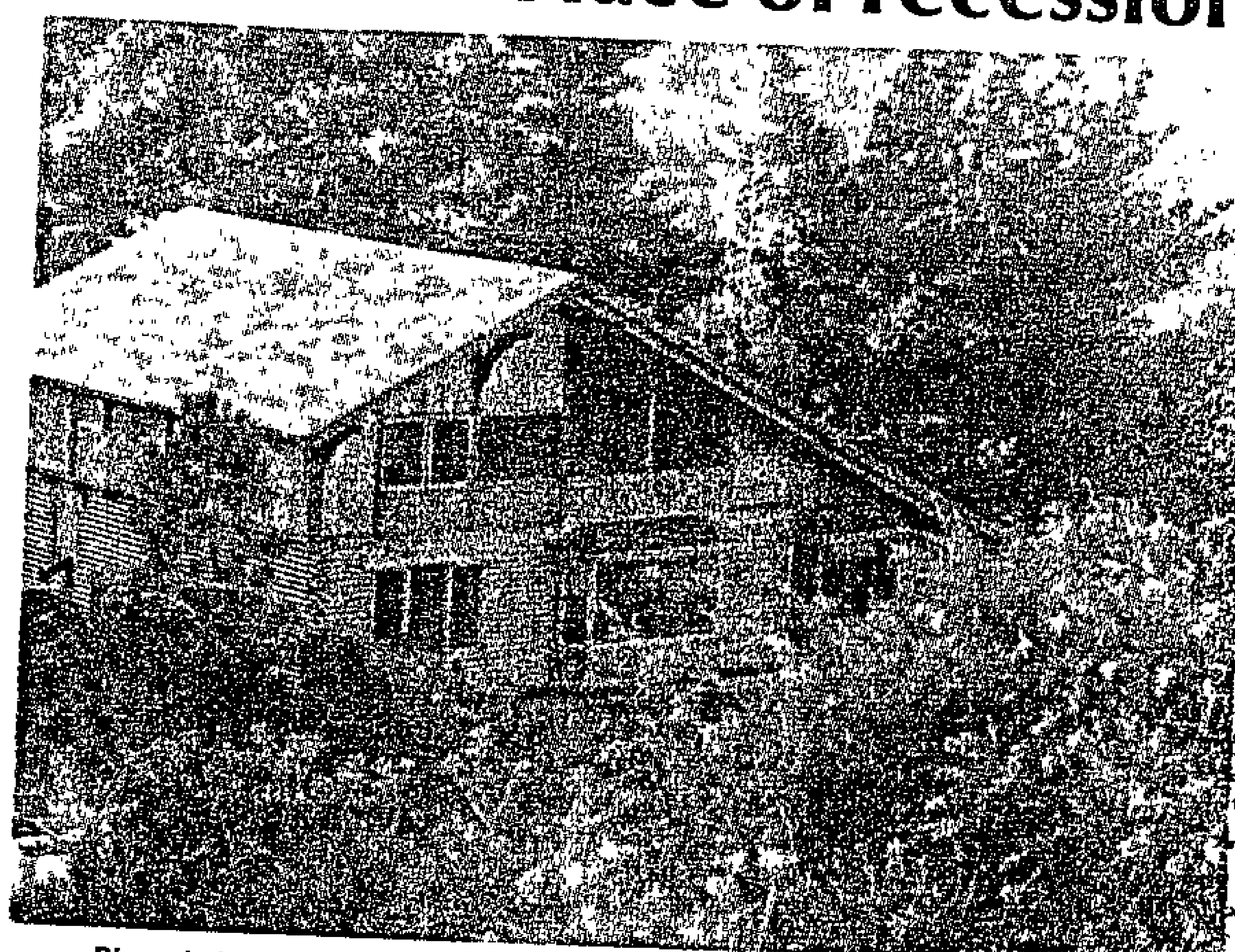
B/Day 2/10/92

All areas vulnerable in face of recession

A WIDESPREAD belief that coastal properties yield higher returns than elsewhere in times of economic and political turbulence is a generalisation and not always true, market players say.

Murray & Roberts Properties (Natal) development analyst Mike Luiz says all sectors in the property industry have been equally affected by the current economic recession.

"The severity of the recession and lack of political stability is prolonging the current downward trend due to certain lag factors, a situation we believe will not improve in the next 12 months," he says.



Riverglades village development in Knysna offers homes from R275 000.

Liquidated

Seeff Cape Residential Properties MD Samuel Seeff says: "One of the first assets liquidated by many second home owners in a recession is precisely that home, as they feel the expense of maintaining the property outweighs the gain of the limited time spent there."

Prime coastal areas continue to reflect demand, translating into capital growth exceeding that of other areas as demand drives prices up, he says.

"However, certain prime coastal areas, such as Hermanus, are not performing as well as they should and some properties in these areas are not holding their value as well as expected.

"There is still upcountry demand for second homes on the coast, with Cape Town perceived as a safe haven in troubled times. Not only are people looking at investing in property here, but also seriously considering relocating," he says.

However, the residential market is unable to provide an investor with the same returns as certain other forms of investment yield. But properties are also being purchased for their capital growth and enjoyment benefits.

"The top end of the market is very quiet as people hesitate to commit themselves, given political uncertainty and the recession, but the lower end of the market remains buoyant," Seeff says.

Board of Executors Properties director Jonathan Fair agrees, saying a distinction must be drawn between holiday homes and property for full-time residential use.

"The second home market is susceptible to economic adversity, as is now evident. The middle to upper end of the market is suffering, however, as people find their disposable incomes under increased pressure," Fair says.

However, people buying residential properties as first homes tend to buy in line with prices they can afford.

Interest

Seeff says the present political climate and escalating violence has resulted in greatly increased interest in coastal areas. "However, investors find their money does not go as far on property in the Cape as inland and many are unable to afford the house or location they desire."

Rabie Property Developments chairman John Rabie says coastal properties, particularly in the Cape, are holding their value and appreciating more rapidly than in other areas.

# of political stability

parts of Umhlanga, he said.

Tight market conditions have resulted in cut-throat competition for available building contracts, with some companies even tendering below cost.

Despite this, Group Five Building-R H Morris has started work on several [illegible]

company was given only 13 months to complete the R30m contract.

"The market is presently extremely tight and our problem was to replace the university contract and keep our staff busy, but fortunately a number of contracts were signed," says MD Frank Wright.

"R H Morris is now busy [illegible]

Growing interest in retirement village projects

58

B|DAY 2|10|92

COASTAL retirement villages are springing up and reflecting sound interest as many upcountry buyers seek the quality of life offered in these areas.

However, many people already living at the coast are also buying into retirement villages in the same area because they want to continue seeing their family and friends and maintain use of their clubs and recreational facilities.

About 70% of the potential buyers inquiring about the new Cle du Cap retirement centre in Constantia Valley live within 10km of the centre, a development which will be sectional title and levy-free.

"Real ownership is an extremely important factor, especially with the poor history of some retirement developments, and risk-taking cannot be part of a retirement investment," says one of the developers, Jonathan Kark.

The elimination of levies is desirable as many older people were reluctant to buy into retirement villages for fear that levies might rise beyond a level they could afford, he says.

The elimination of levies would be achieved by a R1m injection into the levy fund by the developers for the maintenance and running of the village.

"This will be regularly supplemented by the profit made on the resale of units, where the original owner receives his initial purchase price in full, with the profit providing continuing finance for the village's operations," he says.

Other centres use varying percentages of the proceeds of resale profits to boost their levy stabilisation funds, which is used to help contain levies.

Grinaker Property Development's coastal branch director Roland McNamara says his group's developments are assured of success as they are on bond-free land and financed by purchasers who receive bank guarantees that their funds will be returned should the development not go ahead.

"These developments have also all had the backing of the financially secure Grinaker Construction group. Levies are also kept at reasonable levels due to stabilisation funds accumulated from profits on the resale of units," he says.

The company has been involved in the development of Milldene Park in Durban North and the Ramsgate retirement centre on the South Coast.

Russell, Marriott & Boyd Trust Cape executive director Carl Scheppening says the evolution and growing sophistication of retirement centres in the Cape has led to at least five categories of such developments. These range from those with no service and, in one case, no levies, to a totally comprehensive, fully serviced centre like its St James retirement complex.

People who criticise retirement centres for their high levies underestimate the costs involved in running and maintaining such centres, he says.

The Board of Executors Properties' involvement in the residential market is limited to Belvidere Park, a luxury retirement village overlooking the Knysna Lagoon, which is a joint development with Basil Read.

There has been a surge of interest in Knysna properties recently as buyers appear to be looking for a secure environment with investment potential.

"Knysna is perceived as a safe haven as it falls out of the mainstream urban metropolitan areas," he says.

Some buyers intend using the home as a second home until they retired, while others are investing in the future and buying the property now and renting it out until they are ready to use or resell it.

Bank rolls over repurchase deal to aid market

BDAY 2/10/92

HILARY GUSH

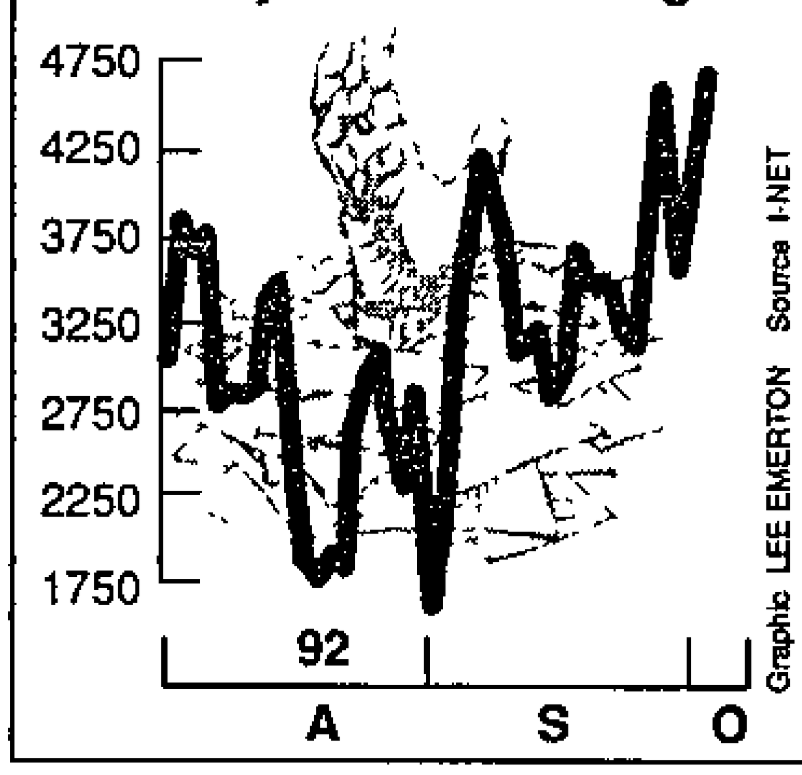
IN A BID to relieve the money market of tight liquidity the Reserve Bank yesterday rolled over the special repurchase deal announced to banks on Tuesday.

The Bank's Corporation for Public Deposits offered to buy back gilts and semi-gilts to a maximum value of R500m for a five-day period to put some liquidity back into the cash-strapped market.

The shortage, the extent to which the Bank — at a price — finances the money market, rose to R4,76bn on Wednesday from Tuesday's R3,586bn. Similar lows were last recorded in early July.

Offers totalling R700m were received by the corporation, with R500m of these being accepted at an average rate of 15,31%.

Money market shortage



Had the Reserve Bank not actively intervened in the money market last month, Bank GM Andre Kock said the shortage could have reached the R5,5bn many analysts had predicted.

He did not expect a speedy return to greater market liquidity, even though the shortage was traditionally lower at the beginning of the month as government spending filtered into the market.

Kock said the shortage would probably fall gradually over the month, but a level "much below R4bn" was unlikely.

In spite of government spending in the homelands, dealers did not expect the shortage to fall before Monday, as cash — in the form of tax receipts — continued to leave the system.

SHORT-TERM INSURANCE SECTOR

FM 2/10/92

Coming of age in the new SA

(58)

The shares have performed well in adversity — balancing reward against risk

If two brothers considered careers in the insurance industry, the clever one would join a life office while the dim one would go into short-term insurance. That joke — popular in insurance circles — is usually told by brokers who consider themselves the cleverest of the lot.

Not surprisingly, the volatile performances recorded in the past earned the industry a boom-and-bust reputation. That is changing: previous sharp downturns have taught insurers to be quicker on their feet and underwriting cycles are being better managed, at least by the bigger groups.

The strong rerating of shares in the insurance industry has not been confined to the long-term sector. Since 1990 most short-term shares have shown significant gains, proving fairly resilient to recession. Despite the general drop in the market in recent months, the JSE Insurance index — reflecting both life assurers and short-term companies — has fallen only about 3% from its annual high, second only to the Pharmaceutical & Medical index. That compares with a 16% decline in the overall index.

Results so far show that 1992 is a turnaround year. All seven listed groups are showing underwriting profits, compared to only two in 1990. Recent interims show underwriting profits climbing back strongly (see table). But after a few years free of major weather-related claims, is the industry heading for one of its periodic declines?

Dividend and earnings yields make short-term insurance shares still comparatively attractive. But the industry is, by definition, a risk business, and has traditionally been treated with caution since it is so hard to predict what lies a mere six months ahead.

The absence of any major natural disasters so far this decade (the drought does not really affect short-term insurers) has been the single biggest factor contributing to the industry's underwriting turnaround, closely followed by last year's sharp premium increases. At the same time, there have been growing signs of industry maturity since 1990, the trough of the last underwriting dip. Reserves are growing, as are assets, and in most cases solvency margins are improving. Market leaders like Mutual & Federal (M&F) are even setting up special catastrophe reserves to draw on if big disaster claims

cont

FM 2/10/92 (58)

world markets will have to consider obtaining a ranking. Robin Monro-Davies, MD of the London-based credit rating agency IBCA, visited SA this week to discuss the possibility with major banking groups. "The immediate problem for them," he says, "is one of country risk. The political risks will downgrade them — whatever their individual merits."

However, a rating may be essential. Amalgamated Banks of SA (Absa), which has received a top local rating from Republic Ratings, the sole domestic rating agency, is considering using the services of several international rating agencies. Says deputy CE Danie Cronje: "An acceptable international rating will facilitate the negotiation of credit lines and the arrangement of interbank facilities. Equally important, the rating achieved would influence the pricing of such international credit lines."

Standard Bank MD Mike Vosloo, who sees no advantage in obtaining a local rating, is considering applying for an international one. So, too, is First National Bank, which received a top local rating, says senior GM Viv Bartlett.

Nedcor executive director Leon Porter says Nedcor has not applied for a local rating but is considering an international one. He has "mixed feelings about the process because country risk will override other factors. But rating will become inevitable." He suggests that SA banks will first focus on the interbank market, acquiring short-term ratings, and subsequently look at longer term ratings for the capital market.

The rating process takes from one to three months and will cost each bank £15 000-£20 000.

Moody's and Standard & Poor's have about 90% of the rating market, says Monro-Davies. IBCA, established in 1978, specialises in banks, he says, and provides rating reports and statistics on about 300 banks in 25 countries. ■

MONEY SUPPLY (58)

Comfort zone

FM 2/10/92

After a brief period above the guideline range for growth of 7%-10%, M3 growth headed back into the comfort zone in August, according to Reserve Bank statistics. Year-on-year growth in M3, the broad monetary aggregate, was a provisional 8,72%. M3, measured from the base of the current guideline year (mid-November 1991) and annualised, grew a provisional 8,73%. This follows growth of 0,46% in the month (-0,46% seasonally adjusted).

Revised figures for July show that M3 over 12 months grew 10,11% from an originally estimated 9,85%. Annualised and seasonally adjusted M3 growth was 10,52% from 10,16%.

Of the other monetary aggregates:

□ M1A grew 12,17% in the 12 months to July to R36,1bn, (1,39% in the month);

FM 2/10/92 (58)

□ M1 10,25% to R63,8bn (-0,23%); and

□ M2 13,66% to R167,9bn (1,91%).

Figures on credit extension (which together with inflows of foreign funds is the counterpart of monetary growth) showed:

□ Domestic private credit extension grew 10,09% in the 12 months to July to R200,3bn. In the month it grew 1,45%, only the second time this year that it has risen above the 1% mark (February 1,06%);

□ Overall private sector lending is still weak with meaningful growth only in mortgage advances, up 17,09% over 12 months to R76,9bn (1,33% in the month) and leasing finance, up 22,73% to R14,3bn (0,79%).

But, says Standard Bank group economist Nico Czypionka, the growth in these subcategories is misleading: "Some people are shifting to mortgages as a source of finance because this is cheaper than other forms."

"The growth in leasing finance is partly the result of special financing schemes to boost flagging vehicle sales";

□ Other loans and advances 0,26% down to R71,6bn (-0,65% in the month); and

□ A net negative figure for claims on the government sector of R1,5bn (the first negative figure since October 1990). This puts total domestic credit extension growth at only 8,26% to R198,8bn (0,07% in the month).

Rand Merchant Bank economist Rudolf Gouws says the stage may now be set for a cut in the Bank rate, to reflect the weakness in credit demand and the fall in the underlying inflation rate.

"But we should be warned against using lower rates to kick-start the economy. Only an upturn in the world economy and an improvement in the domestic political situation can do that." ■

FM 2/10/92 (58)

SAFLIFE FM 2/10/92

Adverse swings

Activities: *Long-term insurance.*
Control: *IGI 42%; Hosken Consolidated Investments has ultimate control.*
Chairman: *I M A Lewis. MD: P M Cushway.*
Capital structure: *29,6m ords. Market capitalisation: R163m.*
(58)
Share market: *Price: 550c. Yields: 5,9% on dividend; 9,9% on earnings; p:e ratio, 10,1; cover, 1,7. 12-month high, 710c; low, 550c. Trading volume last quarter, 102 700 shares.*

Year to March 31	'89	'90	'91	'92
Total assets (Rm)	417	633	748	887
Life Fund (Rm)	357	563	674	779
Total profit (Rm)	6,2	9,8	14,7	17,2
Earnings (c)	21,4	32,8	46,8	54,4
Dividends (c)	12,5	20	27,5	32,5

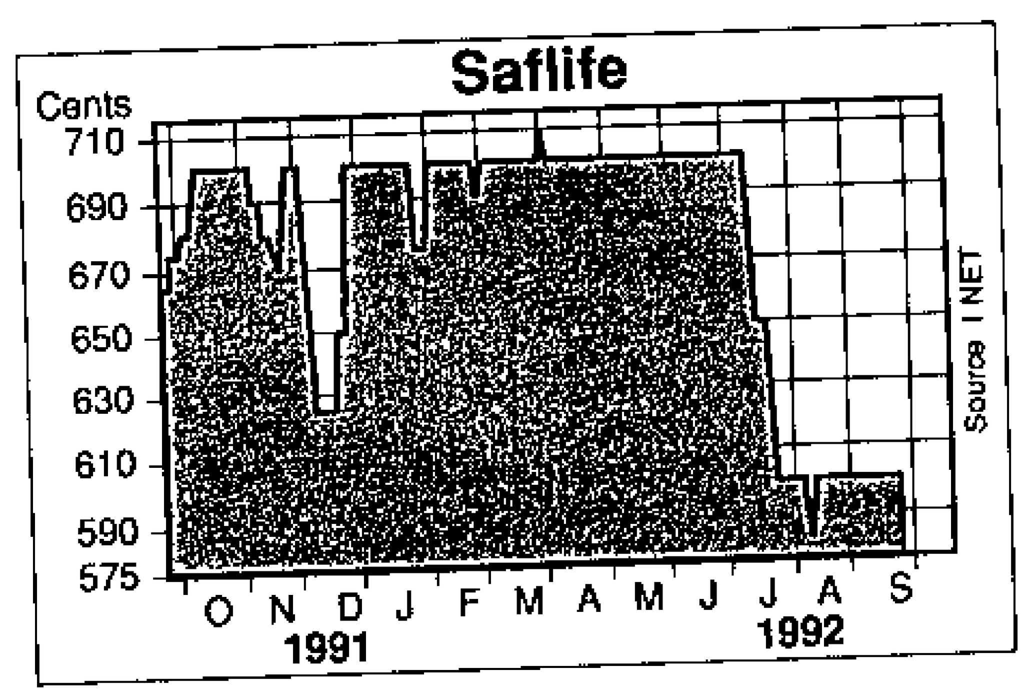
There is good reason for Safrican Life having underperformed the insurance index recently. In 1992 net premium income dropped to R163m (1991: R193m) but claims, policyholders' benefits and commissions increased to R147m (R99m).

Though life assurance premiums rose by a third to R147m, pension fund business fell sharply from R91m to R37m. MD Paul Cushway explains Saflife benefited in 1991 from one-off contracts related to companies affiliated to Hosken Consolidated Investments (HCI), including Entrecor, Tollgate and Abacus. HCI is the ultimate holding company of IGI and Saflife.

Cushway says the surge in claims was attributable to a combination of higher death claims, in part the result of the unrest, a rise in surrenders and increased borrowings against policies.

The increase in pre-tax income from R17,6m to R18,6m might come as a surprise to shareholders. One might assume the explanation for this relates to a lower transfer made to the life fund, considering that this transfer is relatively subjective, being calculated by actuaries according to likely future claims. But the assurance fund has increased by R105m to R779m.

The explanation relates to the surge in the investment income of listed equities, which jumped from R45m to R123m after includ-



ing capital appreciation. Cushway explains capital appreciation is included as almost all Saflife's policies are linked, whereby policyholders benefit from growth in the capital value of investments.

Listed equities are shown in the balance sheet at R341m, up from R223m. Unless 1993 premiums increase greatly, Saflife could be in trouble as the life assurer cannot rely on further significant equity increases this year. Cushway says premiums for the first four months this year are 45% up on the previous year. He adds that administrative cost control has been tightened.

Faced with the trend of rising claims, Saflife could have a tough year. Cushway denies this, adding the group is well ahead of operating budget with growth predicted for EPS. But the 5,9% dividend yield indicates the market is taking a cautious view.

William Gilfillan

Plan to boost development has many aspects

STAR 2/10/92. (58)

AS THE single largest shareholder of the Small Business Development Corporation, the Sanlam group of companies is at the forefront of small business development

Sanlam senior manager public relations Leon Koen says "We are fully aware of the critical importance of the small business sector in paving the way towards economic recovery"

The thrust of the group's corporate social responsibility programmes in relation to small business development is concentrated in two areas — the promotion of the concept of entrepreneurship and the advancement of this ideal through training.

To achieve the first objective, the company sponsors several competitions in conjunction with the Small Business Development Corporation and various individual newspapers to promote and encourage entrepreneurs and new business ideas.

In addition to Sanlam's annual corporate membership of the South African Free Market Foundation, it also supports a project which provides lectures on economics to black high school pupils

Sanlam makes annual donations to the KwaZulu Training Trust aimed at assisting with the advancement of less privileged people in KwaZulu.

The group contributes each year to a project run by the South Africa Foundation for Entrepreneurship Development which assists uneducated, unemployed people to develop into self-sufficient workers through self-employment training programmes, which are also aimed at South Africa's returning exiles.

In regard to stokvels, Sanlam assists the Get Ahead Foundation with financing people setting up businesses based on the stokvel system.

The company's contributions to the Africa Co-operative Action Trust are used to advance needy rural communities through the provision of basic skills in a variety of agricultural and stock-breeding areas.

The Triple Trust uses cash from Sanlam to train uneducated people in a variety of business skills and it also sets up individuals in informal businesses.

Sanlam supports the Valley Trust in its efforts to provide medical, agricultural, technical, economic and educational advancement for black people in Natal and KwaZulu.

The Independent Business Enrichment Centre is also sponsored by Sanlam. This organisation concentrates on the advancement of less-privileged people in the Eastern Cape and Border areas through a process of motivation, training, and assistance with setting up small businesses.

The Sanlam Centre for Small Business Management is situated at the Northern Transvaal Technikon and is used for management training

Sanlam's contribution to the Informal Business Training Trust is used to provide basic management training for entrepreneurs and the course has become known as the "Township MBA"

In addition, in a co-operative venture with the African Businesswomen's Development Forum, Sanlam is launching a regular flea-market in Khayelitsha.

Markets affected by recession, instability

B Day 2/10/92

(58)

COASTAL property markets appear not to have escaped the debilitating effects of the protracted recession, escalating crime and violence and political instability.

While industry players differ as to the effect these factors have had on the market, they almost all agree that damage has been done and activity is more subdued.

Malaise

Condev (Cape) MD John Wilkinson says while coastal properties are suffering from the same malaise as the rest of the country, these markets are surviving well.

"In general terms, a stagnation of the market is apparent. While capital growth in these areas tends to be better and the value has increased of late, the viability of these projects is riskier," he says.

However, a factor that has helped stimulate the market is that these markets tend to be regarded as safe-havens by the investing public, who are still buying property.

While foreign investment continues, it is at a greatly reduced level. But both the second home and retirement markets are seeing sustained interest from upcountry buyers as many people choose to retire at the coast away from the economic and political concerns prevalent in the inland areas.

The fact that the average person's disposable income is declining limits how much one can spend or invest in a property or can obtain from renting out the property.

However, a property economist who declined to be named said another of the problems associated with the second-home market was the uncertainty regarding capital gains or wealth taxes that could be imposed on these investments by a future government.

"This fear is seeing many investors exercising caution regarding traditional second homes and many are looking at investments in commercial and industrial properties as an alternative," he said.

Traditional

Investors are also overlooking the fact that their money would probably yield a greater return in other traditional investments and are positioning themselves for the future.

While most players disagree as to which coastal area offers the best return on investment, Rode Report editor Erwin Rode says properties in Durban and Port Elizabeth are presently seeing the largest growth.

However, this is short-term and they are merely "catching up" with other markets and can expect to see a sharp decline towards the end of the year in line with other areas, he says.

On the commercial and industrial front, coastal markets have also not escaped the scenario of oversupply, a lack of new tenants and negative real rental growth.

All of the CBD areas reflect large vacancies and few new tenants, while existing tenants are using present market conditions to renegotiate the best possible deal for themselves, by playing one landlord off against the other.

Once again, the solution to these woes depends not only on the resumption of negotiations, but the outcome and practical implications of these negotiations.

In addition, violence has to be contained and reduced before foreign investment returns and potential local investors feel confident enough to take the plunge again.

FM 2/10/92 (58)

IGI INSURANCE FM 2/10/92.

Stricter underwriting

58

Results from IGI improved significantly in the 1992 year; that is, before taking account of subsidiary Abacus. The short-term insurer made an underwriting profit of R9,5m (1991: R9,1m loss) thanks to higher premiums rather than lower claims. Financial director Johan Wasserfall says this reflects stricter underwriting as claims increased less rapidly than the rise in premiums.

With the crime rate unlikely to improve, the prosperity of short-term insurers will probably rely increasingly on rising premiums. As the public's disposable income is limited, there must come a point when customers will have to limit their insurance commitments.

Fortunately for IGI, more than half its gross premium income is derived from insuring motor vehicles, and financial institutions insist vehicles bought on credit must be insured.

Investment income — a far more stable profit source — generally accounts for a significant portion of short-term insurers' earnings. However, IGI's investment income plummeted to R25,4m (1991: R35,1m) because of the drop in unlisted investment income to R5,2m (R11,8m). Wasserfall blames this on market conditions. Also, interest received from subsidiary companies declined to R3,3m (R6,4m).

Chairman Michael Lewis has been spending considerable time in the UK, presumably endeavouring to return the UK operation to the black. The UK company recorded an £86 000 loss, insignificant compared to the huge losses incurred by other insurers, but more important when converted into rands.

IGI's solvency margin, measuring risk exposure relative to the capital base, has increased to 59% (1991: 47%). This is particularly relevant to an insurer such as IGI, which has no big daddy.

EPS have been declining since 1989 (partly due to the conversion of prefs into ords over the past three years), while dividends have continued to increase, reducing the cover. Lewis is not concerned with this trend as the cover, at 3,1, remains high. He adds that, as the minimum statutory solvency margin is 15%, the board could "review its conservative dividend policy."

Like other short-term insurers, IGI has been fortunate there have been no major catastrophes, such as hail storms or floods. But weather forecasters are predicting better rains this summer, increasing the chances of hail or flood claims. Reinsurance protection should keep this within manageable levels.

This does not explain why IGI's share price has fallen relative to the insurance index. Abacus (formerly Interboard), which became a subsidiary in the 1992 year, lost an attributable R22m last year This company makes Tempest radios — aimed at the lower end of the market — and doors, so its prospects are reliant largely on growth in disposable incomes and building activity. Abacus needs to be recapitalised to reduce its debt burden.

IGI MD Peter Denniss says management is "working towards Abacus breaking even this year." The share should be rerated once the Abacus shackle has been removed. Until then, IGI's 2,7 p:e seems justified.

William Gilfillan

Activities: *Short-term insurance; holds investments in other insurance areas.*
Control: *Hosken Consolidated Investments 55,5%.*
Chairman: *I M A Lewis; MD: P S Denniss.*
Capital structure: *15m ords. Market capitalisation: R87m.*
Share market: *Price: 575c. Yields: 9,6% on dividend; 30% on earnings; p:e ratio, 2,7; cover, 3,2. 12-month high, 750c; low, 550c. Trading volume last quarter, 69 981 shares.*

Year to March 31	'89	'90	'91	'92
Total assets (Rm)	771	1 036	1 208	1 464
Net Prem inc (Rm) ..	338	363	447	505
Underwriting income/loss (Rm)	19,2	(6,3)	(9,1)	9,5
Taxed income (Rm) .	35,3	34,6	33,8	34,3
Earnings (c)	227	201	179	173
Dividends (c)	38	42	48	55

IGI's Lewis ...
spending time in the UK

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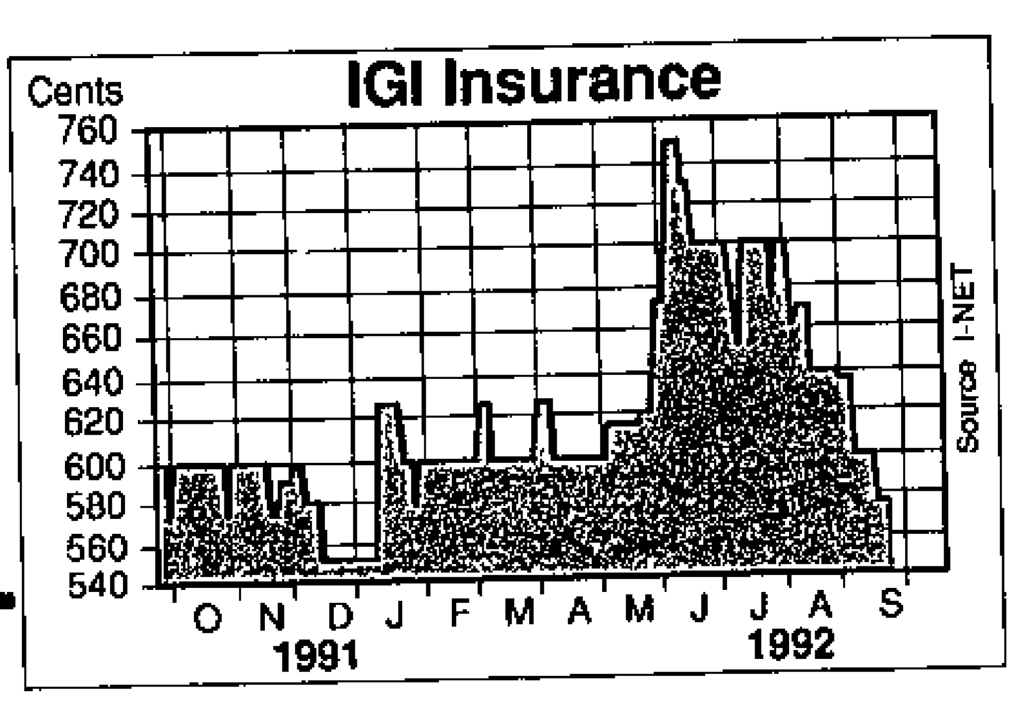


FINANCIAL MARKETS (S8)

Riding the bull

FM 2/10/92

A downward correction of capital market rates followed publication of money supply figures (see P34) last Friday afternoon. The Eskom 11% E168 closed at 13,825% on Monday from 14,03% on Friday, reaching a low of 13,78% on Tuesday. The RSA 12% R150 fell from 14,06% to 13,855% and closed at 13,85% on Tuesday.

Jürgen Kögl of brokers J Solms & Co, says the correction in gilt rates came at a good time: "Rates came down strongly in early and mid-August, when the R150 and the E168 briefly fell below 14%. However they stayed above that level in late August and for most of September in the wake of the Bisho massacre, uncertainty in capital markets in Europe and as local indicators moved sideways to slightly higher. This allowed the market to blow off some heat."

Kögl expects short-term rates to follow in the near future.

Meanwhile the Reserve Bank has entered into repurchase agreements to the value of R500m to alleviate the growing money market shortage. These were issued at an average rate of 15,6%. Applications of R1,1bn were received.

First National Bank group treasurer Ken Russell says the repurchase agreements should prevent the shortage reaching the R5,5bn-R6bn mark. "Had the Bank not acted, the banks would have had to push up call rates significantly. This would have meant

continue

FM 2/10/92

short-term rates entirely out of kilter with the long end of the market," he says.

The Bank's head of treasury, Andre Kock, says liquidity will increase from the beginning of October, as government spending comes through. "We would regard an expected shortage above R5bn as too high and this prompted the use of the repurchase agreements." ■

PROPERTIES IN POSSESSION

FM 2/10/92

Breaking the bonds

58

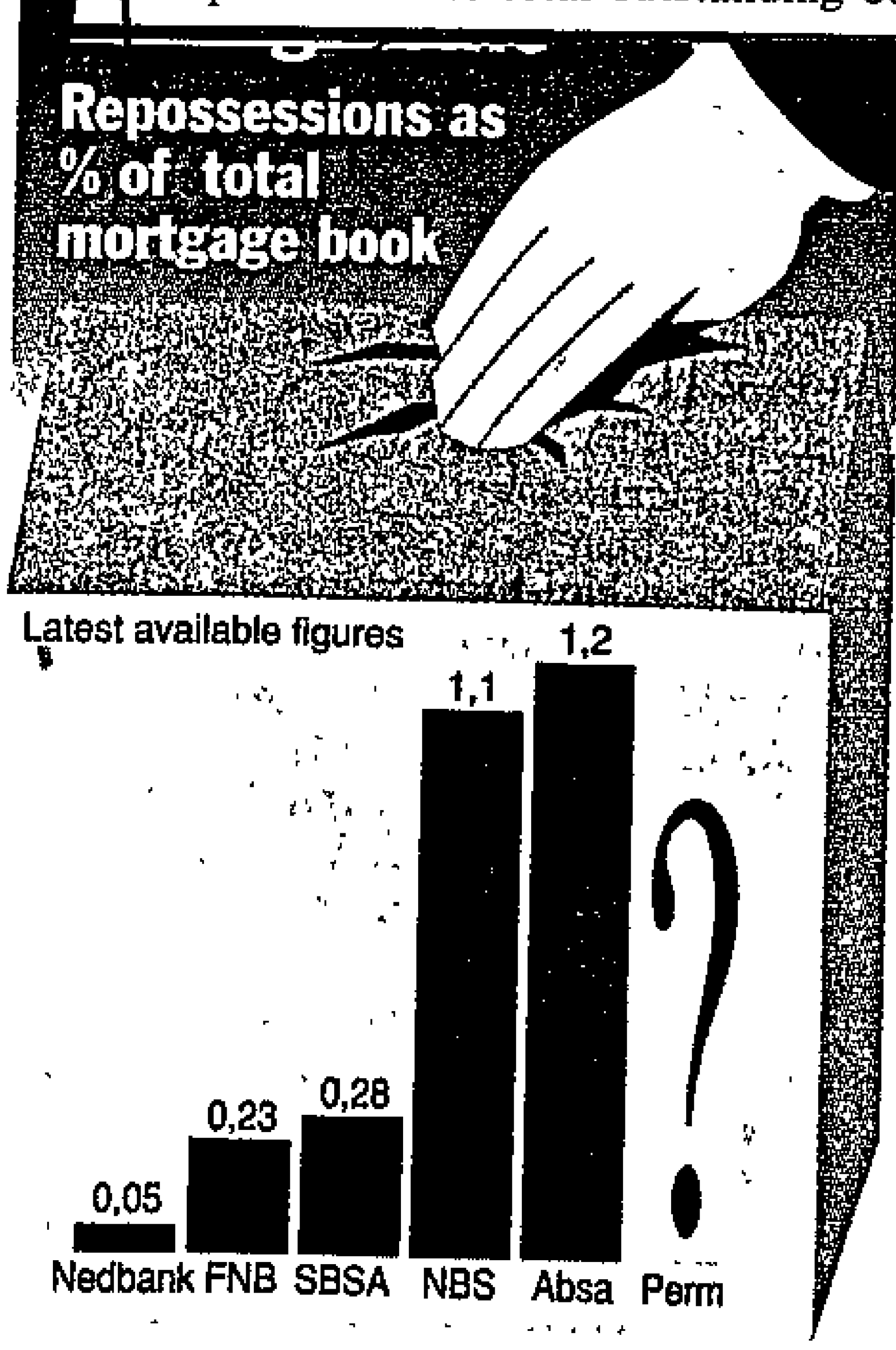
When homeowners default on bond repayments they run the risk of having their houses repossessed. This is a last resort, however, because bankers say they try to stay out of the difficult business of selling houses and prefer to resolve matters. The question of repossession seldom arises when the borrower has a significant stake in the property, says Standard Bank's Duncan Reekie.

The subject also has a political sensitivity because of the large numbers of repossessions in lower-income groups, threatened bond strikes and violence in townships. To make matters worse, the banks' legal recourse is being undermined because of their inability to take possession of property and protect it against vandalism.

Not all banks admit there are political implications, and stress that statistics show repossessions and defaults are taking place across the board, but this is true only in value terms because one repossessed house in Johannesburg's elite Houghton suburb can be equivalent to 10 in Soweto.

Out of proportion to the sensitivity of the issue, repossessions represent only a tiny percentage of mortgage loans outstanding, and all but one of the institutions approached were willing to quantify it. However, a difficulty in comparing the ratios arises because of the way the various banks account for repossessions: some write the value of repossessed properties down to market value while others reflect the balance outstanding; some banks decrease their figure for repossessions when the properties are sold while others do so only on transfer; and some banks bring in repossessed properties at a nominal value.

The former building societies have greater exposure at the lower end of the mortgage market than traditional banks, which is why their percentages are higher. The Perm, now a division of Nedcor Bank, and known for its high profile in the lower-end market segment, refuses to disclose its percentage of repossessions to total outstanding book, citing the reason as "negativity of articles such as these."



FNB's percentage is 0,23%, Standard Bank's 0,28% and Nedbank — also a division of Nedcor Bank — 0,05%. Absa's March figure is 1,3%, which had moved up from 1,1% over 12 months. Absa's Gavin Webster says, however, the group's percentage has reduced slightly since March to 1,2%, which is a promising trend. NBS's percentage is 1,1%.

Both Absa and NBS bring properties into their books at the balance outstanding on repossession which, in this depressed market, is usually higher than the market value.

"Times are tough," says NBS's Trevor Olivier, "and the numbers of repossessed properties on our balance sheet reflect the economic climate."

All banks call in defaulting borrowers to try to help them by rescheduling repayment or extending the loan's term. Each case is judged on its merits.

Reekie says: "Obviously, we're always willing to negotiate with customers who are in financial difficulties, but it's not always possible. For instance, in the case of bonds still in the early stages of repayment, the accumulating interest can push the outstanding balance above the value of the property." He expects that the ratio of repossessions to total mortgage borrowings will narrow in the short term.

The trend of arrears payments is not the same for all banks. FNB's Andre Latré says amounts in arrear are on the increase, especially in the 120-days-and-over range. Webster says Absa's arrears figures show no significant change over the last year's. The Perm's Hugh Maclachlan notes that at his bank the arrears are "dipping and levelling off." He calls it an encouraging indication that the number of defaulting borrowers — and, therefore, later repossessions is also falling. He doesn't give any indication of the amount by which they had risen over the previous year.

At the NBS the arrears percentage has reduced over the past few months while Nedbank's Tom Bangert says that the ratio of arrears to total book has remained stable over the past two years. He admits that Nedbank's "very satisfactory" homeloan book is probably attributable to the fact that it operates mainly in metropolitan areas and because its homeloans are add-on products to existing and known clients. ■

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start coming through.

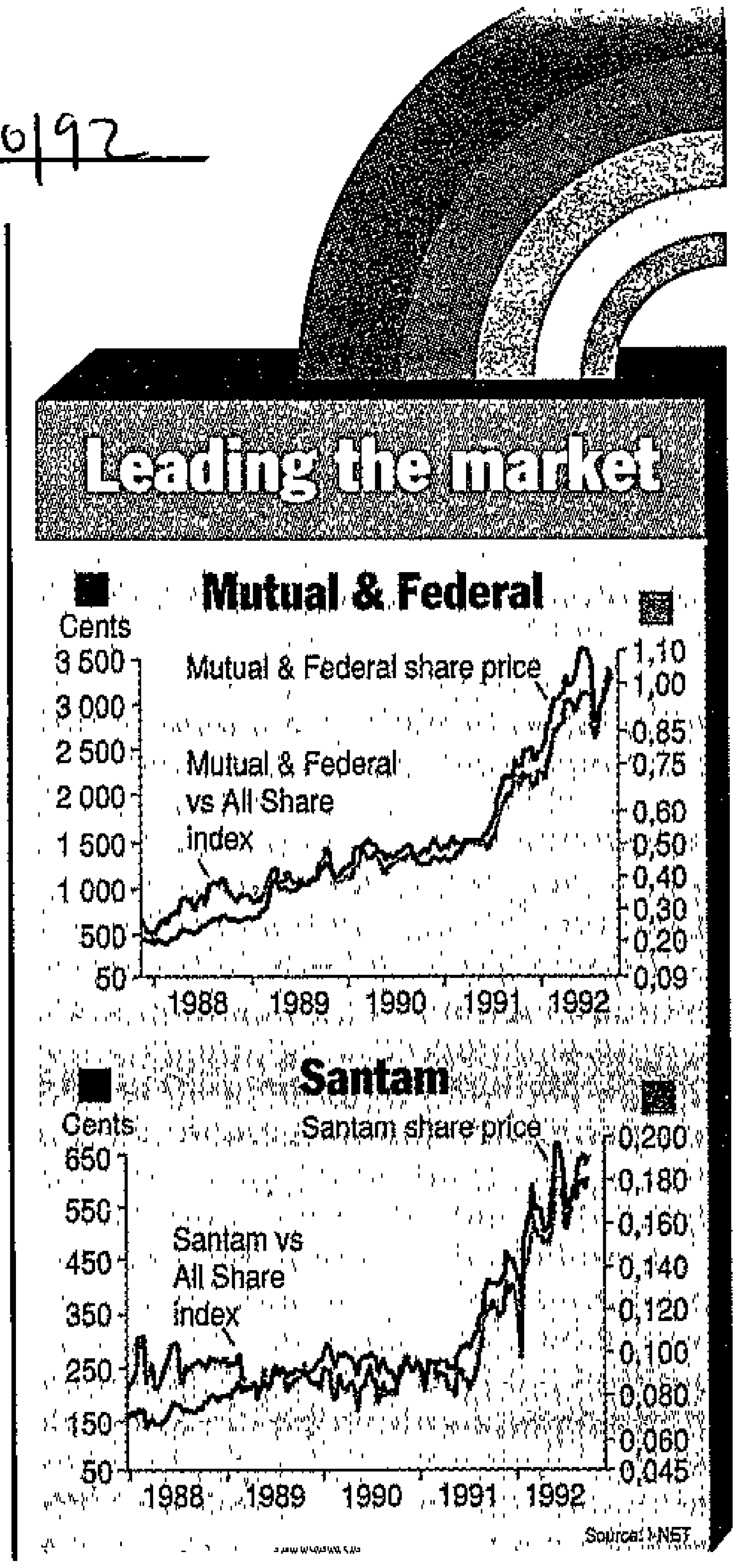
"I would like to think there is a growing maturity in the business," says Commercial Union of SA (Cusaf) CE John Kinvig. "Obviously, the industry is cyclical, especially for short-term insurers who are so dependent on the underwriting cycle. Most groups, however, seem to be getting good catastrophe programmes in place."

M&F MD Ken Saggers warns that while growing reserves offer the industry some protection, "if we get a few big disasters in succession, all that changes."

Another sign that could indicate the industry's becoming more stable is what seems to be an end to kamikaze-style premium undercutting, which caught out short-term insurers at the end of 1989. Saggers comments: "The industry will always be competitive and we are as concerned (as ever) with market share."

Most groups seem to have better control of costs. The most important indicator, though, is the way the market leaders have increased dividends over the past years, often beyond what could be justified by profits. In most cases investment income, the figure probably of most interest to shareholders, has been rising steadily.

In fact, too much attention may be paid to short-term insurers' underwriting results, which the industry itself probably overemphasises at times — especially when rate



increases need to be justified. Underwriting performance is important, particularly when it dives into the red and starts to threaten investment income, but underwriting profits are not that significant for pre-tax profits.

Even for a top performing group like M&F, which increased underwriting profit by a massive 176% over the year to June, profit from this source contributed only 27% to pre-tax profit of R197,8m. A year ago M&F's underwriting profit of R19m made up only 13% of pre-tax profit.

For Guardian National underwriting profit has even less impact. Interim results show it contributing 11% to this figure; at year-end it was 3%. MD Keith Nilsson says that, apart from controlling expenses (his company has one of the lowest expense ratios in the industry), one of the most important criteria for judging performance is growth in shareholders' funds.

"Underwriting profits are important, and we always strive for them, but there are too many imponderables for this to be the key issue. Companies alter growth, reinsurance expense, and other strategies from time to time which have an impact one way or another on profits and such industry measures as the solvency margin."

He adds: "In the end-result it is growth in shareholders' funds, resulting from effective cash-flow management and sound investment policies for capital appreciation and

continued →

BANKING FM 2/10/92 (58)

Facing up

The currency crises of the late Sixties and early Seventies, which ended the Bretton Woods fixed exchange rate system and introduced the concept of floating rates in 1973, brought risks of international banking into sharp focus. A series of disasters in 1974, which included the collapse of the Bankhaus Herstatt and the Franklin National Bank of New York, made the investment community painfully aware of the need to monitor banks' credit standing.

The concept of rating public bond issues, which had been practised in the US for many years, was extended to banks who, as takers of deposits, are constant issuers. At the same time, the expansion of international capital markets as alternative routes of fund-raising forced banks to compete for funds. The way in which they are rated has become a major factor in their ability to attract deposits — and to raise capital.

The power of rating agencies was illustrated recently when Moody's Investor Service, which with Standard & Poor's is one of only two rating agencies with worldwide recognition, decided to downgrade the two major European banks, Credit Suisse and Swiss Bank Corporation, immediately pushing up their cost of funds.

Now SA banks which plan to compete in

continued →

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Peace Accord has put those structures in place to make that happen."

What then is required for a broad culture of tolerance? "A commitment to democracy," says Hall, who is well aware that "if people still have a winner-takes-all view of this country and still have political agendas which are not democratically orientated, do we have to wait until we get to a zero-sum game before we start moving in the right direction? I don't believe we're at that point. I think the leaders have virtually got to throw themselves on the mercy of democratic principles and face up to being elected, or not elected. They say that, don't they?"

Of course, there's always a fine line between contravention of the accord and robust politics. Hall's feeling over Buthelezi's comment about "buggering up" the ANC, is to give the Zulu leader the benefit of the doubt. However, in current circumstances, "I would think both the march itself and the responses have all the ingredients for another Bisho and that the political leaders have really got to seek an alternative. How dare they actually take a risk of bloodshed when it is so clearly on the cards? They should find another form of protest."

The Peace Accord says that protest action is legitimate. But building up a spirit of political tolerance is equally essential to freedom of speech and action. To this end, the Peace Committee hopes to host a conference of leaders on the matter within the next week. Hall has sent out letters asking for all marches to be halted until that conference has been held. This will be a test of the durability of the accord.

There are five resolutions on the agenda, which, while they have all been approved in principle by "everybody," await ratification:

☐ A reconfirmation of commitment to political tolerance;

☐ The appointment of ombudsmen at regional and local level — senior political figures who can call on their followers to behave. This should carry the commitment to tolerance down to grassroots level;

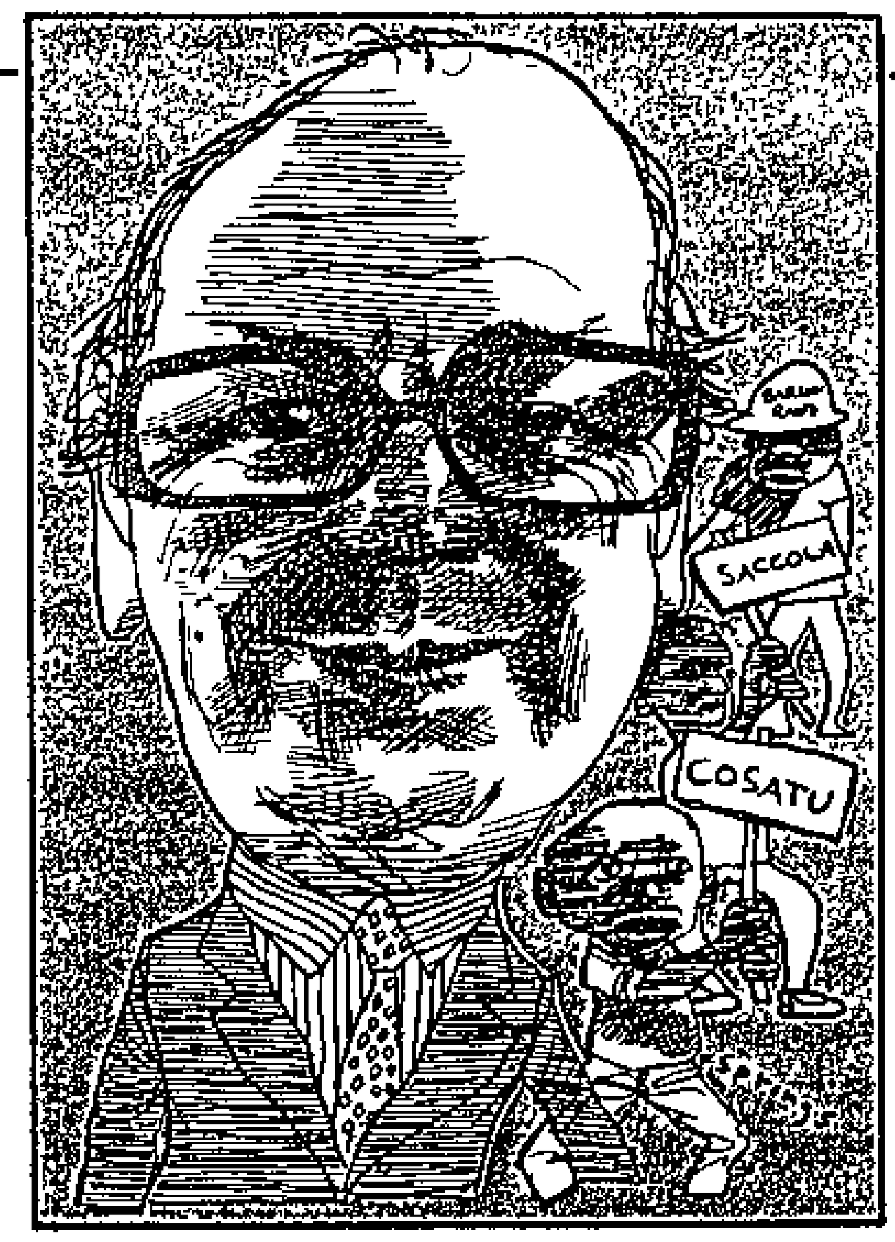
☐ Barriers on reconstruction and development funding should be lifted. This sanction has prevented aid from flowing into strife-torn areas;

☐ The police should be welcomed back into the communities as respected law maintainers; and

☐ Greater use can be made of the various monitors and observers — local and international — to give effect to the resolutions.

In the end, political tolerance itself will have to be framed into some accord which will function against clandestine activities and unfair play, Hall says. This could then be monitored by the UN observers, who, he believes, are really only buying time while the national politicians get their act together.

If there is a common binding factor in SA that could form the basis of peaceful coexistence, it would seem to be a clear understanding by our leaders that the only thing that can deliver and improve quality of life is a healthy economy. Hall believes that if the will of the leaders to enforce political tolerance becomes a reality, an interim government is probably only months away. "But until they take that step, one doesn't know what the future holds. The economy can't carry on any further. That's common cause.



Peace Committee's Hall

We can't go on for a year or more in the economic doldrums; the downward spiral will become an accelerating vortex and we'll be in deep trouble."

What teeth does the accord have to enforce its noble injunctions? Only world and public opinion, Hall admits. He tells ambassadors to keep impressing on SA's leaders that they are the representatives of an exclusive club — nations committed to democracy, tolerance, negotiation and reconciliation. And the leaders who signed the Peace Accord qualify for membership of that club. "That's the teeth of the Peace Accord, in my view — not walking around with a baseball bat."

Hall uses another analogy — that of a trade union negotiation where deadlock has been reached, with one side's option being to strike, the other's to enforce a lock-out. "We slug it out until finally . . . we end up with the best we both can live with. It's what we're doing right now.

"Buthelezi wants federalism, the ANC wants central government with devolution of power At the end of the exercise, people will get what they can get. You go through a series of zero-sum games all the time. That's the story of humanity, isn't it?"

This optimism — tempered with some fatalism — has carried Hall through the immensely difficult first year of the accord. He is a sincere and serious man. We need more like him. ■

SHORT-TERM INSURANCE SECTOR

FM 2/10/92

Coming of age in the new SA

(58)

The shares have performed well in adversity — balancing reward against risk

If two brothers considered careers in the insurance industry, the clever one would join a life office while the dim one would go into short-term insurance. That joke — popular in insurance circles — is usually told by brokers who consider themselves the cleverest of the lot.

Not surprisingly, the volatile performances recorded in the past earned the industry a boom-and-bust reputation. That is changing: previous sharp downturns have taught insurers to be quicker on their feet and underwriting cycles are being better managed, at least by the bigger groups.

The strong rerating of shares in the insurance industry has not been confined to the long-term sector. Since 1990 most short-term shares have shown significant gains, proving fairly resilient to recession. Despite the general drop in the market in recent months, the JSE Insurance index — reflecting both life assurers and short-term companies — has fallen only about 3% from its annual high, second only to the Pharmaceutical & Medical index. That compares with a 16% decline in the overall index.

Results so far show that 1992 is a turnaround year. All seven listed groups are showing underwriting profits, compared to only two in 1990. Recent interims show underwriting profits climbing back strongly (see table). But after a few years free of major weather-related claims, is the industry heading for one of its periodic declines?

Dividend and earnings yields make short-term insurance shares still comparatively attractive. But the industry is, by definition, a risk business, and has traditionally been treated with caution since it is so hard to predict what lies a mere six months ahead.

The absence of any major natural disasters so far this decade (the drought does not really affect short-term insurers) has been the single biggest factor contributing to the industry's underwriting turnaround, closely followed by last year's sharp premium increases. At the same time, there have been growing signs of industry maturity since 1990, the trough of the last underwriting dip. Reserves are growing, as are assets, and in most cases solvency margins are improving. Market leaders like Mutual & Federal (M&F) are even setting up special catastrophe reserves to draw on if big disaster claims

cont

income, that matter."

Investment income is a far bigger and more stable component of pre-tax profits. With the exception of SA Eagle, which had a disastrous 1990 financial year, with no advance in investment income, all the other listed short-term insurers have hiked investment income over several years, even when they posted big underwriting losses in 1990. Since 1988, when the industry climbed out of one of its periodic downturns, investment income for the seven listed companies has grown an average 86%, or a compound average of 22,6% a year.

Individual performances vary greatly. IGI, despite other results being uneven, shows the biggest compound annual increase in investment income, at 32,4% higher even than M&F's 26,6%. At the other end of the scale, SA Eagle has advanced investment income only a poor 7,3% a year, though the rest of the industry shows investment income gains of 19% to more than 26%.

It is believed that most companies pay dividends out of the straight income component of investment income, not usually from capital appreciation. This explains the variance in distribution: for example, while IGI shows the most rapid growth in investment income, it has increased dividends over the past four years by an annual compound average of only 17%.

M&F, on the other hand, has increased dividends by an annual average of 31,8% over the same period, with dividends now covered about 3,5 times by taxed investment income. That must be one of the strongest dividend performances on the JSE.

SA Eagle and Protea Assurance have been poor performers on dividends but the rest have increased dividend payments by roughly 17% a year for the past four years, despite 1990's underwriting losses.

Dividend increases also tend to outstrip advances in earnings. For example, M&F's 31,8% average increase in dividends since 1988 compares with an average 21,2% increase in earnings; Santam's 22,4% average increase in dividends over the same period comes on average EPS growth of only 7,2%.

Investment income growth has slowed over the past year to an average of about 14%-15%, and is likely to slow more if the equity market remains depressed. Some companies have remixed investment portfolios towards gilts or cash deposits, getting higher yields but losing the tax advantage of receiving dividends.

Still, a longer view of investment income growth shows it to be one of the steadier performers for insurers, and the recent strong underwriting results should smooth any dip in investment income. Admittedly this year's growth in underwriting profits has come off a low base, and is likely to slow next year even if the weather holds and disaster claims do not come through. What is important is that they start to follow a less erratic cycle in future.

Since the end of 1990, all the short-term shares have made gains. Three companies — Santam, M&F, and Guardian National — have more than doubled in price, and Santam has had a 140% increase to R6.

Lowest gains have been by IGI, but even the 41% increase in its share price is not bad relative to the market as a whole.

Despite the rerating, many short-term shares still seem fair value. Both the average dividend (5,2%) and earnings yields (14,9%) are above the sector's 3,8% and 7,9% respectively. But there is a lot to choose from between individual players.

Some analysts believe short-term shares are hard to justify as a long-term investment because the future of the industry is so hard to predict.

Instead, they argue, they should be treated as trading stocks, similar to mining sector shares; you should buy in when yields are good and get out when they turn.

That view doesn't seem to hold for a company like M&F, one of the few not to post underwriting losses in 1990, and which has maintained constant growth. Its yield of 2,2% is the lowest among the short-term groups and not far off Liberty Life's 2,5%.

Most other short-term shares are more reasonably priced and the companies have pulled back well. Protea, Cusaf, and SA Eagle seem worth looking at as longer-term investments, if buyers are prepared to hold them through the recession.

A share like Santam has been strongly rerated, as has the performance of the company itself, and on the strong gains made by the share since the end of 1990 looks like a good buy on a yield of 6%.

Natural disasters aside, there are still factors facing the industry that could indicate some tough times ahead — and even the possibility of mergers or takeovers. However, there appears to be a levelling off of crime-related claims. Insurers are still getting the benefit of last year's increased premiums — on average between 25%-30%, but in some cases as high as 60% — and should remain profitable without increasing rates alarmingly, if crime claims are indeed settling down.

Cusaf's Kinvig sees this as evidence of more stability in the market: "Companies had to face a sudden onset of crime and motor theft claims, the speed of which did not give the industry much time to respond. But rates have caught up over the past few years, and with crime claims seemingly flattening out, premiums have caught up and are also flattening."

Possibly of more concern is what the drop in the equity market is doing to investment portfolios. The full effect of that will probably be seen only in the next sets of results.

Against this is the increasing maturity and stability which have come to the market over the past few years, suggesting more sustainable trends. Short-term insurance shares will probably always carry a higher-than-average risk — but the performance of the past few years shows they can offer higher-than-average returns. *Shaun Harris*

LOOKING MORE STABLE

	1988	1989	1990	1991	1992
Mutual & Federal					
Underwriting profit (loss) (Rm)	45,4	54,0	11,6	19,0	52,5
Investment income (Rm)	58,3	91,0	109,7	126,4	145,3
Earnings (c)	138	195	190	232	298
Dividends (c)	22,5	30	40	52	68
IGI Insurance					
Underwriting profit (loss) (Rm)	8,5	19,2	(6,3)	(9,1)	9,5
Investment income (Rm)	15,1	25,6	34,7	35,1	25,3
Earnings (c)	175	223	200	179	213
Dividends (c)	30	38	42	31	35
Commercial Union of SA					
Underwriting profit (loss) (Rm)	21,3	11,5	(18,8)	5,3	10,9*
Investment income (Rm)	26,1	35,1	38,3	44,5	—
Earnings (c)	312,4	387,3	291,4	488,4	304,9
Dividends (c)	75	95	105	142	50
Protea Assurance					
Underwriting profit (loss) (Rm)	2,6	(0,8)	(39,5)	(31,1)	1,0*
Investment income (Rm)	14,3	19,6	21,2	25,1	13,0
Earnings (c)	149	172	(186)	(123)	154
Dividends (c)	46	53	53	53	25
Guardian National					
Underwriting profit (loss) (Rm)	16,9	9,2	(14,0)	1,6	3,2*
Investment income (Rm)	33,0	46,4	24,0	9,8	25,9
Earnings (c)	251,6	301,2	266,4	395,2	233,5
Dividends (c)	90	110	130	155	77,5
SA Eagle					
Underwriting profit (loss) (Rm)	38,0	20,6	(36,8)	(0,8)	1,0*
Investment income (Rm)	44,3	52,5	52,4	54,7	34,9
Earnings (c)	417,4	392,0	198,5	287,2	190,7
Dividends (c)	180	190	150	165	75
Santam					
Underwriting profit (loss) (Rm)	23,3	26,1	2,1	12,4	*15,0
Investment income (Rm)	38,1	60,5	67,3	76,5	43,7
Earnings (c)	55,4	73,3	60,0	71,3	65,2
Dividends (c)	18	23	27	33	17

* Interim results.

No measure of expectations

FM 2/10/92

(58)

John Whittaker is associate professor of economics at the University of Cape Town

For years, the three-month BA rate has been one of the most commonly quoted economic statistics. This information, together with rates for BAs of other maturities and other short-term rates, has served a useful purpose. It has indicated expected movements in the Reserve Bank's refinancing rates — those interest rates at which the Bank lends cash to banks and other financial institutions. From these rates are determined other important rates such as the interest rates for overdrafts and mortgages.

If, for instance, the three-month BA rate is below Bank rate (the Bank's cheapest refinancing rate) then dealers are expecting a fall in Bank rate within three months. The reasoning here is that the expected return from lending for three months must be roughly the same, whether one makes a three-month contract or rolls over a series of shorter-term loans.

If this is not the case then the three-month rate should adjust. It also follows that the larger the difference between the BA rate and Bank rate, the larger or the sooner the expected fall in Bank rate. When the Bank reduces Bank rate, the interest rate on overdrafts will come down too, so knowledge of the BA rate helps in short-term planning.

In the past two or three months something has gone wrong: short-term interest rates simply seem to be no longer consistent in the old-fashioned way. Bank rate today stands at 15% and the common feeling is that the Bank might see fit to relax its monetary policy by reducing this by perhaps as much as two percentage points by the end of the year. Supposing that a reasonable guess is that Bank rate will fall to 14% at the beginning of November with no further falls until year end, this would mean that the three-month BA rate should be about 14,5%. In fact current rates for three-month BAs are around 12,5%. Taking this information together with other money market rates leads to the remarkable implication that Bank rate is expected to fall to around 10% within the next few weeks.

Such a dramatic and imminent reduction in Bank rate seems most unlikely. Even if one makes the most optimistic forecasts of immediate reductions in the measured inflation rate and of improvements in other indicators, it would be quite out of keeping with established Bank behaviour.

What then is the solution to this puzzle? Either one must accept the unlikely implied reduction in Bank rate, or one must seek reasons as to why current money market rates are no longer a reliable measure of the cost of borrowing.

In the case of BAs, there are two recent events that may account for an unexpected excess in demand, leading to anomalously low rates. Firstly, the Bank circulated proposals in June which, if put into effect, would render the BA no longer eligible for rediscounting and would also remove BAs from the list of statutory liquid assets. These proposed changes have presumably discouraged banks from creating BAs, reducing supply.

Secondly, the money market shortage in the past few weeks has been unexpectedly large. The Bank's proposals are not yet in force so that BAs are still liquid assets and eligible instruments, and the large shortage means that there is unpredicted demand for BAs for rediscounting. These circumstances may go some way towards explaining the low BA rate.

There could well be special circumstances affecting rates on other common money market instruments. Otherwise one has to accept the surprising implication that drastic cuts in Bank rate are indeed expected. If this is so, and the cuts do not in fact materialise, then expectations will be revised upwards and anyone holding BAs will lose money.

RMB/MOMENTUM FM 2|10|92 (58)

Shifting the axis

As a bank controlling company, unlisted Rand Merchant Bank Holdings owned a merchant bank and had extensive interests in the insurance industry. Its merger with Momentum Life on July 1 has effectively made it the holding company of a life assurer with interests in banking.

Further structural changes are on the way, which could offer a widely diversified investment. And it's likely RMB Holdings will be listed in the next six months, probably alongside Momentum Life in the insurance sector.

The July merger made RMB Holdings the pyramid, with a 77% interest in listed Momentum Life, which in turn has 100% of Rand Merchant Bank and Momentum Asset Trust. What's changed is that RMB Holdings has relinquished its status as a bank controlling company (hence the name change), that status now being held by Momentum Life.

Under this structure investors were excluded from a direct holding in RMB Asset Management, the 70%-owned subsidiary of RMB Holdings, which has achieved a 24,8% return on investments of just over R1bn since its formation at the beginning of 1990, against an industry average of 17,8% over the period. Now the respective groups' assets have been combined, forming an asset base of about R10bn, with an additional R3,8bn off the balance sheet. A single asset management company is being formed.

Laurie Dippenaar, chairman of Momentum and of RMB Asset Management, says the life office was good at managing its assets, but the new company "can do it better."

"RMB Asset Management will be a separate company, Momentum being its biggest single client," Dippenaar says, noting that the same arm's-length structure has been used with great success in the merchant banking operations.

More important for investors, the single asset management company will become a wholly owned subsidiary of what is now Momentum Life, if proposed structural changes go ahead. The envisaged structure offers investors a clearer picture of the group. It will also please the registrar of financial institutions, who does not favour the present vertical structure, with a life office controlling a bank.

Apart from RMB Asset Management moving from the holding company level to a 100%-subsidiary of the listed operating company, it's likely the life assets will be dropped to the same horizontal level, to form a full subsidiary concentrating exclusively on life assurance, while Momentum's property management function will be placed alongside in a separate property management company.

Momentum's Dippenaar ... *another insurance listing*

There is talk of a health care products company being added to this horizontal line later.

The separate property company might help to resolve a potential problem inherited in the merger. Momentum's property interests — about 16% of its total assets of R9,2bn — were not getting great returns.

Dippenaar says, given the recent decline in the rental market, a more realistic view of the properties' value was taken. They were written down by about R85m, or 8%. "It's important to get the property portfolio as close to market value as possible," he says. "Subsequent sales have shown our valuation to be very close."

RMB Holdings intends to apply for a listing as soon as the market looks right. That will probably be towards the end of the year or early in 1993.

"About seven-tenths of our assets are in insurance, so it makes sense to list in the insurance sector," Dippenaar says. Also, shares in the insurance sector are tending to have better ratings than those in the banking sector.

RMB Holdings' last individual results before the merger were strong, with EPS up 22%. Momentum's were more pedestrian, relative to the industry, with EPS climbing 16,7%.

The market seems to view prospects for the combined group positively. Momentum's share price, at 470c, is not far off the peak reached soon after the merger was announced in May. RMB has the experience and reputation to get better returns out of Momentum's assets. The restructuring should facilitate that, and offer a diversified financial services investment. *Shaun Harris*

ALTECH FM 2|10|92

Diversification continues

Diversification into new areas of private-sector work, away from key long-term contracts with Telkom and Armscor, was a costly exercise for Altech and carried through in the face of stiff competition.

Turnover in the six months to end-August edged up 5,5%, but EPS grew a mere 0,4%. Though pre-tax income rose 2,4%, executive chairman Don Snedden says margins and operating income — not disclosed at the interim stage — were maintained at previous levels. This suggests that interest earned (also undisclosed) declined, apparently because of the recent decline in rates.

Nevertheless, the balance sheet remains strong. The cash balance grew 7,5% since year-end to R242m. Snedden says some R50m-R60m of this will be invested in new grassroots ventures before the year-end. Acquisitions will always remain possible, and management is talking to several parties.

The electronic systems division remains the largest activity, contributing some 61% of group turnover, Snedden says the new Altech — whose focus is on "African solutions for Africa" — is aiming to develop its distribution and, in particular, its industrial division.

Though dependence on Telkom has been lessened, Snedden sees its role increasing again as capex restrictions are eased. Exports have traditionally represented a small proportion of group turnover but, after investing heavily into this arm of the business, he is bullish about the prospects this avenue holds.

He says the outlook for the second six months is encouraging. The problems associated with industrial unrest and political stayaways in the first half are not expected to be repeated.

While trading profit is showing little or no growth, Altech now has a healthier spread of

SMALLER SPARKS

Six months to	Aug 31 '91	Feb 29 '92	Aug 31 '92
Turnover (Rm)	453	477	478
Pre-tax profit (Rm)	73,0	79,6	74,7
Attributable (Rm) ..	42,7	49,4	43,0
Earnings (c)	408,5	471,6	410,3
Dividends (c)	—	297,0	—

continue →

Stals was told about bank's CCB links

STAR 3/10/92

EXCLUSIVE REPORT: BRENDAN TEMPLETON

[redacted] 58

RESERVE Bank Governor Dr Chris Stals was informed about Pretoria Bank's dealings with the CCB as early as June last year, according to documents in this newspaper's possession.

The documents draw into question the role top Government officials played in the ultimate demise of Masterbond and their role in funding arrangements with the CCB.

They indicate that authorities "pulled the plug" on Masterbond eight days after Stals was informed about the CCB link.

Thousands of investors — many of them pensioners who had invested their life savings in Masterbond — were left penniless when the property investment giant crashed.

The Reserve Bank has refused to comment on a list of questions sent to it by the Saturday Star. It said the questions involved facts which related to affairs of a "confidential" nature.

Bad debts

A dramatic about-face by financial authorities outlawed Masterbond's vital R400 million debenture-bond industry virtually overnight. The R600 million property investment company was refused permission to merge with Pretoria Bank and it subsequently folded three months later.

Masterbond had intended taking over Pretoria Bank in order to comply with the Deposit Taking Institutions Act, which came into force in February 1991. But it was then discovered that Pretoria Bank's bad debts exceeded R40 million — a senior Masterbond source told this newspaper that it was believed that millions of rands had "disappeared" into CCB front companies which had accounts at the bank.

Masterbond appealed to the Reserve Bank for assistance but was turned down.

According to a list of dates with accompanying comments — drawn up by a senior Masterbond official — a let-

● TO PAGE 2.

[redacted] Stals 58

● FROM PAGE 1.

ter was sent by Masterbond director Koos Jonker to Stals on June 24 last year pointing out that Pretoria Bank's immiment collapse would have disastrous affects on Masterbond.

The blame for the bank's bad debts were laid at the feet of Pretoria Bank director Piet Strydom — who has admitted to taking "kickbacks" in return for providing loans to shady companies. It also spoke about Pretoria Bank's link with the CCB.

Jonker admitted, when approached by the Saturday Star, that he had sent the letter to Stals and that it dealt with the CCB link. He would not comment further, saying the matter was subject to a secrecy clause of the Reserve Bank Act. The Reserve Bank also quoted the clause as a reason for not commenting. The questions included:

- What was the Reserve Bank's reaction to the letter? STAR
- Was there any link between the sudden decision not to approve the merger and the letter sent to the Reserve Bank concerning the CCB connection? 3/10/92.
- Why was Masterbond suddenly told it had to conform strictly to the DTI Act? Minutes of a meeting of Pretoria Bank and the Reserve Bank on February 7 last year state that it was agreed that "between now and the next economic boom, financial institutions would need to structure themselves on the new philosophies of the DTI Act".

RMBH shows listing mettle

S/Times (BUSS) (58)

4/10/92.

FOR the second successive year, soon-to-be-listed RMB Holdings reported positive contributions from each division of Rand Merchant Bank.

Managing director Paul Harris says: "It is a little unusual for everyone to make a profit because of the cyclical nature of banking."

Mr Harris took the reins a few months ago when Laurie Dippenaar became chairman of Momentum after RMBH bought control.

Often a banking division steals a march on its competitors by introducing a new concept. It is lucrative for a year or two, then competitors come in and reduce the margins.

He left Rand Merchant Bank in 1987 and spent five years in Australia establishing Australian Gilt Holdings, one of the country's biggest money and capital-market dealers. Last week, RMBH exercised an option to convert the relationship into a direct 72% shareholding for R17-million.

RMB Holdings' profit for the year to June 1992 rose by 22% to R37-million, the 14th consecutive year of growth.

Another highlight of the group's year was the ease with which it raised R100-million in fresh capital through the issue of irredeemable subordinated debentures to institutions.

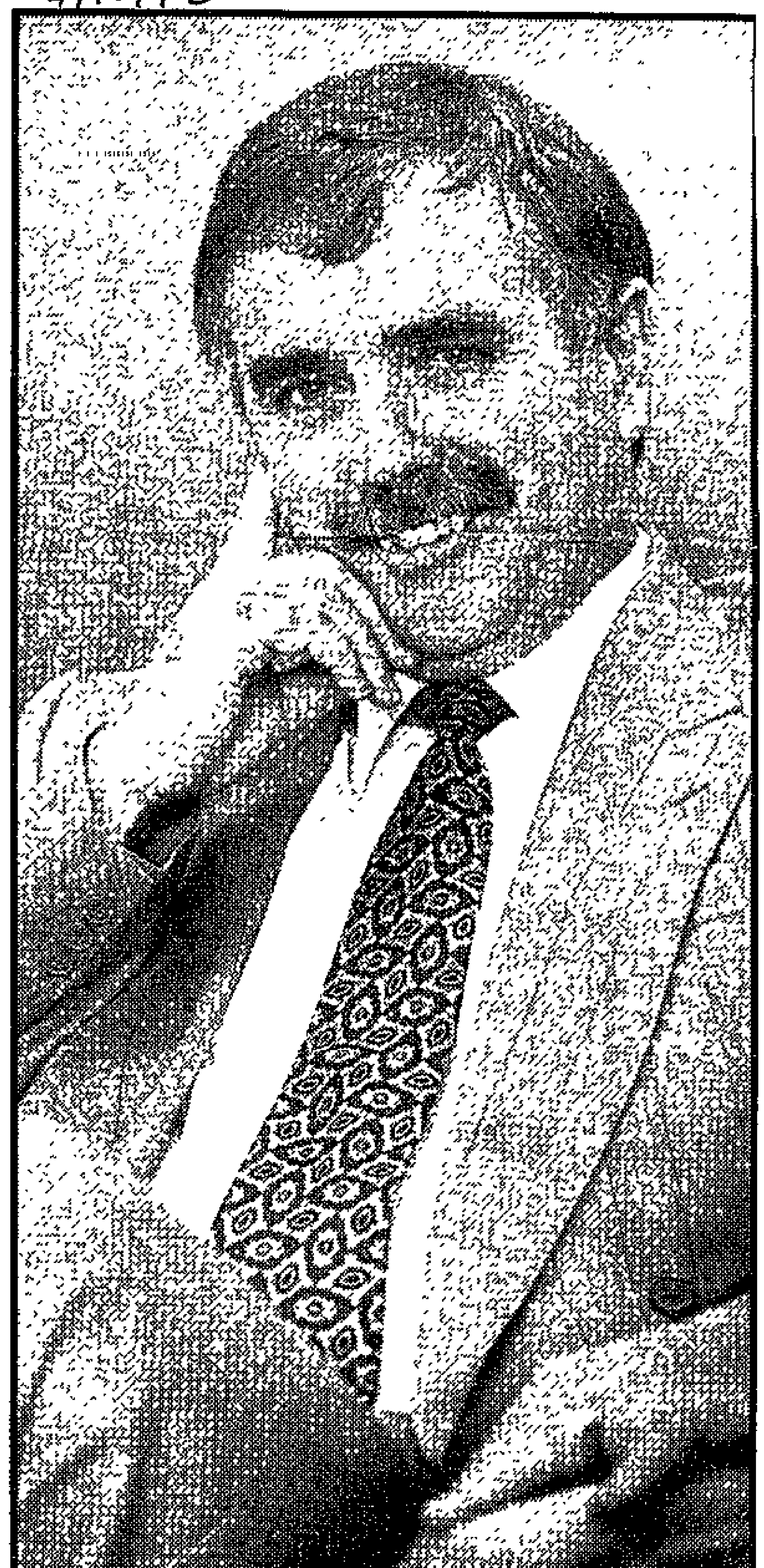
Mr Harris says: "A bank's growth is always constrained by capital and raising more allows us to do bigger deals and gives us increased dealing power."

The group has a wide enough spread of shareholders to qualify for a listing in November. New money will not need to be raised — the group comfortably exceeds the 1995 international requirements.

The bank's objective is to cover its overheads through its lending activities, leaving fee income and trading operations to furnish the profits. Mr Harris says the bank is within striking distance of its ambition.

The policy is to lend selectively and not chase asset growth. Although not quantified, the bad debts are a little higher than last year. Banking margins have widened considerably and Mr Harris forecasts another good year for those that can keep bad debts in line.

Total assets rose by 7% because of the selective growth policy. But, says Mr Harris, RMB has never been too bothered about asset growth, favouring the bottom line. Return on shareholders' funds topped 25%.



PAUL HARRIS: More power for bigger deals Picture: JOHN HOGG

Gold in the gizzard

FROM The Mining Journal of 1892, comes this gem. JA McConville killed one of his chickens for dinner and on cleaning it was surprised to find gold nuggets in the crop and gizzard.

Having another 30 chickens on hand, he began killing and examining them. He gathered gold worth $387,50 — $12,50 a head.

The gold was sent to a Bank and pronounced 18 carats fine. Mr McConville bought another 50 chickens and turned them out on the gold fields. One killed after a four-day run contained $2,80 worth of gold.

S/Times (BUSS) 4/10/92.

The journal reports: "Mr McConville has a virtual bonanza and expects to be a millionaire before spring if the chickens hold out."

The author of Poultry-keeping for Profit and Pleasure will have to revise his book after this and the domestic rooster will no doubt go at a premium.

DBSA opens up the doors

C/Pren 9/10/92 (58)

THE Development Bank of southern Africa (DBSA) is spearheading black economic empowerment by providing loans to people who once had no chance of getting started in business.

DBSA Business and Entrepreneurial Development Group manager, Mike Mohohlo, said the mission of DBSA was to promote socio-economic development by empowering people and communities.

Mohohlo said the bank supported the use of local resources, community involvement and job creation through business and entrepreneurial development.

"The beneficiaries are the developing communities of southern Africa," he said.

The implementing agencies of the bank include international, national, regional and local government authorities, their respective development agencies, parastatal organisations, and development community-based organisations.

He said the bank mobilised resources to build human and institutional capacity through advice, information, policy dialogue and other means.

"The bank does not implement projects itself, but monitors the progress of projects implemented by borrowers and disperses loans according to the progress made.

"By fostering community commitment, people will be empowered to participate actively in development initiatives," he said.

The bank also identified existing and potential business and entrepreneurial opportunities to promote effective community participation and action.

The group interacts and co-operates with other development groups to ensure that development programmes have regional and sectoral balance.

Business and entrepreneurial development support programmes address issues such as policy and strategy formulation and provide access to finance, facilities for commercial and manufacturing purposes, effective networking of joint ventures, partnerships and subcontracting opportunities and to upgrade technical and business management skills.

Mohohlo said the bank was primarily a wholesale lending organisation. However, given its funding structure, limited grant finance was considered under certain circumstances.

He said the bank did not finance recurring costs, but could assist the borrower in leveraging or securing appropriate additional funding from other sources.

The bank financed the capital elements of projects, including skills development, training, and loans for working capital.

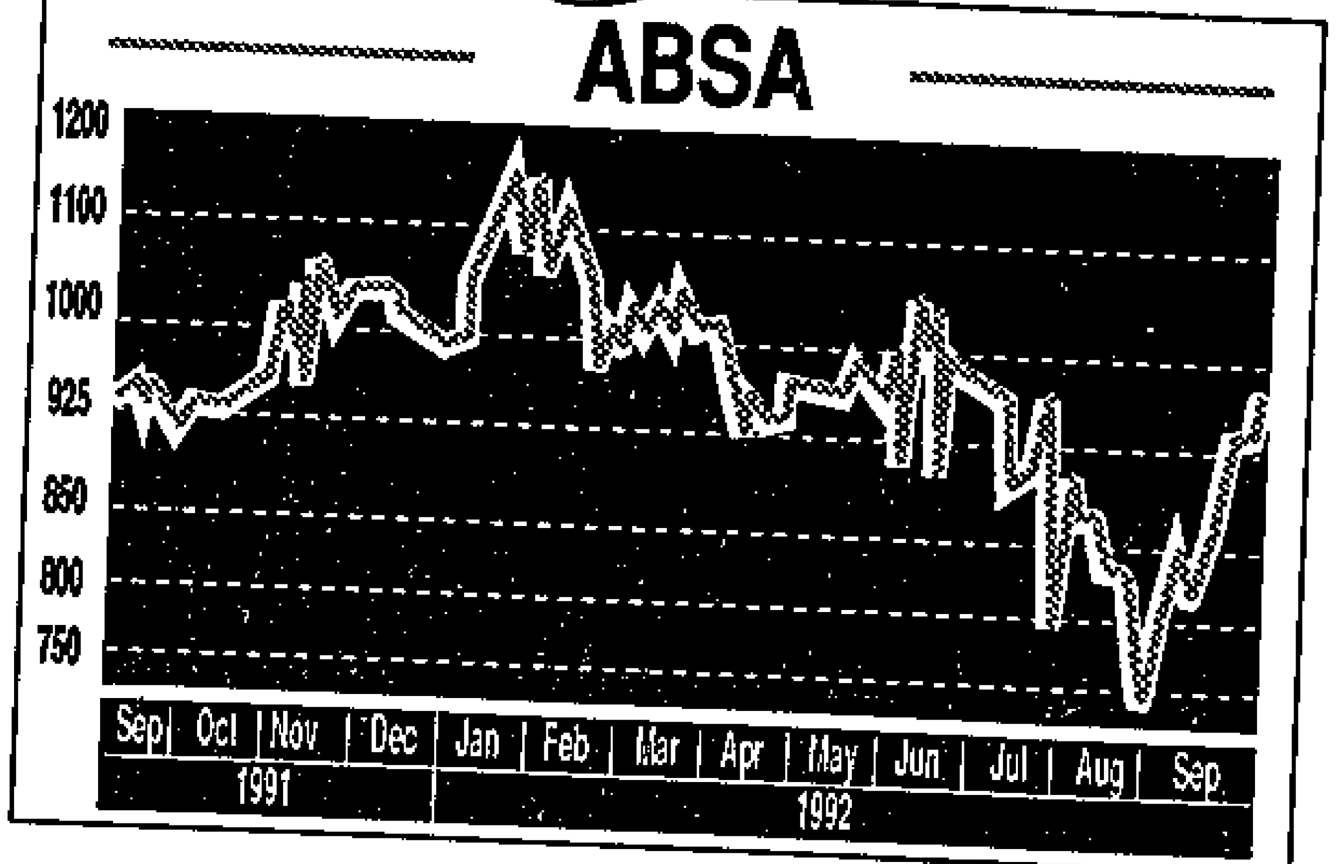
Any project lodged with the bank is appraised in terms of an economic base, financial capacity of the implementing agency, community acceptance and involvement in the project.

For more information contact Mohohlo at (011) 313-3749, or write to him at PO Box 1234, Halfway House, 1685.

Absa's day of reckoning

S/Times (Buss) 4/10/92. (58)

PIET Badenhorst's moment of truth will arrive with next month's publication of results from Absa.



Absa, one of the most talked-about shares both on the JSE and in banking circles, has had its rating sharply reduced since taking over Bankorp this year.

Mr Badenhorst, the chief executive, is aware of the talk.

Absa's detractors say it paid too much, first for Allied, then for Bankorp. The bad debt in Trust Bank is enormous; it's losing all its home loans — and its best staff — to the other banks.

"Obviously, when there is a sudden change of this magnitude and the potential for a different class of competition arises, the attitudes of the other players are bound to be affected one way or another," says Mr Badenhorst.

He will not be drawn further on the published reason why the amount Absa paid for Bankorp was reduced.

"After the due diligence assessment we wanted to make more provisions."

Many were of the opinion that Bankorp's management of the pre-takeover day had already written off as much as was necessary and that it had been discounted in the share price.

The concern is that exposures to risky companies will inevitably mount with the amalgamation of so many commercial operations under one group.

Mr Badenhorst says this was taken into consideration in the due diligence assessment.

It is widely known that he has instituted an inquiry into the writing off of bad debt by all of Bankorp's divisions in the past three years. It is believed that some staff members wrote off the debts of their families.

Mr Badenhorst will not reply on the record.

Trust Bank has been a dog for 25 years, something he promises to change within the next year or two.

Even though banking margins are as wide as they have been for years, Mr Badenhorst says the incidence of bad debt is reducing potential profitability across the industry to the level it was 10 years ago.

PIET BADENHORST

In spite of Absa's rating decline, there has been some buying of the shares lately.

Mr Badenhorst acknowledges the pressures under which a unit trust fund manager finds himself at the end of a reporting period. The fund manager with a bucket of Absa has to look good at the end of a quarter for the circular to investors, so naturally Absa's price must rally.

He also knows that staff members who have been retrenched are apt to speak the worst about Absa. It must be a Herculean task to maintain morale.

A profit-sharing incentive scheme is in place for senior management and a share option scheme extends a little lower down.

Bringing in Bankorp gave Absa access to certain foreign trade offices.

The Volkskas and Trust Bank offices in London were merged, there is a branch in Hong Kong and a representative office in Frankfurt. The aim is to pick up trade finance and foreign-exchange business from increased contact between SA and the world.

According to Mr Badenhorst, excellent progress has been made in computerisation.

"We have the strongest technical capability and cost efficiency."

Absa holds stakes in groups such as Rand Merchant Bank, Sechold and Boland. That the RMB stake is for sale is no secret — "if the price is right, we'll sell it".

He might get his chance when it lists in November. No moves are planned for the others.

Mr Badenhorst seems rather proud of having given Sechold managing director Arthur Kelly his first job at the first building-society money-market desk in SA while at United.

The home-loan war with other banks?

"They've been targeting us for years, it's not a new phenomenon. You'll just have to look in the balance sheet when our results come out."

There will be an inordinate amount of interest in Absa's results when the day of judgment dawns.

Board of Executors trust notches up 11,7% return

LINDA ENSOR (58)

CAPE TOWN — The Board of Executors Growth Fund achieved an 11,7% total return in the year to end-September against a total 0,6% return on the All Share Index.

The trust's liquidity level was increased to an effective 24% compared with 20% at the end of the June quarter to take account of what BoE senior GM John Winship said was an extremely risky investment environment and a volatile stock market.

"The change in strategy towards the end of last year to adopt a cautious approach to the share market and to focus on those companies that have a proven long-term track record of above average earnings growth, paid off handsomely," Winship said.

The core investments in AVI, Foschini, Imperial, Liberty, Richemont, Rembrandt and Trencor — comprising 50% of the equity investments — were retained.

Mining shares were underweighted and at the end of the quarter mining exposure represented 23% of equity exposure. BDay 5/10/92

During the quarter the entire holdings in Gencor, Anamint, Santam, Absa, AVI convertible debentures, Engen and Premier were sold with new holdings acquired in Anglo, BoE, Barlows, Genbeherende, Plate Glass, Servgro and Industrial Selections.

Despite the adverse conditions, a net R1,7m flowed into the fund, bringing its total value to R66m.

Jacobs report to be released today

BIDAY 5/10/92

LINDA ENSOR

CAPE TOWN — The long-awaited report of the Jacobs committee, which investigated the levelling of playing fields for deposit-taking and contractual savings institutions, is expected to be released today.

The first copies arrived on Friday, and the bulk should be ready today. The copies will probably be available at the Financial Services Board. (58)

Details of the application of the four-fund approach to the taxation of life offices have been awaited with keen interest by the life industry. It is widely accepted that the committee — under the chairmanship of Japie Jacobs, special adviser to the Finance Minister — will recommend adoption of a four-fund approach.

But quoted life companies whose shareholders have benefited greatly in the past from untaxed pension fund business could be adversely affected if the four-fund approach is implemented, as corporate profits of life companies will become taxable.

Another far-reaching recommendation expected by the life industry is the abolition of the Sixth Schedule, a step which will allow policies with a five-year term. If the schedule is abolished, product development by life companies will not be restricted by tax constraints and products will no longer have to have a minimum element of life cover.

And it is believed that the report will recommend promulgation of an over-arching Financial Services Act which will provide for a super-arching, regulatory body to supervise regulation of banks, building societies and life assurers.

Modelled on the UK Act, this proposal was made by Registrar of Banks Hennie van Greuning.

A storm of controversy is likely to arise over this recommendation, however, as some people fear overregulation and believe the UK Act has been unsuccessful.

Stals takes issue over finrand glut

(58) GRETA STEYN

THE Reserve Bank was unhappy about the way in which First National Bank dumped finrands in the market last week, banking sources said at the weekend.

FNB's frantic sales of finrands for pounds to finance its acquisition of UK merchant bank Henry Ansbacher was the main reason behind the currency last week hitting its lowest levels in more than five years. Friday saw a second day of drama in the market, with the currency touching a low of R4,42 to the dollar from Thursday's R4,30 close.

Bank Governor Chris Stals, asked to comment on market criticism of the Bank for approving acquisitions abroad, said the Bank usually asked SA buyers of foreign companies to adopt a gradual approach to selling finrands and purchasing foreign currency. BDM 5/10/92

He believed it was not possible to calculate exactly what the effects of the foreign takeovers by SA banks would have on the finrand, as its value was also affected by political developments. The Bank was unhappy that the discount between the finrand and commercial rand had widened.

Asked whether the Bank had abandoned the idea of intervening to support the currency, he said the policy had not changed. However, the Bank had originally envis-

□ To Page 2

Finrand BDAY 5/10/92.

(58) □ From Page 1

aged that it would at times withdraw completely from the market. He also referred to the Bank's statement on its finrand policy, which indicated that intervention would further be determined by the need to reduce money market liquidity and by inflows of foreign exchange reserves that could be used for intervention.

Reuter reported Societe Generale's Johannesburg branch had pulled out of the financial rand market because of the volatility.

"We are pulling out of the market for the time being. I am not interested in a market that is moving like that. We are waiting for direction," the bank's chief forex dealer Neal Anderson said.

Dealers said the foreign deals were only part of the problem — the market was growing increasingly worried that the weak finrand would trigger massive sales by foreign investors in SA gilts. They were worried that "stop-loss" orders had been triggered at current levels.

Nedbank takes over Telkom home loans

(58) HILARY GUSH

TELKOM's employee housing scheme has been taken over by Nedbank, in a deal which is expected to expand the bank's home loan book by about 3 000 bonds worth R200m. BDAY 5/10/92.

A Nedbank spokesman said the existing Telkom housing scheme had been transferred in a bid to obtain an improved bond rate for Telkom staff.

A standard rate of 18,25% applied to Telkom employees, but due to the size of the portfolio, some staff members — depending on their income — would enjoy a bond rate of up to 1% lower than the standard rate.

If those Telkom staff members with existing bonds chose to transfer their home loans to Nedbank, the bank's book — estimated to be worth R2,1bn — could be expected to increase by a further R400m.

A statement from Telkom is expected later this week.

Nedbank/Telkom deal

Finance Staff (2488)(58)

Nedbank has taken over the Telkom employee housing scheme, which will add an immediate R200 million to its mortgage bond book.

Nedbank said in a statement at the weekend that the Telkom housing scheme was transferred to it in order to obtain an improved bond rate for Telkom staff. STAR 5/10/92

The acquisition of this housing scheme will expand Nedbank's portfolio by some 3 000 bonds and Telkom staff will have the advantage of cheaper bond rates.

It is also expected that Telkom staff may elect to transfer existing bonds to Nedbank, thereby increasing Nedbank's portfolio by a further R400 million.

The existing bond portfolio is also expected to double over the next three years.

BOE Growth Fund does well

Finance Staff (58)

The BOE Growth Fund showed resilience to adverse conditions by producing a solid performance in the 12 months to September.

It achieved a total return of 11,7 percent (total return of 0,6 percent by the overall index).

John Winship, senior general manager, Board of Executors, attributes the results to a combination of good share selection and timing of investments. S'Man

"The change in strategy towards the end of last year to adopt a cautious approach and to focus on companies with a proven long-term track record of above-average earnings growth, paid off handsomely." 5/10/92

Mr Winship says the fund elected to stay with its core holdings. These include AVI, Foschini, Imperial, Liberty, Richemont, Rembrandt and Trencor and comprise about 50 percent of the equity investments.

Top wine producer awaits a tough year

(3) Wine Fuithcultur(?)

BDay 6/10/92

LINDA ENSOR

CAPE TOWN — Wine and spirits producer Distillers Corporation did not expect any real growth in earnings this year, MD Michiel Le Roux said after the group's annual meeting yesterday.

However, there was no danger of a cut in dividends as cash flow was healthy. In the year to end-June Distillers increased earnings by 5,7% to 67c (63,4c) and its dividend by 11,4% to 39c (35c). Turnover rose 5,3%.

In the group's annual report, chairman Andreas van Wyk said consumer spending on wines and spirits was lower in real terms last year, with distilled beverages and quality wines in the higher price range in particular showing declining sales trends.

Van Wyk said Distillers had nevertheless retained its share of the market and in certain categories had increased its share considerably.

Provided the financial position of consumers did not deteriorate further, earnings would at least be maintained this year, Van Wyk said.

Le Roux added that the local market was stagnant, with a lot of down-buying taking place. Margins were under pressure and the group had had to be cautious about price increases which had been kept below the rate of inflation. He said trading conditions had worsened significantly this year.

Wine exports were growing rapidly, albeit off a small base, and many new markets such as Denmark were opening up. SA wine sales in the UK were booming and Distillers, which exported the more expensive Bergkelder wines, was looking at supplying a cheaper range of wines, Le Roux said.

While the developments on the export markets were exciting, Le Roux noted that wine exports only represented about 10% of total wine production, which generated considerably less than half the total group turnover.

Brandy was being launched into the Far East and Distillers had acquired an agency network there. Brandy and wine was being sold into Africa on an ad hoc basis and good progress had been made in Zimbabwe.

But Le Roux said other African markets had been closed due to the lack of foreign exchange.

He said the GEIS export incentives had made a significant contribution to the success of exports, and if they were to be phased out as suggested, then certain price categories of Distillers' exported products would no longer be viable.

Dip in metal prices forecast

LONDON — Weak demand for base metals from major economies will flatten prices for the rest of this year, Billiton-Enthoven Metals predicted in a market survey released yesterday.

"Given the poor demand outlook we do not expect copper prices to stage a major break-out on the upside in the final quarter and, indeed, further downward pressure may emerge," the survey said.

Chinese copper purchases, which helped underpin the copper price recently, had petered out.

In addition, aluminium prices had been hit by rising Western production and signs that exports by the Commonwealth of Independent States could equal 1991's record. Interest in lead, nickel and tin was also flagging.

Billiton's forecasts of average annual prices for 1992, in US cents per pound with 1991 comparisons in brackets, were copper 105c (106c), aluminium 57,5c (59c), zinc 57,5c (51c), lead 26c (25c), nickel 327c (371c) and tin 275c (254c).

The company also predicted a fall this quarter in the tin price.

"Supply problems for tin have not proved to be as acute as originally feared, whilst demand has remained surprisingly uninspiring," it said. — Sapa-AP.

Tomkor in place for a good 1992

BDay 6/10/92 (58)

EDWARD WEST

PROPERTY company Tomkor has made an impressive start to its financial year, with earnings up 46% and dividends up 42,9% in the six months to end-August 1992, according to results published today.

The performance came off a high base after earnings increased 40,1% and dividends 35,7% at the close of the previous financial year, which ended February 29 1992.

Rent received improved by a tenth to R9,74m in the first half compared with R8,79m in the first of 1991. However, profit before interest was higher by slightly less than a tenth, at R7,45m compared with R6,9m in 1991.

Interest paid fell to R5,56m from R5,91m reflecting lower interest rates. Borrowing increased to R60m from R55,65m due to property development. Pre-tax profit was substantially higher at R1,88m compared with R985 000 in 1991.

Taxation more than doubled to R766 000 from R225 000 because assessed losses were almost exhausted and the tax rate rose to 40,7% from 30%. Taxed profit amounted to R1,12m compared with R760 000 at the interim stage last year.

Taxed profit a share increased to 10,5c from 7,2c and the interim dividend was raised to 10c a share from 7c the previous year.

Directors attributed the profit growth to lower interest paid and the contribution to the bottom line of the completed Brooklyn Mall shopping centre.

Projects in the pipeline included the Potproes development, the Rovon development and this year's completion of Phase 3 of Elardus Park. Development costs in the period amounted to R4,9m. Tomkor's property portfolio was revalued by R40m increasing the total value to R157m.

Given the uncertain economic outlook, the higher tax rate and the virtual certainty that the recession would have an impact on vacany levels, directors nevertheless forecast profits to at least match those for the half-year just reported on.

Hanson bids for food firm

LONDON — Anglo-US industrial conglomerate Hanson yesterday disclosed a £780m cash bid for UK food manufacturer Ranks Hovis McDougall.

The hostile offer values each Ranks Hovis share at 220p, representing a 26% premium over the 175p closing price on the London Stock Exchange on Friday.

The offer also represents a 57% premium over the 140p-a-share price on September 4 when, Hanson claimed, Press speculation over a possible bid began.

But the bid represents a comedown in the fortunes of Ranks Hovis. In 1988, Hanson said Ranks Hovis rejected an offer of 465p a share. BDM 6/10/92

Ranks Hovis "seems to have lost its way forward since the time of the bid in 1988, when you turned down 465p a share and such a bright picture was painted", chairman Lord Hanson wrote in an open letter to Ranks Hovis chairman Stanley Metcalfe.

"We believe our financial strength and management skills will provide a vital new dimension to your ... company at a time when there is likely to be considerable restructuring needed in the milling and baking industry.".

In the year ended August 31, Rank Hovis's pretax profit rose 15% to £150,2m on a decline in sales to £1,53bn from £1,77bn. It lifted its full-year dividend to 13,36p a share from 12,74p. — AP-DJ.

Sanlam unit trust portfolios static as income is used to build liquidity

(58)

BDAY 6/10/92

LINDA ENSOR

CAPE TOWN — Sanlam's five unit trusts, with total assets of about R1,8bn, were not active players in the buying and selling of shares during the quarter to end-September, instead using the inflow of cash to build up their liquidity levels, senior portfolio manager Stafford Thomas said yesterday.

Liquidity levels increased to 16,9% (12,4%) for the Sanlam Trust, 16,7% (11,7%) for the Sanlam Index Trust, 31,3% (21,3%) for the Sanlam Dividend Trust, 19,8% (13,7%) for the Sanlam Industrial Trust and 14,8% (9,3%) for the Sanlam Mining Trust.

The slump in the stock market meant that the yields of the five trusts in the year to end-September — Sanlam Trust (3,9%), Index Trust (0,23%), Sanlam Dividend Trust (5,2%), Industrial Trust (9,6%) and Mining Trust (-10,8%) — did not match those of former years.

Thomas noted that the Sanlam Industrial Trust had produced an annualised yield of 23,9% during the past three years — the second best in the industry — and the Sanlam Dividend Trust a yield of 17,6%, which placed it fifth. During the three-year period the all share index grew by about 15,5% while the inflation rate averaged 14,8%, Thomas said.

Sanlam Trust paid out 25c a unit for the past quarter and the Dividend Trust 9,6c.

Thomas said no major restructuring of the share portfolios was envisaged during the coming quarter.

Liquidity would be allowed to build up a few more percentage points.

"The potential for share prices in general to rise significantly from current levels is rather limited over the short term. The primary reason is the recessionary conditions prevailing in the SA and international economies," Thomas said.

"Political uncertainty is also adversely affecting investor sentiment. Recent positive developments may lead to improved confidence. A volatile market is expected in the short term.

"We believe investors in unit trusts will continue to receive good returns over the medium and longer term."

In the past quarter Trans Natal, Samancor and Transhex shares were sold and Servgro, Ofsil, Datakor and a small number of platinum shares were amongst those bought.

The 10 largest holdings in the Sanlam Trust were Richemont, Metropolitan Life, Tiger Oats, Remgro, SA Breweries, Remgro Beherend, Murray & Roberts, Suncrush, Gencor Beherend and Sasol.

Steel producers face gloomy prospects

BDAY 6/10/92

TOKYO — Prospects for the world's steel makers were gloomy, International Iron and Steel Institute general secretary Lenhard Holschuh said yesterday.

"Given the morose world economic climate, steel demand will not rise in 1992 and is unlikely to show much improvement in 1993," said Holschuh, in Tokyo for the institute's 26th annual conference.

Total world output of steel products would stand at about 623-million tons this year, the same as in 1991, and would only rise to 632-million tons in 1993, he said.

In the longer term, the institute estimated demand would grow only moderately and not return to the record highs of 1989 and 1990 (664-million tons and 654-million tons respectively) until after the middle of the decade.

Steel demand in the US would rise 10% to 85-million tons this year, but only 3% in 1993 because of the "tenuous nature of the economic recovery" there, Holschuh said.

In Japan, the steep 13% drop in output to 81-million tons expected this year would be followed by a modest 3% growth next year. In the EC, after falling 2-million tons in 1992 to 105-million tons, steel consumption would probably only increase about 1-million tons in 1993. — Sapa-AFP.

COMPANIES

IGI trust's return 'satisfactory'

ANDREW KRUMM (58)

THE IGI unit trust recorded a "satisfactory" 8,4% total return for the year to September against the background of a falling share market, said IGI Life Fund Managers director Peter Linnell.

However, income distributed to unitholders fell to 1,89c a unit for the six months to September compared to 2,83c a unit for the same period in 1991.

Linnell attributed the drop in income to lower company earnings on the JSE, and a low level of liquidity held by the fund during the year. BDM 6/10/92

IGI fund managers had reacted to the plunging third quarter share market by baling out of De Beers and Sunbop, and increasing liquidity from 13% to 16%.

New holdings were established in Standard Bank and Barlows, while the fund's direct exposure to gold was increased from 1,6% to 3,2% over the quarter.

Together with the rest of the unit trust industry, IGI was awaiting a Financial Services Board decision on the use of derivative instruments in the unit trust industry, he said.

With the futures market turning over more than double the equity market daily, it was a matter of urgency that managers used derivatives to protect and enhance performance, said Linnell. In a non-liquid share market managers had few tools to protect their fund in a slump.

Nedcor plan for Perm in the pipeline

58 GRETA STEYN

NEDCOR would announce an important move to deal with the Perm's bad debt problem when its results were released in about a month's time, Nedcor CE Chris Liebenberg confirmed yesterday.

He would not be specific. "Any changes affecting the figures will be spelled out in detail. We will be careful not to distort balance sheets," he said.

Market speculation is that Nedcor is to transfer the Perm's properties in possession to a newly created subsidiary as a first step towards selling them. Talk is that the properties could be sold to the Community Bank, which is being set up by former Perm MD Bob Tucker. The probability of a deal being struck could depend on the availability of state subsidies.

There is also speculation that if the homes are not sold off in bulk, the Community Bank might find buyers for individual properties on the books of the new subsidiary. BDAY 6/10/92

Asked about the possibility of a link with the Community Bank, Liebenberg said Nedcor's support "at this stage" did not involve anything like the rumoured deal.

On the Perm's problems, he said Nedcor was looking at ways in which homes in possession could be sold.

The figure for Perm's homes in possession is believed to be a lot higher than that for other mortgage lenders. As a percentage of total mortgages, homes in repossession vary from Absa's 1,2% to FNB's 0,23%. The Perm's township exposure is the biggest as a percentage of its total mortgage book, but about the same as Absa's in rand terms.

At the interim stage, Nedcor's results disappointed analysts with the Perm suffering a loss as the bad debt charge surged.

Cagey unit trusts switch holdings

Finance Staff STAR 6/10/92

Unit trust portfolio managers are cautious about the outlook for the equity market and are shifting their holdings into cash and fixed-interest stock.

While **Fedgro's** portfolio grew 10,5 percent (capital plus income) in the year to September, fund manager Ian Fraser says funds allocated to fixed-interest stocks ahead of the present decline in interest rates cushioned the fall somewhat.

"With some 26 percent of the portfolio in cash and fixed-interest stock, we were able to limit the effect of falling share prices on the portfolio," he says.

"The cut in the Bank rate on June 30 accelerated the bull trend in the capital markets. We expect this trend will continue for the rest of 1992 as inflation and interest rates continue to decline.

"Our expectation for share prices in the short term is influenced by the performance of the major world economies, the adverse effects of the drought, ongoing violence and political uncertainty, and weaker company results," he says.

Top five

58

While two of Sanlam's unit trusts again featured among the industry's top five over the past three years, all five funds in its stable raised liquidity levels.

"An annual yield of 23,9 percent was produced by the Industrial Trust over the past three years, and the Dividend Trust had a yield of 17,6 percent," says Stafford Thomas, senior portfolio manager.

Two funds have income distributions this quarter. Sanlam Trust will pay 25c a unit and Sanlam Dividend Trust 9,6c.

Mr Thomas says liquidity levels for all funds have been raised quite sharply, headed by Sanlam Dividend Trust with 31,3 percent, and the Industrial Trust with 20 percent.

"The potential for share prices in general to rise significantly from current levels is rather limited over the short term.

"The primary reason is the current recessionary conditions prevailing in the the SA and international economies.

"Political uncertainty is also adversely affecting investor sentiment. Recent positive developments may lead to improved confidence. A volatile market is expected in the short term."

The **IGI** unit trust raised its liquidity from 13 to 16 percent by selling its entire shareholding in De Beers and Sunbop. It is making an income distribution of 1,89c a unit for the six months to end-September.

Rivonia offices sold on to CU

ANDREW KRUMM (58)

COMMERCIAL Union Life Assurance (CU) has extended its commercial property portfolio with the R5,6m acquisition of an office development in Rivonia. 8|DAY 7|10|92

The two-storey development, comprising three buildings, was financed and developed by Rivonia-based 5th Avenue Properties, who recently sold the complex on to CU.

5th Avenue Props MD Dave van der Walt said the sell-on was entirely tenant driven. He added the first two phases were now complete and fully occupied, with the third scheduled for occupation in December.

Jacobs report is given a cautious welcome

BIDay 8/10/92.

(58)

GAVIN DU VENAGE and LINDA ENSOR

LIFE offices yesterday expressed "cautious satisfaction" withthe Jacobs report on financial services , but warned it could discourage saving for retirement.

Liberty Life vice-chairman Dorian Wharton-Hood described the report as a positive step to creating equal opportunities for banks and life offices.

Assurers, who had a voluntary agreement over the past five years not to issue policies for less than five years, would now compete on equal footing with banks.

Most provisions in the report had been expected, but if the Sixth Schedule in particular had been scrapped as recommended, "no one would mourn its passing," he said. " Up to now regulations have been a bit of a thumbsuck".

However, making pension funds no longer fully tax deductable could discourage people from saving for retirement, unless a balance was achieved between the pension they received and taxed contributions. The danger of discouraging people from saving for their old age was that they could end up as state dependents, he said.

Fedlife technical service GM Dick Otto welcomed the report due to the progress it made in solving problems between banks and assurance companies.

If implemented, the proposals would allow banks and assurers to focus on business matters rather than the issues causing a conflict of interest. This would greatly improve productivity, he added.

Problems

Another advantage was the removal of the double taxation of dividends that assurers are subject to.

However, the report would take assurers and banks into "uncharted territory" and Otto warned that unforseen problems would arise once it was translated into law.

He expressed doubts over the phasing-in period, which he said would benefit the fiscus rather than life assurers. For certain assurers the benefits of the phasing in period would emerge only in the third year, while for others the tax increase would bite immediatly.

Otto was also concerned about negative perceptions which could arise from changes to the tax treatment of contributions and benefits of retirement funds, which were mooted in the report. He said the issue needed further debate. Various other life offices contacted said they were still examining the report, but initial impressions were favourable.

Life Offices Association (LOA) director Jurie Wessels said the life industry welcomed the scrapping of the Sixth Schedule to the Income Tax Act and the introduction of the four-fund approach to the taxation of life offices. The industry would work closely with the authorities to formulate new regulations — possibly in the Insurance Act — to replace the schedule.

"The four-fund approach establishes sound principles of taxation, which is a great improvement on the pragmatic approach of the past which was often manipulated by government. The sound and logical principles will establish stability in the industry," Wessels said.

Meanwhile, Sanlam senior GM George Rudman said the recommended four-fund approach to the taxation of life offices offered optimal fairness to all participants and was the sophisticated product of local thinking which should attract international attention. He said the owners of life assurance policies would benefit from the Jacobs committee's recommendations on the taxes paid by life assurers.

The committee has recommended that the individual policyholders fund be taxed on the trustee principle on the average individual tax rate of 30% as opposed to the present 43%.

A further advantage of the approach was that the tax-free fund for pension, retirement annuity and non-tax paying funds would mean that income on specific assets would now be tax exempt and benefit institutions other than retirement instruments.

However, Rudman regretted that the new tax based would only be phased in over three years as this would mean that policyholders would have to pay tax on two-thirds of the dividends in their policy assets for two more years.

Sanlam welcomed the proposed scrapping of the Sixth Schedule, saying that while only a small number of policyholders would be directly affected, the indirect advantages were expected to be considerable.

Artificial limits on product design would be removed and it would no longer be necessary to spend time and resources on the interpretation and application of a very complex piece of legislation.

Rudman said the greater fairness, defensibility and understandability of the proposed new tax base would lead to greater stability in future.

13/10/92

Deal for African bank

STANDARD Bank confirmed yesterday that negotiations to acquire the African branch network of ANZ Grindlay's bank would be concluded within the next week.

The deal will set the group up as the largest SA bank in Africa, with branches in Zambia, Zimbabwe, Botswana, Uganda, Ghana, Kenya and Zaire.

(58)

Rich Arabs keen to buy SA holiday homes

PETER DELMAR

BDAY 8/10/92

DUBAI — Wealthy Arabs are keen to buy luxury holiday homes along SA's coastline.

An exhibitor at the current SA and the Gulf show, Hivest International director Ara Manuelian, said yesterday Middle East businessmen had shown great interest in investing in commercial, retail, residential and tourist property in SA, as well as in new developments.

Other businessmen confirmed the growing interest in exclusive residential properties.

Manuelian said his company would organise a number of tour packages for potential investors. Three groups had already visited SA, he said, and he was surprised by the interest shown this week.

Manuelian said he was representing a leading SA company — which he declined to name — looking for Middle East investment in SA joint ventures.

Meanwhile, Deputy Trade and Industry Minister David Graaf yesterday urged Arab businessmen to join SA in forming an Indian Ocean trade bloc.

Graaff told a seminar here that geopolitical shifts had left Africa and the Middle East outside the three major world trade groupings.

The development of a trade bloc encompassing SA, the African east coast, India and the Middle East should be considered a natural development which would benefit all the regions concerned. "We see Dubai as a natural window into the Middle East and I hope that you will see SA as a window into Africa," he said.

Like Dubai, SA was also at the axis of major east/west trade routes.

● See Page 3

Pension fund tax move 'socially irresponsible'

STAR 8/10/92.

58

By Sven Lünsche

The Jacobs Committee's shock proposal to scrap the full tax-deductibility of pension fund contributions has been described as "socially irresponsible and a short-sighted attempt to shore up the Government's short-term cash-flow problems".

The Jacobs report on financial services, released yesterday, recommends that blanket tax deductions on pension fund contributions by individuals and companies be phased out.

Other key proposals include the establishment of one regulating authority for all financial services and scrapping the Sixth Schedule of the Income Tax Act. (see box)

It is expected that the amended legislation to give effect to these proposals will be passed during the 1993 session of Parliament.

Tax analysts say the report should not be equated with impending legislation in that its contents are only recommendations published for comment by interested parties.

However, the key proposal, if accepted, will force individuals to pay tax on one-third of their contributions to pension funds.

At present, the full pension fund contribution is tax-deductible.

The burden will be worsened if it pushes taxpayers into higher tax brackets.

The committee's key proposals

- Employees would have to pay tax on one-third of their pension fund contributions.
- Employers would have to pay tax on 20 percent of their contributions to pension funds at the company tax rate of 48 percent.
- Benefits at retirement from all fund sources would be limited to a reasonable amount.
- Replacing the Sixth Schedule of the Income Tax Act with legislation which would tax-exempt life insurance investments with no life cover and a term in excess of five years.
- A "four-front" approach to the tax base of life insurers, allowing life companies to run four separate funds for tax purposes.
- All providers of financial services to the public would be required to register in terms of a proposed Financial Services Act, creating one regulatory body for the industry.

Twenty percent of pension fund contributions from employers could also attract tax at the prevailing company tax rates.

Independent pensions broker Patrick Anderton says it is a measure of the Government's desperate need to tax every available source that it is prepared to sacrifice the previously sacrosanct area of retirement provision, Des Parker reports.

Mr Anderton believes the plan runs counter to all advice to the Government on pension funding over the years.

The proposal would also cut across ANC policy, which is that tax should be levied on the life assurance sector, rather than on the man in the street.

Tony Davey, Southern Life's general manager, legal and tax services, says implementation of the proposals would provide the fiscus with additional cash flows.

"There is also a socio-economic perspective, which is that the full current tax relief on contributions favours the higher income groups, which effectively results in the state granting disproportionate incentives to those who arguably need it least," Mr Davey says.

The second drastic recommendation is scrapping the Sixth Schedule of the Income Tax Act a proposal that has been welcomed by the Life Offices Association (LOA).

Currently, investments with life companies have to be for a minimum of ten years and must have a certain level of life cover to escape tax liability.

The life cover requirement is now set to fall away from any investment of longer than five years, if the recommendation is accepted.

The report makes important recommendations on the tax base for long-term insurers, proposing a four-fund approach.

According to the deputy director of the LOA, Jury Wessels, the industry as a whole will pay less tax if the four-fund approach is adopted, although this will differ from company to company.

Life insurers which focus more on individual life products will generally pay less than those which offer retirement and pension fund products, he says.

Furthermore, if accepted, the proposals will result in one regulating body for the entire financial services industry to replace the Registrar for Banks (banks) and the Financial Services Board (life insurers).

The committee, which was headed by the special adviser to the Department of Finance, Dr Japie Jacobs, was appointed to investigate the factors affecting equal competition between banks and life companies.

NE

ATM cash for needy flows in

STAR 8/10/92

By Michael Chester 58

The Harvest for the hungry

The credit card bank robots that joined the "Harvest for the Hungry" drive to relieve the drought crisis promise to hit a R1 million jackpot in collections by the end of the month.

They form the nationwide network of more than 1 000 ATMs (automatic teller machines) operated by the Nedbank and Perm subsidiaries of the Nedcor Group, which between them handle no fewer than 3,5 million transactions a month.

Every time a customer uses one of the robots to draw cash or check an account, Nedcor pledges a 10c contribution to the "Harvest" fund, which it launched in July in a joint exercise with The Star and sister newspapers in the Argus Group.

The 10c coins have grown into a mountain. There may soon be 10 million of them.

"The latest count showed that total contributions from the ATMs had already climbed to more than R700 000," said Nedcor public affairs general manager Theo Coggin yesterday.

"By the end of October, covering the full three months of the 'Harvest' drive to rush emergency food shipments to drought victims, the total looks set to pass the R1 million mark.

"That, of course, comes in addition to the flow of contributions from bank staffers and customers who have been encouraged to volunteer donations.

"All in all, the fund has already been able to distribute almost R2 million to feeding schemes in the areas worst hit by the drought disaster. But aid must keep flowing for some time yet."

Donations are also being boosted by the special TelStar telephone service run by The Star and Parrot Publishing, which pledges 10c for every call coming in.

Guardbank trust managers see promise in longer term

STAR 8/10/92

By Sven Lünsche (58)

The outlook for the equity market remains hostage to a troubled international economic order and local political uncertainty, says GuardBank in its commentary accompanying quarterly results of its three unit trusts.

"After the sharp market correction of the quarter under review, equity prices are at somewhat less demanding valuation levels," GuardBank says.

"Nevertheless, over the shorter term the uncertain global and domestic economic environment will inhibit the SA equity market and it is likely that a period of under-performance lies ahead.

"Taking a longer view, the worldwide changes in the free enterprise market-driven economy will also of necessity have to be the cornerstone for growth in the 'new' South Africa.

"In such a context, the outlook for the JSE in the medium to longer term remains promising," the portfolio managers say.

Growth Fund reported a total return (capital appreciation and income reinvestment) of 9,9 percent for the year to end-September.

However, the market value of the fund fell from R1,52 billion in June this year to R1,44 billion at end-September, in line with falling equity prices.

The fund improved its liquidity level from 19,3 percent to 27,8 percent in the September quarter.

GuardBank says the slump in De Beers' share price was largely responsible for the 12,2 percent drop in average prices during the quarter.

"In addition, the stalled political negotiation process and the severe recessionary trading environment exacerbated by mass action and violence sapped investor confidence."

GuardBank Industrial Fund's return since its April inception date has been 6,8 percent and increased its market value by 35 percent to R8,1 million in the quarter.

The Resources Fund's return was a negative three percent for the year, in line with the poor performances of mining and energy stocks.

The strongest growth was reported by the Income Fund, with an annual return of 28,2 percent and a quarterly surge in its market value from R63,9 million to R134,1 million.

GuardBank's unit trusts notch up a successful year

(58) B DAY 8/10/92.

ANDREW KRUMM

GUARDBANK unit trusts reported a successful year, with three of the four funds administered turning in good or satisfactory performances.

However, a fourth trust, GuardBank Resources Fund, showed a negative 2,95% growth in the year to September against the background of difficult commodities and metals markets. Nonetheless the fund was the top performer among All Resources unit trusts.

Liberty asset management MD James Inglis said: "By comparison the JSE all gold, coal and diamond indices performed extremely poorly, reflecting returns ranging from -16,5% to -36,94% over the year."

In contrast, top performer GuardBank Income Fund posted a 28,18% total return — including capital appreciation and income reinvestment), — which put it among the top three performing unit trusts for the past year.

In its most successful quarter, the market value of GuardBank Income grew R61m to finish at R134m, as investors chased better returns in gilts, Inglis said.

Meanwhile, GuardBank's largest fund, the GuardBank Growth Fund, offered investors a 9,89% total return — outperforming the nearly static All Share index.

Inglis attributed the performance to fund managers' concentration on blue chip shares, and heavy weighting towards the financial and industrial sectors.

However, GuardBank Growth experienced a net outflow of investment during the quarter, and the market value of the portfolio fell to R1,437bn from R1,517bn in June.

Disposals

Inglis said GuardBank Growth's liquidity — fixed interest securities and cash — rose sharply from 19,32% to 27,76% during the quarter, with managers largely withdrawing from mining sector shares, and moving to medium-dated gilts.

Some disposals included Anamint, Gencor, Charter Cons, Southern Life, SAB and Adcock Ingram.

Inglis said an uncertain global and domestic economic environment would inhibit the SA equity market, and it was likely a period of underperformance lay ahead, but the medium- to long-term outlook on the JSE was promising.

BANKING FM 9/10/92

Forging a bond (58)

In the old days, mortgage bonds were funded by deposits from savers in the local community and were held by the mortgage bank till maturity. These days, in the US, mortgage bankers unload them into a secondary market where the loans are repackaged into blocks of lower-yielding, lower-risk securities. Institutional investors from all over the US — and even abroad — have become an important source of funds for home loans.

This has not been the trend in SA — though there have been securitisation issues. Also, public and private sector organisations have turned over their home-loan financing to financial institutions. In 1986, when Eskom decided to privatise its employees' home-loan scheme, it was thought the move would set a precedent. But this has not happened to any large degree.

Last week, Nedbank announced it had taken over the Telkom employee housing scheme — worth about R200m. Though Nedbank purchased the entire portfolio from Telkom, the deal is not a securitisation because the bank bought each individual bond — and not a homogeneous block of prepackaged mortgages.

The advantage to Telkom's employees is that each homeowner receives the benefit of the bulk-buying principle, which allows for a lower interest rate.

In terms of the agreement between the parties, Nedbank expects the monthly stream of bond applications to amount to R10m. Over the three years for which the agreement extends, the bank has the potential to increase its portfolio by some R360m. ■

FINANCIAL MARKETS FM 9/10/92

In the path of a hurricane

The massive international currency realignment, against the backdrop of a stalled US economic recovery, has triggered a worldwide crisis of confidence. Uncertainty is spreading like a virus through financial markets, infecting investor judgment, destabilising prices, disabling decision makers and destroying the credibility of politicians.

In the UK, PM John Major is fighting to keep some vestige of his reputation after he reversed policy and took sterling out ~~of the~~

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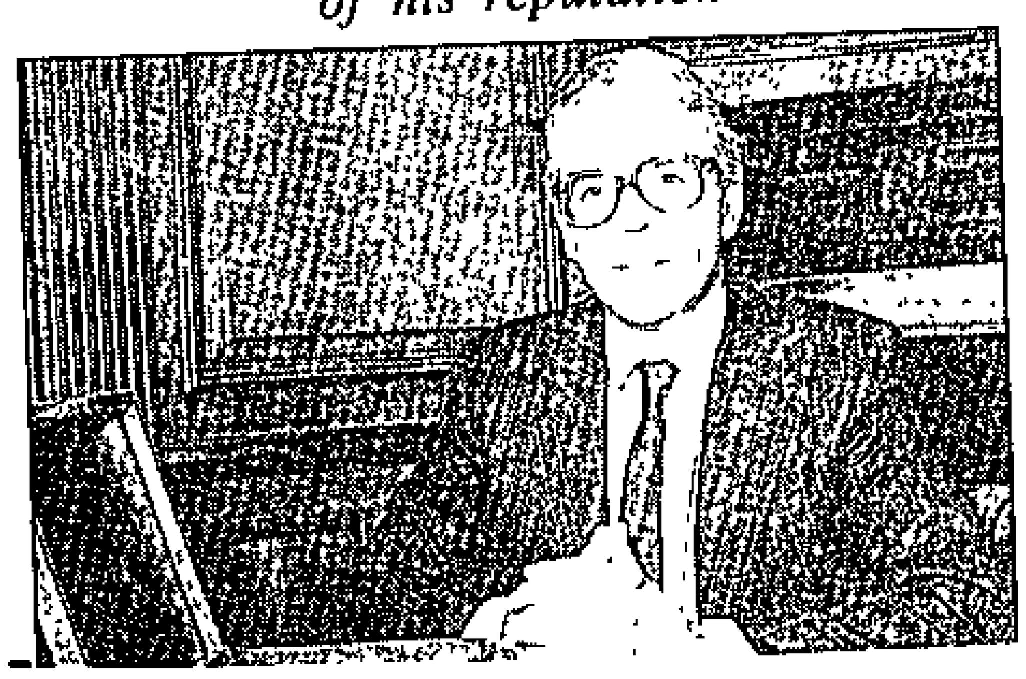
John Major ... *vestiges of his reputation*



Farm Insurance and the All State have 20%-25% each of the Florida and Louisiana reinsurance markets and neither has significant reinsurance protection in London." In the case of Lloyd's, says Robson, no-one is suggesting Hurricane Andrew will turn any syndicate into a loss, though it might take a few percentage points away from profit. ■

FM 9/10/92 (58)

moted it. Standard Bank was granted an interdict prevent Absa from using the term Equity Access. Absa dropped the name but continued with the product. Other banks followed suit.

With the introduction of the Deposit-Taking Institutions Act in February last year, they stepped up their activity. The capital that banks must keep, in relation to assets, depends on the risk profile of their assets. And the weighting accorded to loans for the purchase of residential property, under the new Act, is 50% compared with 100% on other loans and advances; so mortgages became a particularly attractive asset.

This sparked a miniboom in mortgage loans, with banks using the value of property and individual credit standing to quantify the facility they allow a customer.

The central bank, however, no longer sees the product as a threat, as growth in the broad monetary aggregate, M3, has been decelerating — from 27,17% in 1988, to a provisional 12-month rate of 8,72% in August. So the latest Reserve Bank *Quarterly Bulletin* records without comment that growth in mortgage loans, after falling from 31% in 1988, to 18% and 14,9% in the two succeeding years, accelerated to 18% in 1991. This brought total mortgages to R66,6bn by year-end, according to the Bulletin.

The 12-month growth rate slackened to 17,2% in June — probably because of an increase in households' precautionary savings, says the *Bulletin*. However, the R2,5bn increase in 1992 was still higher than in the first six months of 1991. This in no way reflects recovery in the property market. On the contrary, the value of real estate transactions contracted from a quarterly average of R7,3bn in 1991 to R7,1bn and R6,1bn in the first two quarters of this year.

The rise in the value of mortgage loans shows that customers are making good use of the credit facility — with reason. Mortgage rates are around 17,25%, while even prime (a rate allowed favoured customers) is 18,25% and most individuals pay much more.

The savings potential remains considerable. A borrower effectively earns the equivalent of the bond rate, tax free, by reducing the capital outstanding and can later draw down on the surplus created.

To illustrate: interest rates now on offer to savers vary from about 3%-14%, depending on term and sum deposited; if inflation over the next 12 months is around 12%, at best real interest earned will be about 2% pre-tax and at worst steeply negative; and interest earnings of more than R2 000 are still taxable, which further reduces the return.

There is another tax dimension. The saving achieved by increasing monthly instalments is more than just 17,25%/year. With an average individual tax rate of 35%, the effective saving on repaying, from taxed income, debt costing 17,25% is equivalent to about 26,5% pre-tax.

So flexible products are likely to have a long life. ■

FM 9/10/92 (58)

MORTGAGE LOANS FM 9/10/92 (58)

Taking off

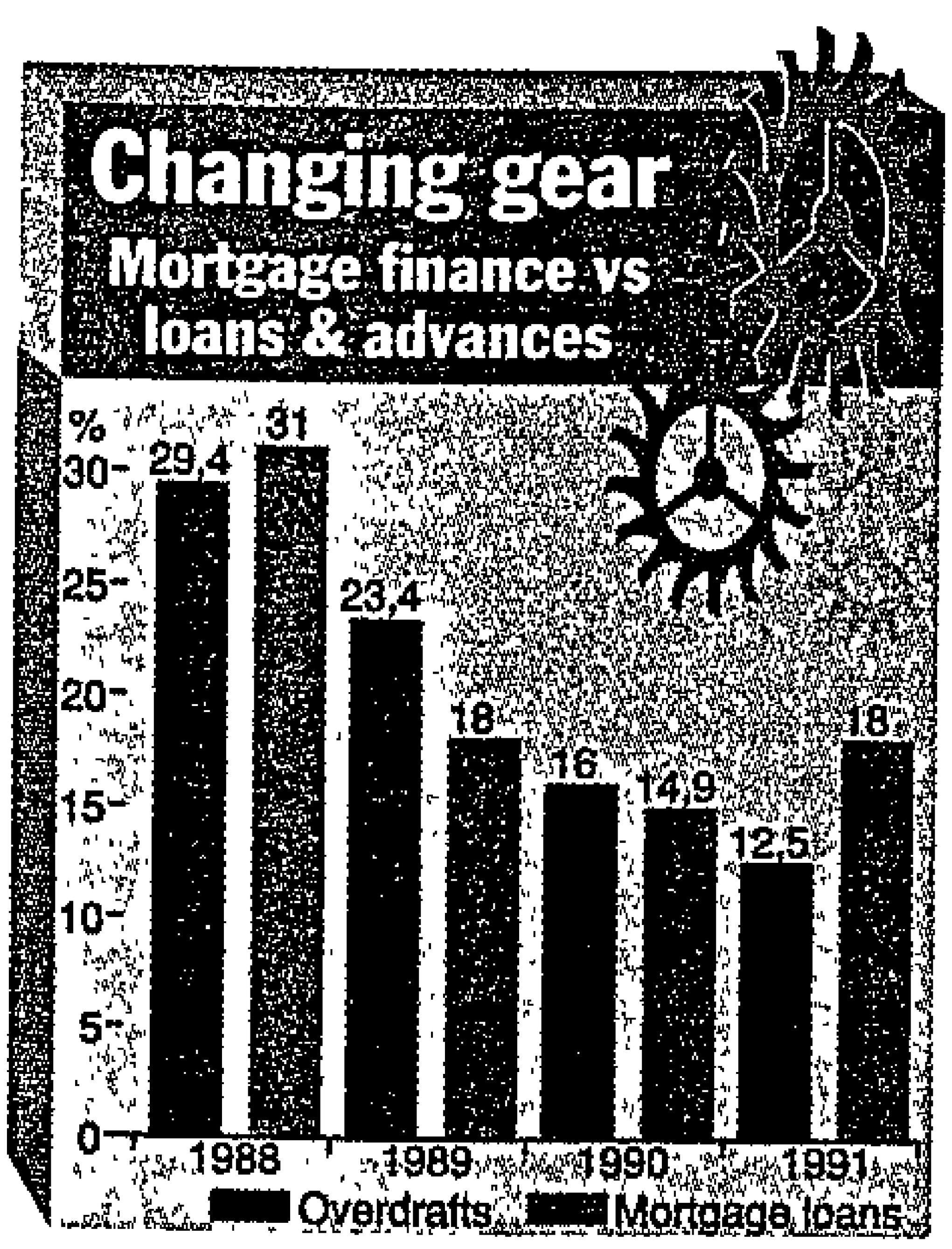
Standard Bank angered the Reserve Bank in 1988 by introducing a flexible mortgage bond facility — AccessBond. This allowed clients to draw on the repaid portion of their mortgage loans to finance other spending. They could also reduce their outstanding loan balances early and benefit from the lower interest cost.

The great attraction for clients was, however, almost certainly the access to revolving credit. A rising propensity to borrow was reflected in annual growth in the broad monetary aggregate M3 from 24% in the first quarter of 1988 to a peak of 28,5% in the third quarter.

Within two months of the introduction of the product, and following an aggressive marketing campaign, AccessBond was drawing fire from the Bank. Late governor Gerhard de Kock told banks to "practise restraint in extending consumer credit and mortgage loans for the financing of luxurious private homes. Among other things, care should be taken not to encourage the financing of consumption spending by home mortgage loans."

Standard responded by shifting the emphasis of its marketing drive from the revolving credit facility to the benefits of prepaying a loan.

The concept thrived and led to a court battle between Standard and Absa (then UBS). Absa extended an existing product, called United Equity Access Bond, and promoted it. Standard Bank was granted an interdict prevent Absa from using the term Equity Access. Absa dropped the name but continued with the product. Other banks followed suit.



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So flexible products are likely to have a long life. ■

M&R PROPERTIES

FM 9/10/92

(58)

Waves in Waverley

Over the past few months, M&R Properties has bought six houses on Scott Street, Waverley, Johannesburg, fronting the M1 motorway. The company tells the *FM* it is keen to get business rights and believes a low-density business park, if designed aesthetically, "would form a natural buffer zone for the residents of Waverley between the suburb and the highway."

It intends to apply to Johannesburg City Council for these rights within the next couple of months after proper planning.

Waverley Property Owners' Association says, however, it will strongly oppose any rezoning application, as it has in the past, becasue it wants to retain Waverley's low-density residential nature.

continue →

 FM 9/10/92

(58)

Residents have been particularly angered by the manner in which the properties were bought. They claim sellers were initially approached by an agent purporting to represent a Cape Town businessman — a notional frequent traveller between Cape Town and Johannesburg — who wanted a Johannesburg base. There is also the allegation that M&R Properties' identity become known only after estate agent Marque Properties, which had initially approached owners to gain mandates to sell their homes, presented them with written offers. The buyer was in fact M&R Properties' subsidiary M&R Properties Projects. The ex-owners started to compare notes.

In response to allegations of buying under false pretences, M&R Properties Transvaal MD Joy Wagner says: "M&R Properties appointed a property broker to obtain mandates on the houses, which it did. It came back to us with them and we accepted or rejected them as the case may be. I think the allegation of misrepresentation is harsh. When a seller gives an agent a mandate, no buyer need be disclosed at that stage. But, obviously, when the offer document comes in, his name must be disclosed."

According to Wagner, offers ranged, according to stand sizes and the value of improvements, from R420 000 to R820 000. "We paid according to the residential value of the property. Should the rezoning not be successful, we will have to put these properties back into the market as residences."

Comment from Fluxman Rabinowitz Raphaely Weiner partner Costa Carides, who acts for the Estate Agents Board, is that if Marque Properties deliberately misrepresented the identity of the proposed purchaser, the agent could be liable for a contravention of the board's code of conduct. ■

FINANCIAL SERVICES FM 9/10/92 (58)

Sweeping reforms ahead

It took two years but Japie Jacobs, special adviser to Finance Minister Derek Keys, came out this week with a set of proposals which, if accepted, would change the face of financial services.

It will have special interest groups pondering the implications for weeks to come.

Jacobs' brief was to investigate the promotion of equal competition for funds in financial markets: the so-called level playing fields argument, originally advanced by Absa's Piet Badenhorst, who suggested life assurers drew more savings than banks/building societies because the former had certain tax advantages.

Jacobs scotched that argument in an addendum to the 1991 Budget, saying there was no evidence of tax preference. Meanwhile, his committee's activities have been wide-ranging.

The result is a holistic approach both to the mobilisation of private funds and to registration of institutions and their intermediaries.

He stops short, however, of the sort of overregulation that was produced by the UK's Financial Services Act, but makes recommendations which will be more pleasing to the consumer than to the financial institutions.

A brief announcement from Deputy Finance Minister Theo Alant on Tuesday indicated that government accepts the key proposals and will introduce the amending legislation next year.

Alant's statement focused on the tax basis of long-term assurers, prudential functions relating to financial services and markets, the activities of persons marketing financial services and the scrapping of the Sixth Schedule to the Income Tax Act, which was foreshadowed in this year's Budget. But Jacobs' detailed recommendations have much more penetration. Among them, for example, is the suggestion that there should be a cap on benefits offered by the State to encourage retirement provision.

The chief conclusions are:

- ☐ In line with international developments, SA financial markets have to facilitate the need for investment instruments that could contribute to a greater flow of funds to the productive private sector of the economy. The flow of longer-term savings to insurers and pension funds makes these institutions ideally suited for taking up negotiable financing packages of various designs at market-related rates. So Jacobs encourages the idea of putting at least a portion of life office and pension fund money into mortagebacked securities, which could, he argues, raise the availability of mortgage finance and, with greater mobility of securities in the marketplace, reduce the cost of mortgage finance; and
- ☐ Financial services have two regulatory bodies: the Registrar of Deposit-Taking Institutions and the Financial Services Board. Jacobs wants to see the creation of a Financial Regulations Policy Board which he seems to envisage as separate from the existing regulators, though suggesting it could perform the functions of both if they were combined. He suggests an overall name: Office for Financial Institutions. Flowing from that, he endorses the view that there should be a Financial Services Act.

Arguing the case for an overriding Act, Jacobs is cautious. His main points are:

- ☐ The Financial Regulation Policy Board should be constituted with a *private sector majority* (the italics are his) like the Financial Services Board, to act as a policy board for all financial regulation;
- ☐ The policy board should be independent of the regulatory authorities and their staff;
- ☐ The focus of regulation should be on risk management;
- ☐ An explicit co-ordinating mechanism should exist between the different regulators;
- ☐ Regulation should remain market-orientated;
- ☐ Regulation should remain competitively neutral; and
- ☐ An appeal board, with a *private sector majority* (his italics) should be established.

The proposed legislation and regulation is clearly aimed at identifying situations in which members of the public can lose their savings. At the same time, however, Jacobs seems conscious that the regulators should not be overprotective. In one of his passing references to the original brief — level playing fields — he says all major providers of financial services should be involved in the control mechanisms;

- ☐ The committee believes the concept of agency or principal should be used for disclosure in financial statements and also, as far as is practical, for the taxation of financial intermediaries. "The proposed structure allows this country to overcome the problems of unco-ordinated regulation, so evident in other jurisdictions.

Arbitrage between regulators must be prevented by adopting a common philosophy of regulation. The regulators must ensure that all financial services provided by an institution *or by its associates and subsidiaries*, are in fact regulated under one of the facets of the financial legislation.

Meanwhile, the committee is not convinced the provisions of the Companies Act are sufficient to protect investors. Specifically, Jacobs calls for a review of the clauses relating to the issue of debentures.

The regulatory framework for intermediaries will probably not have much effect on professionals such as chartered accountants and lawyers. It will impose much more rigid controls on others who introduce business to financial institutions;

- ☐ The involvement of SA's unsophisticated communities in the savings and provident industries should be encouraged by education and information exercises, as well as simplified disclosure and measures to enable such communities to start participating in the establishment of relevant financial institutions; and
- ☐ Jacobs advocates "competitive neutrality" between financial intermediaries. Undue requirements and, therefore, costs, should be avoided by the regulators. And "supervisory authorities should guard against imposing requirements that distort the flow of savings through the financial markets."

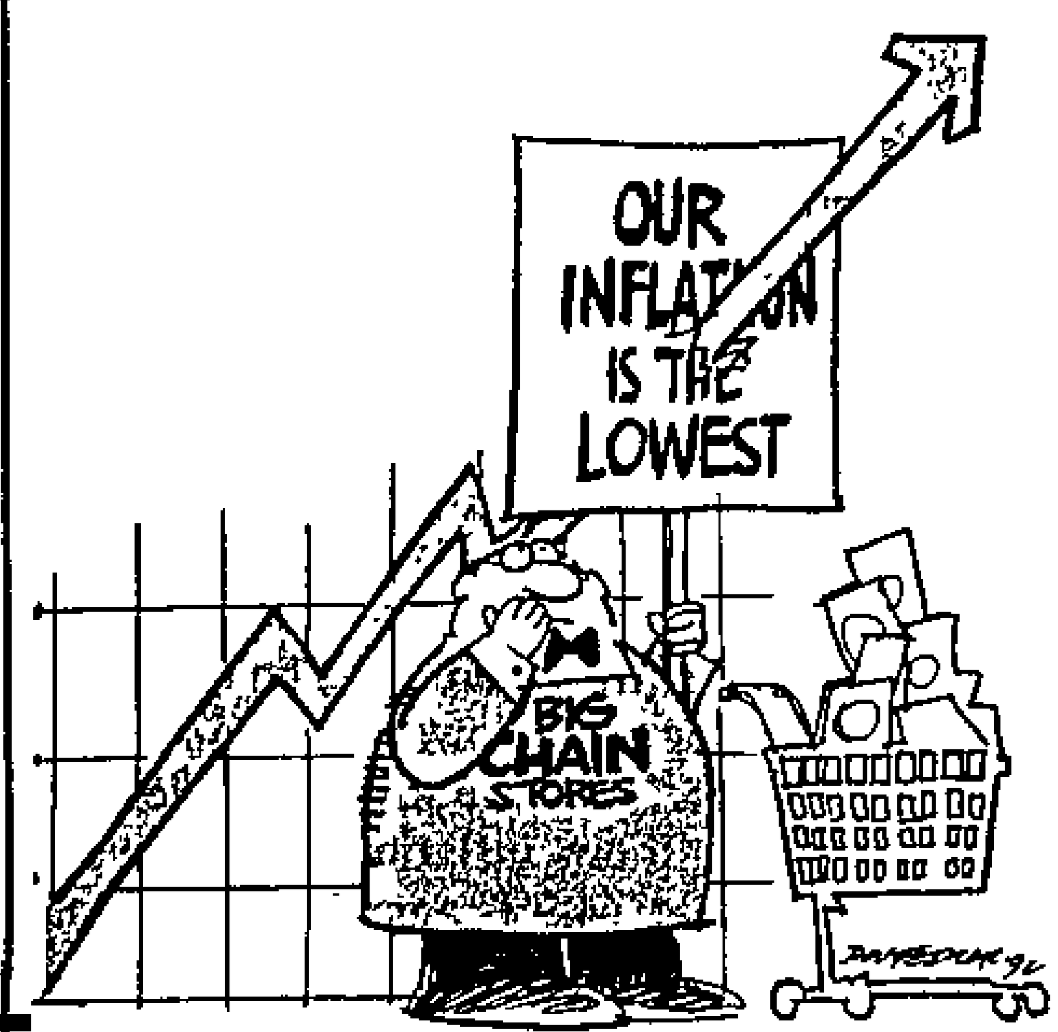
Jacobs' recommendation that the Sixth Schedule to the Income Tax be scrapped while, coincidentally, the four-fund approach be introduced in life offices, had been widely expected.

His tentative suggestions for reforming the taxation principles applied to retirement schemes are much more likely to cause surprise. With great caution, Jacobs presents several options and says, whichever is chosen, there should be some phasing-in of a new system. He does appear convinced that the capping of benefits at retirement from all fund sources is appropriate. *Bryan Deans*

FOOD INFLATION FM 9/10/92

Chain gang

Now that major food chains have had their way with the inflation statistics, they may not be entirely pleased with the results. In



continued

Inflow into Old Mutual unit trusts (58)

BY LINDA ENSOR

CAPE TOWN — There was a net inflow into Old Mutual unit trusts in the September quarter despite the weaker stock market.

Old Mutual Income Fund's assets rose 58% to R120m over the quarter as equity fund investors switched their investments in an uncertain market. The portfolio consisted of 58% gilts and 42% liquid assets at the end of the quarter.

Funds in the Old Mutual fold were relatively fully invested to take advantage of growth as sentiment improved, Old Mutual Unit Trusts assistant GM Barry Crookes said. BDAY

No major changes had been made to the equity fund portfolios, though the Investors' Fund had bought R73m worth of gilts during the quarter — R50m in the 12% RSA 1994 and R23m in the 14,5% RSA 1993.

The fund bought about 233 000 Lydenburg shares and sold off its entire stake of 174 200 shares in Freegold as well as the 50 700 Ofsil stake. Gold Fields of SA's holding was increased by 67 000 shares and Amic's by 30 000. 9/10/92

Old Mutual Industrial Fund bought into Engen shares, Masonite, Richemont and Toco and sold off its holding in Metair.

The Top Companies Fund increased its holdings in Richemont, Anglos, Gencor, Genbel, Santam, Yabeng and Masonite while the stake in De Beers was cut by 20 000 shares to 80 100. The Richemont holding more than doubled to 283 000 shares and Masonite rose from 150 000 to 260 300 shares.

Policy probe planned

South 10/10 - 14/10/92

THE NEED to urgently identify coherent policies to promote small business at all levels dominated this year's Small Business Week conference at Sun City.

Instead of speeches the conference was organised into two days of intensive workshops dealing with training, marketing, deregulation, subcontracting and financing.

On Monday, the United States Information Service organised an hour-long satellite link-up with the national programme manager of the Small Business Association in Washington, Mr John Bebris.

Participants in the workshops raised the main issues and Bebris gave details on how these had been dealt with in the United States.

The 200 delegates decided that a steering committee should be established to formulate a policy framework for small businesses, which would be put to all political parties.

The Small Business Development Corporation/Southern Small Business Week runs until October 10.

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PAM GOLDING: More deals waiting in the pipeline

Debt swops offer cheap property

S/Times [B4SS] 58

11/10/97

By TERRY BETTY

FOREIGNERS wishing to buy property in South Africa can get a cheap deal through a debt swop.

Debt-swop money comes from funds caught in the debt standstill net. It is sold at a discount to the commercial rand, but is more expensive than the financial rand.

Pam Golding, chairman of Pam Golding, says her company has concluded several deals with debt-swop money this year and has more in the pipeline.

Reserve Bank exchange control general manager John Postmus says few deals have been done with debt-swop funds. He says the option has been available for some time.

But banking sources say they discovered the change in the Reserve Bank's policy only this week.

They believe it was introduced because of pressure from the property business to give an incentive to foreigners to buy residential property because they can no longer invest with financial rands.

It also brings SA into line with foreign norms where debt-swop funds can generally be used to buy fixed assets.

A debt swop is a complex financial mechanism. The buyer of the debt uses it as share capital in a company in SA. That company can then buy the property.

Discount

There are always people willing to sell the debt because if they had to cash it in, they would be paid in finrands. With a debt swop they get a better rate.

A banking source says that with the present finrand discount close to 40%, the rate for a debt swop would be about 30%, depending on what can be negotiated.

For example, the buyer could buy \$1-million debt for \$700 000. The seller receives \$100 000 more.

The greater the discount, the greater the margin charged. When the finrand was at a 15% discount to the commercial rand, the seller could demand only a 2% margin.

Mrs Golding says: "This incentive makes it more attractive for non-residents to buy SA property. It helps to improve returns should they decide to rent the property."

But the catch is that the income generated is taxed before it can be sent abroad in the form of commercial rand dividends.

Forbidding foreigners to buy residential property with finrands has made buying a house in SA less attractive.

But few people realise the returns would be far greater if they used debt-swop cash.

When the property is sold the proceeds have to be repatriated in finrands. A banking source says this happens even if the property is bought with commercial rands.

The disadvantages are that a company has to be formed to own the property, it has to pay a higher transfer duty, and has to charge VAT on the sale. It also has to have a yearly audit of its books.

Banks still unhappy

By CHERILYN IRETON 58

THE Government's search for ways to level the playing fields between life assurers and banks appears to have failed.

The banks have been noticeably silent since the release of the Jacobs probe into equal competition in the financial markets. Sources suggest that some are unhappy with the recommendations and still believe they are disadvantaged on savings issues.

The life offices charge that the Jacobs recommendations have sparked uncertainty over the future tax on retirement savings, threatening the retirement structure.

Strapped

Some assurers claim that the plan to tax employer and employee contributions to retirement funds — they include pension and provident funds and retirement annuities — is a veiled attempt to raise funds for the cash-strapped fiscus. S Times (Bus) 11/10/92.

But the Government maintains that it will get little benefit if the tax recommendations are adopted.

State actuary Piet Robbertse says a study is under way to estimate the potential effect on the fiscus. He estimates that in some cases the Receiver of Revenue will get less tax and in other cases more.

Southern Life deputy general manager Tony Davey suggests that by limiting deductions on pension contributions, taxpayers' income would be larger, leading to higher tax payments, and improved government cash flow.

Old Mutual general manager Garth Griffin says if the Government is indeed looking at ways to accelerate its tax take, creativity will be needed to avoid damaging both the flow of savings and the extent to which people are encouraged to provide for their old age.

Fedlife general manager Dick Otto says one of the reasons for the Jacobs committee stemmed from banks' belief that life assurers were receiving unfair tax advantages.

"But I am not sure that the life industry, under the suggested four funds approach, will yield more tax. What will happen is that their tax position will be more defensible and they will remain as competitive as ever."

Meanwhile the Institute of Life and Pension Advisers (ILPA) has questioned why Jacobs has focused on pensions when the Government-appointed Mouton Commission is still sitting. ILPA spokesman Abri Meiring says the commission is due to report to the Government next month.

Bank 'unable to prop up finrand'

BIDAY 12/10/92

(58)

TIM MARSLAND

THE Reserve Bank would try to spread local finrand transactions over a longer period, but it did not have the reserves to sustain support for the unit, Reserve Bank Governor Chris Stals said at the weekend.

"There will be no change in Bank policy, but we regret what happened to the financial rand over the past few weeks," he said in an interview. "We have learnt from the experience."

The Bank would attempt to slow the pace of finrand purchases by local companies for offshore acquisitions, he said.

The finrand plummeted to its largest discount to the commercial rand and its lowest level against the dollar in six years early last week. Market sources attributed the unit's decline to speculation that deals involving offshore acquisitions by local banks, such as FNB and Standard Bank, were about to be concluded, requiring large forex purchases through the finrand at a time of waning overseas confidence in the SA economy.

The unit lost 31% against the dollar from its September high of R3,70.

Friday's close of R4,32 means the unit is still 16,8% lower than the September high.

Stals was reacting to a report from London stockbrokers James Capel, entitled SA Bonds — Robbing Peter to Pay Paul, written by analyst Jon Bergtheil.

Bergtheil said: "The Reserve Bank should have a serious rethink about the pace of its approvals for such schemes (offshore purchases) because the foreign bond investor may soon become very tired of the game and make a permanent exit instead of simply stepping out of the market until value appears."

Bergtheil said SA acquisitions abroad were the reason for the latest weakness in the finrand.

"Unfortunately, each time that such transactions take place, the SA companies have to acquire their dollars or Deutschmarks via the financial rand mechanism, thereby expanding the size of the "pool" of financial rands, which is detrimental to the price.

"All this is rather galling for the foreign

☐ To Page 2

Finrand

BIDAY 12/10/92

(58)

☐ From Page 1

investor who has been faithfully investing in the country only to find that the improved trade climate (assisted by such investment-friendly foreigners) is resulting in money moving offshore and weakening the financial rand and the value of the bond investment."

Stals said that while he agreed with James Capel, there was little the Bank could do to support the finrand.

"We will perhaps try to spread finrand transactions out over a larger period. There is not much we can do, but we will be careful in future.

"The fall in the finrand reflects the frustrations we have with these exchange rate controls." He ruled out scrapping the finrand until underlying problems, such as political turmoil, were solved. However, "we want to get rid of the unit when able".

Stals believed a major reason for the fall in the finrand over the past few weeks was uncertainty regarding currencies on the global market.

He understood local companies' enthusiasm to purchase offshore, which secured them offshore trade finance. Local banks had been denied this opportunity for years, so were keen to take chances offered to them. While offshore acquisitions by local companies and political factors contributed to the finrand's fall, he doubted it was the major reason.

"One should not underestimate the effect turmoil on foreign currency markets has had," he said.

One of the unit's problems was that foreigners had R6bn in finrands on deposit at SA banks. This was not invested, and some players held the unit for speculative purposes. He believed confidence in the finrand would return, but it would take time.

Stals said SA bonds still offered attractive yields to foreigners. A bond with a 14% fixed interest rate would yield about 25% to a foreigner, due to the discount between the finrand and the commercial rand.

Foreigners are paid interest on SA bonds in commercial rands, while the unit is purchased through the financial rand.

However, he agreed the capital loss incurred when the finrand weakened could outweigh the yield advantages.

Bergtheil said: "Until we see evidence of the Reserve Bank slowing down the pace of approval for offshore investments, we will be advising clients to wait until offered real yields of 8% on the current CPI of 14,3%."

He said SA bonds were offering better value than in August. The Eskom 168 bond offered a real yield of 3,5% during August but presently offered about 7%.

☐ James Capel SA trading desk head Andy McDougall has complained that the report on October 8 misrepresented his views. However, Business Day is satisfied the report correctly reflected McDougall's comments in a telephone interview, and stands by the report

MONEY MARKETS by Hilary Gush

Paper planes lift mood in monotonous market

S/DAY 12/10/92. (58)

LOW liquidity has plagued the money market in recent weeks, and nothing changed last week.

Despite Reserve Bank support — by offering to buy back gilts and semi-gilts for short periods — conditions remained tight.

Call rates eased in spite of the high shortage, which stayed well above the R4bn mark.

They softened from an average 13,25% at the beginning of the week to about 12,65% towards the weekend.

The shortage probably reflected largely tight conditions experienced by the four major banks — surplus cash held outside these institutions was to blame for downward pressure on call rates.

No respite from the market's current illiquidity is likely in the short term, and continued official intervention temporarily to relieve the cash-strapped market is expected before government salaries filter through at mid-month.

Gilts are underpinned by mildly bullish sentiment. A lower producer inflation figure for August — expected later this week — would fuel hopes of smaller rates of increase in consumer prices. This might spur on a long-awaited Bank rate cut.

Last week dealers said a drop in the official interest rate before the month-end release of the September consumer price index would not be surprising, despite hints from Reserve Bank Governor Chris Stals that a rate of less than 14% was a prerequisite to an easing of monetary policy.

They argued that Stals had to have at least an inkling of an idea of the direction inflation was taking and that he probably saw the figures before their official release.

When it comes, the rate cut should add some spark to the recent monotony of money market dealing, where flying paper planes and planning parties provides a little distraction.

The closure of certain operations in the past financial year resulted in 1 539 retrenchments at a cost of R16m and plant to the value of R12m being written off. After the year end, the apparel business had shrunk to a marketing operation, and 350 people were retrenched at a cost of R3m.

King said the group now operated from five mill complexes, with sales of R652m. In 1980 there were 14 complexes spread from Blantyre to East London with 32 000 empolyees and sales of R230m.

The main change during the past year had been a bid from Seargreg. This had resulted in Seargreg becoming the largest shareholder in Frame Group Holdings, and brought the group into association with the Seardel Group and Gregory Knitting Mills.

Although these companies dealt with described as "adequate band-aid" — in the year to October 1993 would stabilise the industry and allow it to grow in 1993/94.

If the "band-aid" was sufficient, Frame could break even in the current financial year. If not, thought would have to be given to further closures, retrenchments and write-offs.

Simeoni said improvements in the group's financial performance this year would have to come from better management of working capital, cost cutting and efficiencies.

He said the collection of receivables had been extremely difficult. The group's infrastructure for dealing with trade debtors had been strengthened for the new financial year. It was in this area that continuous problems were foreseen, he said.

Afmin seeks new opportunities

BDay 12/10/92.

EDWARD WEST

AFMIN Holdings, the struggling independent mining group, is investigating new opportunities through which the company can secure real growth in earnings and distributable earnings, chairman Cyril Heever says in his 1992 review.

The company closed its gold mining operation during the year. Subsidiary assets were written down to a realisable value. That created a large deficit in Afmin's non-distributable reserves.

Because of falling zinc prices, Afmin mothballed its zinc operations in January, writing down the investment in the operation. This added to the deficit in reserves.

The closure of several gold mines and declining activity in the gold mining sector led to closure of mining suppliers Tecnomix.

However, Heever said Namibian Lithium was operating well, with production on the increase. Turnover was up, but the market remained tight. Minaco Granite & Marble, in which the group had a controlling interest, achieved satisfactory results.

Minaco excercised its option on January 31 to raise its investment in Prairie Granite 15% to 50% for R3,05m. Prairie's turnover improved about 150% and profit 540% over the previous year. Minaco's increased order book for beneficiated export and local products would enable the group to achieve substantial growth during the next few years, said Heever.

Increased activity at Minaco caused an increased cash outlay in both debtors' and stock balances. Coupled with the cash invested in Prairie and Virgran, Minaco directors deemed it prudent to pass the dividend. Afmin also passed its dividend.

The base metal industry, from which a major portion of Afmin's income was derived, suffered from consumer cutbacks and drastic product price adjustments.

Although prices had improved since hitting a low in November/December 1991, medium-term prospects were uncertain and it was prudent not to reopen mothballed operations, Heever said.

The danger was that lower inflation could lead to deflation, but Brown saw 50c to R54.

MERVYN HARRIS

Sanlam approves of regulation

BDAY 12/10/92.

(58) LINDA ENSOR

CAPE TOWN — Sanlam has approved the comprehensive approach to the regulation of financial markets recommended by the Jacobs report, says finance and planning senior GM George Rudman, who will be formulating the life industry's response to the proposal.

However, Rudman warned at the weekend of the danger of overregulation and of the need to recognise vital differences in the risk management of life offices on the one hand and banks and building societies on the other.

"We fully agree that any institution that markets a financial service with a possible future financial risk should be required to comply with basic financial disciplines to ensure the long-term financial soundness of that institution.

"We are concerned, however, that in order to reach a common approach to the risk capital required, the present more scientific actuarial basis used for controlling the financial soundness of life offices may be affected in order to obtain greater uniformity."

Rudman said the life industry probably gave more attention to risk management than deposit-taking institutions did.

The Jacobs committee took the view that two regulatory authorities, namely the Registrar of Deposit-Taking Institutions and the Financial Services Board, complicated financial regulation and recommended the establishment of a financial regulation policy board.

The report recommended that there be a new financial services Act requiring registration of everyone in the sector.

Rudman noted, however, that the British 1986 Financial Services Act had resulted in its financial sector being one of the most regulated in the world.

He pointed out that life and pension products tended to be more complex than bank and building society products, and had their own distribution requirements.

Dinette's order book is looking healthy

BDAY 12/10/92.

EDWARD WEST

FURNITURE group Dinette achieved a healthy increase in production and sales in July and August, and the group is looking forward to improved profit, the venture capital listed company's latest annual report discloses.

Dinette's trading traditionally peaked in the second half of the year. Current order books were more than satisfactory and trade acceptance of the group's products was good, the report said.

Trading started in September 1991, with start-up costs incurred since April 1991. In the year to end-June 1992 business was affected by circumstances beyond the company's control, with the furniture industry going through a rough time. Sales were badly affected.

Cash flow was affected by overexpenditure of R800 000 on fixed assets. Part of this expenditure, incurred in the second half of the year, was now justifying itself. A changed product mix was required.

Losses incurred, at R1,567m after financing costs of R282 000, made deep inroads into cash resources, substantially reducing shareholders' interests. The company reported losses equivalent to 52,2c a share for the year.

COMPANIES

Credit Guarantee results reflect recession

58

SHARON WOOD

CREDIT insurer Credit Guarantee's underwriting profit in its 1989/90 underwriting account declined 31% to R2,79m from R4,06m the previous year.

MD Chris Leisewitz said on Friday these were the first underwriting results to reflect the current recession. Credit insurers worldwide had experienced difficult market conditions during the past year.

Premium income increased slightly to R149,93m in the year to June 1992 from R144,34m, while claims paid declined to R91,49m (R92,64m).

Leisewitz said the disappointing premium growth was mainly a result of the world economy's poor performance, changes in SA's export subsidies and exporters' risk perceptions.

The group's investment income declined 10% to R10,49m (R11,63m), reflecting lower interest rates during the period under review.

BDay 12/10/92.

Despite the adverse conditions, the company's asset base grew 14% to R196,4m (R172,6m). Its solvency margin increased from 74,3% to 87,2%, reflecting a further strengthening in Credit Guarantee's balance sheet.

Leisewitz said SA's export performance over the past year had been particularly disappointing in the capital goods sector, where a number of projects considered safe only a year ago had been lost.

"However, the export situation will improve as OECD countries move slowly into a growth phase in 1993 and new markets become more accessible to local exporters.

"A return to slow growth in export premium income could be expected."

Fair tariffs needed for turnaround at Frame

BDay 12/10/92.

DUMA GQUBULE

THE Frame Group's return to profitability depended on a recovery in the SA economy and fair tariffs against cheap textile imports, chairman Mervyn King said in the group's 1992 annual report.

However, he said he did not expect the economy to emerge from its trough in the current financial year, while new tariffs were in the hands of the Board on Tariffs and Trade.

Frame could only hope the board would propose a structure that would undo the harm of its previous programme, which had wreaked havoc in the textile industry.

He said the authorities should urgently undo the harm created by its structural adjustment programme for the textile industry, failing which the textile pipeline, including end-users, would collapse.

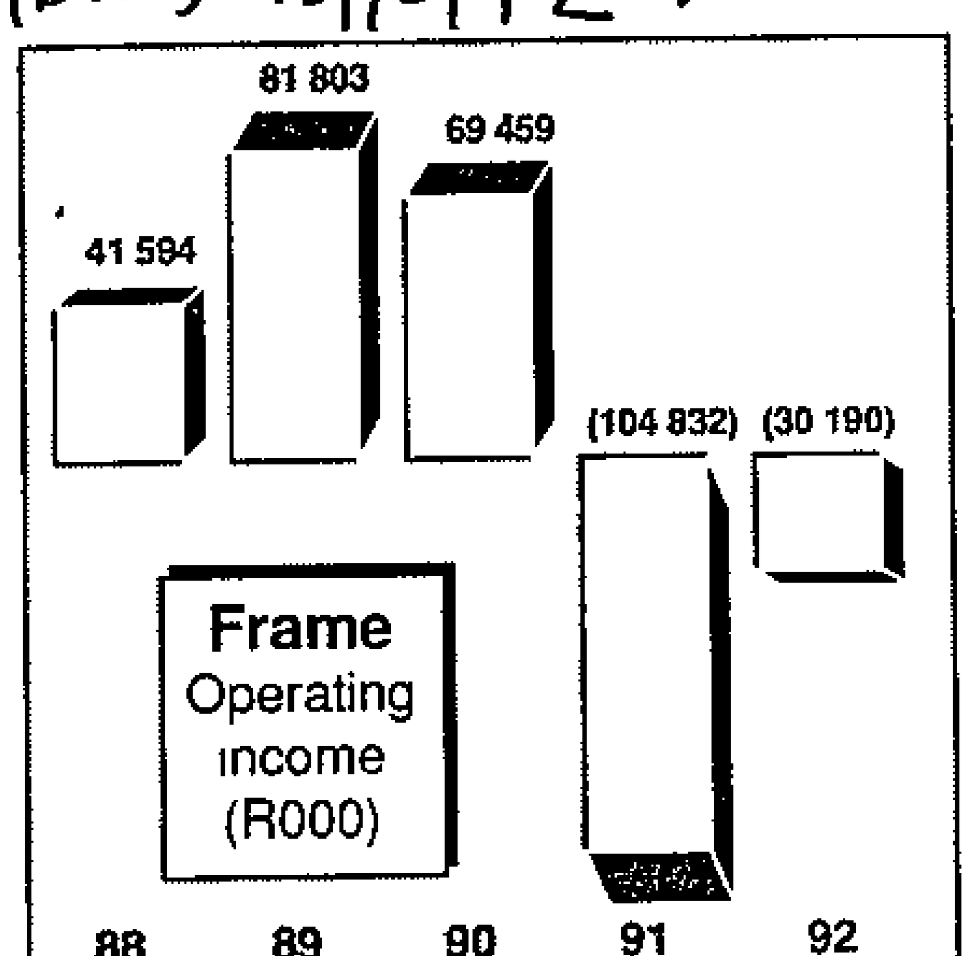
The group reported an attributable loss of R45,6m for the year to end-June, compared with a pro forma loss of R55,6m (R101,1m actual) the previous year.

The closure of certain operations in the past financial year resulted in 1 539 retrenchments at a cost of R16m and plant to the value of R12m being written off. After the year end, the apparel business had shrunk to a marketing operation, and 350 people were retrenched at a cost of R3m.

King said the group now operated from five mill complexes, with sales of R652m. In 1980 there were 14 complexes spread from Blantyre to East London with 32 000 empolyees and sales of R230m.

The main change during the past year had been a bid from Seargreg. This had resulted in Seargreg becoming the largest shareholder in Frame Group Holdings, and brought the group into association with the Seardel Group and Gregory Knitting Mills.

Although these companies dealt with



Graphic RUBY-GAY MARTIN Source FRAME

Frame on an arm's length basis, the closer association of the largest manufacturer and end-user of apparel fabrics in the country augured well for the future.

In the report, MD Walter Simeoni said a new attitude from the board — which he described as "adequate band-aid" — in the year to October 1993 would stabilise the industry and allow it to grow in 1993/94.

If the "band-aid" was sufficient, Frame could break even in the current financial year. If not, thought would have to be given to further closures, retrenchments and write-offs.

Simeoni said improvements in the group's financial performance this year would have to come from better management of working capital, cost cutting and efficiencies.

He said the collection of receivables had been extremely difficult. The group's infrastructure for dealing with trade debtors had been strengthened for the new financial year. It was in this area that continuous problems were foreseen, he said.

Unit trust industry shrinks despite new investments

B/Day 12/10/92 (58)

ANDREW KRUMM

THE unit trust industry suffered its first contraction in two years in the September quarter this year, despite more money being pumped into the sector by new investors, an industry spokesman said at the weekend.

In a quarterly survey of unit trust results released by Pretoria University Graduate School of Management, Prof Hugo Lamprechts said: "In overall terms total industry assets shrank by 1,1% to R12,7bn in September from R12,85bn in June as the JSE weakened."

But during the same period the industry experienced a record net inflow of about R754m in new investment. "The only way to explain it is that people are beginning to invest in unit trusts on a monthly basis, as opposed to investing lump sums."

Lambrechts added that "equity unit trusts experienced the most difficult quarter in five years, but it was probably the best ever for income funds".

The survey showed that all specialist equity funds — with the exception of the industrial funds — showed negative growth as commodity and metals prices continued to weaken the mining sector on the JSE.

He said the market value of income and gilt fund assets had risen 61% from R1,1bn in June to R1,8bn in September, and was linked to better yields in the bond market as interest rates fell.

The top performing unit trusts for the year to September also came from the income and gilts sector. Metboard Income Fund headed the list, offering investors a 34,99% return for the year, followed by the UAL gilt unit trust (32,5%), and then Guardbank Income Fund (28,18%).

However, performance among equity unit trusts was subdued as the JSE moved through its worst quarter since the stock market crash of October 1987.

UNIT TRUST PERFORMANCES FOR THE YEAR TO SEPTEMBER 1992

GENERAL EQUITY FUNDS

	Total Annual Return %
Benchmark All Share Index	0,59
ABSA	11,46
BOE Growth	11,75
Community Fund	—
CU Growth	7,22
Fedgro	9,41
Guardbank Growth	9,54
IGI (Safegro)	7,89
Metfund	6,79
Metlife	—
Momentum	6,17
NBS Hallmark	8,72
Norwich NBS	8,89
Old Mutual Investors'	0,55
Sage Fund	6,83
Sanlam Index Trust	0,35
Sanlam Dividend Fund	5,09
Sanlam Trust	3,42
Southern Equity	12,79
Standard Bank Mutual	12,10
Syfrets Growth Fund	13,98
Syfrets Trustee	8,44
UAL Unit Trust	8,28

NOTE: This information was supplied by the University of Pretoria Graduate School of Management.

The top performance came from Absa's Industrial fund (18,08%), which was also the only fund to beat inflation for the year to September.

Association of Unit Trusts vice-chairman Bernie Nakin described the past quarter as "encouraging".

"Unit sales for the quarter were R1,4bn compared with R1,1bn in the previous quarter. This shows that many investors have seen the period of correction in the JSE to increase or start new investments."

He said not only had the industry seen an investment inflow — which demonstrated investor maturity — but most equity funds also outperformed the all-share index.

One equity fund that did not outperform the index was the Old Mutual Investors' Fund. This fund — the largest unit trust in the market — gave investors a 0,55% return for the year to September. It was rumoured to have bought heavily into De Beers just before the company said it might have to cut its dividend for the full year. Share prices across the JSE plunged on the news.

Old Mutual unit trust manager Peter De Beyer said unit trusts were essentially long-term investment mechanisms. "I regard this as a temporary phase, and expect the industry to prosper — although the rate of expansion cannot continue at the exceptional pace of the past few years."

He added that although the income funds had outperformed the equity funds over the one, three and five years to September 1992, the gilt market had benefited from a once-off sharp decline in interest rates.

Nakin said: "When you get to the high income funds — obviously they have produced exceptional returns over the past one to five years to September — but these markets do not provide the long-term returns seen in equities."

CU's Growth Fund puts up good performance

STAR 17/10/92.

The Commercial Union Growth Fund has appreciated by 7,84 percent over the past 12 months against a background of local political tension and continuing recession, which has seen the overall index show a return of only 0,65 percent over the same period.

CU Growth Fund manager Roger Wanless says the performance of the portfolio is pleasing and a reflection of its re-positioning over the past 12 months.

"We now have a risk-averse portfolio made up of institutional investment quality holdings.

"We foresaw problems with the sale of diamonds because of the slowdown in world economic growth, and maintained the fund's weighting in De Beers below the overall index weighting of De Beers.

"Liquidity was also increased in response to our view that share prices were unlikely to advance while investor confidence was adversely affected by an environment of mass action and deadlock over the negotiating process."

58

Wanless says income distribution over the past six months was R2,18c a unit.

"We are well-positioned to continue to provide above-average returns to our unit holders," he says.

"Our largest holdings are in Premier, Richemont, Liberty Holdings and SA Breweries. The fund added to its holdings of Gencor and Murray & Roberts during the third quarter," he says. — Sapa.

Standard's funds enjoy a sales boom

BIDAY 13/10/92

(58)

ANDREW KRUMM

THE Standard Bank group of unit trusts reported record growth in sales during the past quarter.

Standard Bank Fund Managers MD Derick Finlayson said the major portion of this new investment was directed to the group's Extra Income Fund, but investment inflow to the bank's four equity-based unit trusts slowed during the period.

The Extra Income Fund — which trades in fixed-interest securities — closed the quarter R83m up, at R337m, and posted a 16,6% return for the year to September. Finlayson said income fund managers had pursued a strategy of maintaining a high weighting of lower-risk money market instruments in the portfolio.

"The increased exposure to longer-dated money market instruments had the effect of protecting income returns in the face of falling deposit rates," he said.

Finlayson added that the malaise in government finances, with attendant inflationary supply-side effects, was likely to put a floor on the fall in capital market rates, creating higher risk conditions for longer-dated fixed interets investments.

The group's flagship, the Standard Bank Mutual Fund, was among the top-performing equity unit trusts and gave investors a 12,1% return for the year to September. However, the fund had contracted as the JSE turned, and was valued at R573,6m in September against R595,7m in June.

The Mutual Fund's near 40% liquidity level had sheltered unit prices from the overall fall in equity prices. "In terms of the equity sector mix, the fund has reduced its weightings in the mining sector to 26% (28%), while increasing its weighting in financials to 27% (28%) and holding its level of industrial shares at 47%."

Finlayson said the performance of the group's Gold Fund over one and five years had mirrored the all-gold index, with the fund posting -16,2% and -10,1% returns respectively, compared to the index's -16,09% and -12,28% returns. Liquidity remained at 25%.

The industrial fund — launched in May — had maintained its issue price of 100c, while the industrial index fell by 8% in the same period. "This was possible by holding between 50% and 60% of assets in cash, and selecting shares which outperformed the industrial index."

Fund managers, however, had not boosted liquidity levels in the Standard Bank International Fund. "In accordance with its investment policy, the fund maintained a more fully invested position with equities amounting to more than 87% of the portfolio," he said. Nonetheless, the market value of the fund had grown from R19,8m in June to R27,7m in September.

Sage trust managers defensive ahead of expected 'correction'

(58)

BIDAY 13/10/92

ANDREW KRUMM

SAGE unit trust managers continued to follow a defensive policy during the quarter to September in anticipation of a correction on the JSE, fund manager Dirk Stofberg said yesterday.

He said liquidity levels in Sage Fund had been increased to R170,5m or 18,9% of total assets during the quarter.

"Sage Fund's remaining investment in Malbak was sold, while holdings in GFSA, Barlows, Richemont, Afrox, Tiger Oats, Remgro and Wooltru were reduced to better balance the portfolio."

The fund also contracted with the JSE, dropping R74m in market value from R995,6m in June to R919,6m in September.

In the group's foreign portfolio, it disposed of an investment in Newmont.

Attractive European interest rates led to the disposal of Japanese bonds in favour of French and German bonds.

The fund offered investors a return of 7,2% for the year to September, compared with the 0,9% return by the all share index, he added.

However, Sage mining unit trust — Sage Resources Fund — did not perform as well, recording a negative 7,8% return over the same period.

"Compared to the mining producers' index, which fell by negative 18,4% over the year to September, and the mining finance index which declined by negative 6,6%, the resources fund has done satisfactorily," Stofberg said.

He said mining ratings on the JSE were at an attractive long-term level, but that the timing of a global upswing remained vital to the sector's health.

"In the immediate future, the financial sector appears to be offering the best relative value," he said.

Absa's unit trust funds beat the JSE's indices

B/DAY 13/10/92 ANDREW KRUMM

ABSA's general and industrial unit trusts turned in "index-beating" performances for the year to September, says Absa Fund Managers MD Ben Solomon. (58)

Solomon said the general fund's performance overshadowed a 2,6% decline in the JSE's all-share equities index, offering investors an 11,8% return for the period to September.

According to a University of Pretoria survey, the industrial fund topped the equity unit trusts list, yielding 18,08% for the year.

"The general trust has declared a dividend of 4,02c a unit for the six months to September, and the industrial trust a dividend of 1,23c a unit for the quarter," Solomon said.

These translated into annual yields of 6,02% and 4,61% respectively, he said, adding that the assets of both trusts had increased by 40% to R70m during the year.

Solomon said the satisfactory yields achieved by the trusts since their creation in 1991 was refelected in the growth of unitholders, which now stood at more than 20 000.

'Boland's ownership may be consolidated'

Bdom 14/10/92.

(58)

LINDA ENSOR

CAPE TOWN — The recapitalisation of Boland Bank, currently the subject of talks between its major shareholders, could mean the consolidation of ownership under one or two dominant shareholders, a source said yesterday.

The bank, with a current market capitalisation of about R108m, issued a cautionary announcement yesterday saying negotiations were under way which could affect its share price.

Finalisation of negotiations is expected by the end of the month.

It is believed that some of the major shareholders are considering selling their stakes to either an existing shareholder or an outside party to consolidate control of Boland under one institution, which would then inject new capital into the operation.

A rights issue further down the line was also cited as a possibility to raise capital after the consolidation of control.

Boland has an urgent need to raise capital over the next year in order to meet the stipulations of the Deposit Taking Institutions' Act, which require a 6% capital to assets ratio as from January 1 1993.

Ownership of the bank is spread thinly. Major shareholders are directors, staff and pension fund (13%), Sanlam (11,3%), Rembrandt (9,9%), Absa (9,7%), Momentum Life (9,3%), District Securities Bank (7%), and the Mines Pension Fund (3,9%). It would therefore make sense for control to be consolidated before one party undertook a recapitalisation.

At its AGM in July, Boland failed in an attempt to increase its capital base by creating an additional authorised share capital of 200-million redeemable cumulative non-participating preference shares after last-minute pressure from Rembrandt and Sanlam. Absa had sought an urgent court interdict to prevent the meeting taking place.

The probability is that Boland will continue to be run as an independent bank operating in its niche market, at least for the short to medium term.

MD Gert Liebenberg would not comment yesterday.

SHARON WOOD reports that one analyst said a deal was on the cards which would not involve any of the major banks. Another said Rand Merchant Bank, through its majority shareholding in Momentum Life, would not be involved in the deal.

Most speculation put Sechold at the centre of the deal. The group already has a tie with Boland Bank through its joint shareholding in the Cape-based District Securities Bank. Sechold has a majority 70% shareholding in District Securities Bank.

Investec Bank's earnings up 25%

SIDAY 14/10/92 (58)

SHARON WOOD

WIDER interest margins contributed to a 25,3% rise in Investec Bank's diluted earnings a share to 81,5c in the six months to September from 65c the previous year.

Investec executive chairman Bas Kardol said while trade finance and property activities had been negatively affected by trading conditions over the period, the wider margins in the banking sector had compensated for the loss of income and higher incidence of bad debts.

Earnings attributable to ordinary shareholders, before being diluted by the Fedsure transaction, rose 71,5% to R22,3m from R13m. Dividends increased by 25% to 35c (28c), leaving dividend cover at 2,2 times.

In line with the bank's move towards fuller disclosure, interest received and paid was reflected on the income statement for the first time. Interest received of R279m and interest paid of R225m resulted in net interest income of R54m.

The bank made R8,9m provision for bad and doubtful debts, up 28,2% on last year's R7m.

Assets under administration had been slower than before, rising 32,6% to R9,9m from R9,3m. Kardol attributed this to low demand for credit and a shortage of quality borrowers.

The balance sheet was strengthened by a more than doubling in cash and short-term funds to R1,2bn from R594,7m previously.

The acquisition of the entire issued share capital of London-based Allied Trust Bank would be satisfied by the issue of ordinary shares, compulsory convertible preference shares and cash.

The acquisition was not expected to have any material effect on Investec's earnings in the 1993 financial year, but was expected to have a positive effect after that and it would also enhance the group's diversity of revenue sources, he added.

Kardol was confident there would be satisfactory growth in earnings a share for the full financial year, provided market conditions did not deteriorate further in coming months.

The bank's holding company, Investec Holdings, lifted earnings a share by 23,8% to R51,5c (41,6c) and declared a dividend of 21c (14c).

R90m Sanlam plan for Sandton site

PETER GALLI (58)

SANLAM Properties wass to spend R90m developing an office block on a site opposite the Sandton Sun hotel if a tenant could be found for 50% of the space, regional investment manager Hugo Mocke said yesterday.

A 14-storey building with 18 500m² of lettable space — 760m² of which had been earmarked for retailers — and basement parking for 600 vehicles was envisaged, he said.

The group recently bought the 3 802m² site on the corner of Fifth and Maude streets from Time Properties, but would not disclose the price.

Time had the right to develop the project in conjunction with Sanlam within 12 months if it could find a tenant for 50% of the space.

"Should Time not manage to find a tenant in that time, their right lapses and they will have to compete with others in the market," Mocke said.

The purchase of this site brought the market value of Sanlam's land holdings in the Sandton municipal area to R70m. BDAY 14/10/92

Sanlam Properties also owned 14,6ha of land in Sunninghill which was bought shortly after a structural plan identifying the area as a second CBD was approved by the Sandton City Council in April 1989.

"The council envisages offices of 350 000m² and shops of 30 000m² for the node. Our site has business rights of about 108 000m² or 29% of the total. We anticipate it will cost about R350m to complete," Johannesburg regional investment manager Swannie Swanepoel said.

Barclays UK, Investec could forge closer links

(58)

STAR 14/10/92

By Derek Tommey

Investec has issued impressive profit figures for the six months to September.

Its interim report raises the possibility that it might be forging closer links with Britain's Barclays Bank, which withdrew from South Africa several years ago.

Chairman Basil Kardol says in a statement the purchase of the entire issued share capital of London-based Allied Trust Bank (ATB) from Barclays Plc for R185 million will be satisfied by the issue of ordinary shares, compulsorily convertible preference shares and cash. Full details will soon be published in a circular.

Until now it had been assumed that Investec was buying ATB for cash with financial rands. It was one of the companies blamed for the slump in the financial rand last week.

However, the statement suggests the deal has not yet been completed. If true, it means Investec is not to blame for the finrand debacle.

But the most interesting aspect of the statement is that Barclays could become a shareholder in Investec.

It is known that Barclays is interested in getting a stake in South Africa again and a holding in Investec could be valuable.

Investec's earnings attributable to ordinary shareholders rose 71,5 percent to R22,3 million in the six months.

Earnings a share on the enlarged share capital rose 25,3 percent to 81,5c and diluted earnings increased 23,4 percent to 77,5c a share.

The interim dividend has been raised by 25 percent from 28c to 35c.

Investec Holdings, which has a 55,1 percent stake in Investec, has increased its interim dividend by 50 percent from 14c to 21c from a 23,8 percent increase in earnings from 41,6c to 51,5c a share.

Kardol says the increased profit was achieved despite an initial drag on earnings after forging a strategic alliance with Fedsure.

Conditions have affected trade finance and property activities. But the wider margins being experienced in the banking sector have compensated for this loss of income and for the higher incidence of bad debts.

Interest received in the six months was R279 million, while interest paid was R225,0 million, resulting in net interest income of R54 million.

Other interest-related income produced R12,7 million, resulting in total interest income of R66,7 million.

The provision for bad debts was increased by 28,2 percent from R7 million to R8,9 million.

Other income increased by 40,8 percent to R57,5 million. Total income was R115,2 million, an increase of 38 percent on last year's R83,5 million.

Operating expenses, tax and transfer to internal reserves grew by 31,3 percent to R87,6 million.

Investec's share of income from associated companies rose from R1,7 million to R7,6 million, resulting in net income before preference dividends and debenture interest rising 92,1 percent to R35,2 million.

Assets under administration increased from R9 billion to R10 billion, which was a slower rate than previously because of low demand for credit and shortage of quality borrowers.

At the end of September the group's assets were R4,37 billion, which compares with R3,9 billion at the end of March and R2,97 billion at the end of September last year.

Boland Bank strives for independence

58

CAPE TOWN — Boland Bank's independence which was recently shaken when Amalgamated Banks of South Africa (ABSA) pressed for board representation, could be secured by the end of October. STAR

This is according to a cautionary statement released by the Paarl-based bank yesterday.

The statement said the directors of Boland Bank were currently involved in negotiations that could affect the price of the share. 14/10/92

Shareholders were also warned to exercise caution in dealing with the shares for the time being. Boland remained untraded at 800 cents yesterday. — Sapa.

Financial services 'ready'

B Dom 15/10/92. (58)

SHARON WOOD

THE SA financial services industry is better placed than many other sectors to take advantage of new business opportunities arising from SA's reintegration into the world economy, says Standard Bank Investment Corporation chairman Conrad Strauss.

In the group's latest Economic Review, he said: "Unlike other areas of the economy, the financial services industry did not fall behind substantially in the years of relative isolation; indeed, in some respects, the industry is still a global leader."

However, he pointed out that there were two sets of obstacles which inhibited progress: sustaining interest in SA's financial market because of perceived political risk; and bridging the existing gap between financial markets in the African continent.

Strauss predicted that a final and binding settlement would probably not be fully realised until at least 1995, even though meaningful progress would be made in the interim.

"Political processes in SA are complex and, because of that, these problems cannot be easily resolved."

The integration of financial markets of subcontinental Africa posed an enormous challenge, he added, because of the waning co-operation between SA and Africa during the last two decades.

Strauss said streamlining and reducing exchange controls was an objective worth striving for and telecommunications networks between Johannesburg and the various regional financial centres of subcontinental Africa required upgrading.

"Given initial financial deregulation and new telecommunications investment, a case would then be made for establishing a 'rand currency zone'," he added.

After allowing the convertibility of the regions' currencies, each could be aligned with the rand as the currency of the largest economy in the region. He said structures similar to the European exchange rate mechanism may be needed during a transitional phase before closer alignment was possible.

If there was a rand zone exchange rate alignment, the region should also adopt sound co-ordinated monetary and fiscal management in each country.

Changes to building societies tabled

LINDA ENSOR 58

CAPE TOWN — The Mutual Building Societies Amendment Bill, bringing mutual building societies into line with deposit-taking institutions in terms of minimum capital and reserve requirements, was tabled in Parliament yesterday.

The Bill empowers mutual building societies to issue permanent, unredeemable interest-bearing shares to drum up a hard core of capital.

This in turn will enable them to strengthen their capital bases to meet the new capital and reserve requirements.

The memorandum to the Bill, which would come before Parliament next year, said it had become imperative that mutual building societies be subjected to the same prudential requirements as deposit-taking institutions in the light of the greater freedom they had been granted by the adjustments made this year to their mandatory financial ratios. B DAY 15/10/92.

Competitive

These new ratios made it necessary for mutual building societies to conform with a standard of risk management commensurate with the risk exposures that would be encountered as a result of the extension of their business.

New regulations came into effect on July 1 enabling mutual building societies to utilise their operating capital more profitably in the highly competitive financial services market.

The maximum ratio of operating capital that they were permitted to apply to business advances and general advances was increased from 30% to 70%. The minimum ratio of operating capital building societies were required to apply on housing advances was lowered from 70% to 30%.

Govt forces gambling legislation through

B DAY 15/10/92.

Political Staff

CAPE TOWN — In spite of vigorous opposition, government yesterday forced its controversial anti-gambling legislation — which will outlaw "hard gambling" from February 1 — through Parliament.

Crucial to its success was the support of the ruling House of Delegates party, Solidarity, which had blocked the legislation in the standing committee before the end of this year's parliamentary session on June 19.

The DP, with support from the Labour Party, argued vigorously that the legislation should have been suspended until the Howard commission completed its probe into gambling.

However, the NP majorities in the House of Assembly and the Solidarity support in the HoD gave government the numbers it needed to push through the legislation.

In terms of an amendment to the Gambling Amendment Bill, the legislation will only become applicable on February 1. Justice Minister Kobie Coetsee said that this was to give "illegal" casinos time to wind up their business.

However, there was still hope for at least some of the estimated 2 000 casinos that have sprung up this year. Coetsee confirmed yesterday that the Howard commission was to be expanded to include an urgent investigation into the desirability of permitting gaming in regions or areas where it was presently banned.

It is understood that areas or cities such as Cape Town, without easy access to a homeland casino, could be considered for an exemption.

Coetsee yesterday defended government's actions, saying it had no other aim than to create order in the present chaotic hard-gambling situation.

The DP mounted a scathing attack on the legislation during the debate, with Houghton MP Tony Leon saying it was a "piecemeal", "futile" and "knee-jerk" measure which made a mockery of careful and considered law-making.

The CP supported the Bill as the party was "strongly opposed to gambling", said Roodepoort MP Jurg Prinsloo.

ANC 'will ignore FW's demands'

B DAY 15/10/92 47

Political Staff

CAPE TOWN — The ANC has chosen to ignore President F W de Klerk's insistence that it must control its radicals before joining the NP in a government of national unity, saying "we have heard it all before".

Spokesman Gill Marcus said the ANC would not react to the President's hardline pre-conditions, but sources in the organisation have already described them as unacceptable.

Marcus said the ANC's reaction to De Klerk's speech in Parliament on Monday still applied.

In that, the ANC said the President's "indulgence of his McCarthyite proclivities was as undignified as it was puerile. That he and members of his party still entertain the hope of sowing tension in the ANC by targeting members who are communists betrays a naivety that is laughable," it said.

Sapa reports CP leader Andries Treurnicht called for De Klerk's resignation and demanded government crack down on the ANC.

● Comment: Page 8

ANC ponders

Syfrets unit trusts attract record inflow

58 **LINDA ENSOR**

CAPE TOWN — The quarter to end September was the worst the JSE has experienced since the 1987 crash, but Syfrets unit trusts achieved a record net inflow of more than R260m. B/DAY

The flight of investor capital from equities into bonds resulted in a net inflow of more than R150m into the Syfrets Gilt Fund, bringing its total market value at the end of the quarter to R167m. The gilt fund, which invests in capital market instruments, had a quarterly return of 12,43%.

Syfrets Income Fund, which invests in gilts, debentures and money market instruments, also benefited from the stock market's sagging fortunes and rising capital markets to post a quarterly return of 8,46%.

Flagship Syfrets Growth Fund fell 3,3% in the face of an 11,4% decline in the all share index. It had only a 75% exposure to the equity market. 15/10/92

The only significant transactions undertaken by the fund were a reduction in De Beers and an increased investment in Lenco and its holding company, Lenvest.

The newly established Community Growth Fund, which was totally invested in cash, produced a 4,18% quarterly return, while the quarterly return of the Syfrets Trustee Fund, which invests only in minimum risk blue-chip counters, was -5,37%.

"What these relatively strong results show is that even in adverse market conditions, the right unit trusts can provide investors with solid, long-term returns," Syfrets unit trusts marketing manager Kevin Hinton said.

KH Props turnover up by 15,8%

BDAY 16/10/97

PETER GALLI

KIRCHMANN-HURRY Properties (KH Props) has maintained its total distribution a combined unit at 54c a share in the year to end-September despite a 31% increase in the number of units in issue.

Turnover grew by 15,8% to R15,81m (R13,66m), due to rental income from two buildings bought during the year, alternate director Dave Martin said. (58)

Operating income rose 13,6% to R9,87m (R8,69m) and interest received soared 25% to R3,29m (R2,63m) due to "more cash on hand" after R32m was raised to finance three new property acquisitions.

"In the year under review, we raised R11,9m for the purchase of Sandton Place, R6,5m for Howick Gardens and R13,95m for the old Hyde Park hotel site. We are developing The Colony on the site, which is scheduled for completion next year," he said.

Pre-tax income was up 16,2% at R13,16m (R11,33m), but a 16,3% hike in debenture interest to R13,15m (R11,31m) due to the 31% rise to 27,35-million combined units in issue pushed pre-tax income down to R12 000 (R21 000).

However, a deferred tax adjustment of R4 000 from a previous R10 000 payment saw taxed income rise to R16 000 from R11 000. Dividends of R13 000 (R11 000) left R3 000 in retained income.

The property loan stock company had vacancies of 2,2% in its portfolio at the year-end, but a number of leases were falling due in the current year, he said.

Crusader posts 38% jump in income

BDAY 16/10/92.

(58)

ANDREW KRUMM

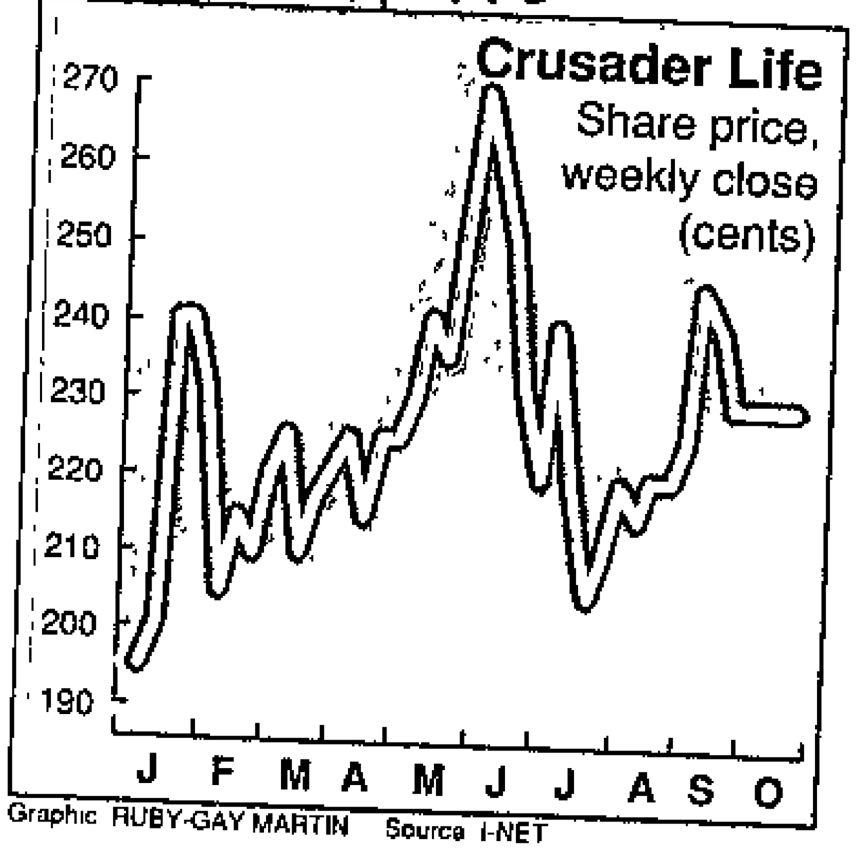
CRUSADER Life, a subsidiary of Anglovaal Insurance Holdings, has posted a 38% increase in total net premium income to R160,7m (R118,6m) for the year to June 1992, says CE Don Rowand.

The group declared a dividend of 20c a share for the year, up 12,2% on the 17,8c a share declared for the 18 months to June 1991.

Rowand said the increasing popularity of health insurance products and rising medical costs were behind the jump in total net premium income.

"We are also getting support from people who have no medical aid and see hospital plans as a more suitable alternative."

Group investment income rose marginally to R9,65m for the 12 months as against R9,1m for the 18 months to June 1991. This pushed total income to R170m in June from R127,7m in 1991.



Graphic RUBY-GAY MARTIN Source I-NET

Attributable income rose to R7,33m from R6,1m in 1991.

He said although the dividend had risen, the company had made provision for a smaller cash payout, as he expected many shareholders to take up an offer of shares in lieu of cash by CruLife.

During the year the group raised about R20m in a rights issue of ordinary shares, and added R10m to preference share capital through the issue of ten R1 cumulative preference share at R1m each.

This, together with growth in the business, pushed net current assets up to R97,7m from R34,7m last year.

Rowand said CruLife had also experienced a surge in single premium business — such as retirement annuities — which had helped push the Life Fund up 111,9% to R176,7m (R83,4m) in June.

On the group's prospects, Rowand said CruLife's UK-based investment Pegasus Financial Holding started making profits in July, and management expected these to increase in future.

"We have continued to increase profitability since our listing in 1984, and all things being equal, hope to continue this trend in 1993," he said.

INVESTMENT 58

Keeping pace

FM 16/10/92

Inflation-linked bonds could become an alternative for institutions looking for new investment opportunities. Investors are faced with a shortage of local bluechip scrip on one hand and exchange controls, prohibiting foreign investment, on the other. And yields on fixed-interest bonds are often outpaced by inflation.

Richard Jesse, of brokerage Martin & Co, proposes a listed inflation-linked bond: a bond issued with a payout which escalates annually in line with inflation. The instrument would generally be irredeemable.

From an investor's (holder's) viewpoint, the p:e ratios of sought-after shares are becoming relatively high, with ratios of over 20 becoming increasingly common. As a result, Rembrandt, SA Breweries and Liberty are offering dividend yields of 1,3%, 2,4% and 2,3%.

Take the case of a company issuing paper yielding, say, 4% annually initially — similar to the yield on bluechip equities. Assuming a

Continue

FM 16/10/92 (58)

R100 issue price, the return in the first year will be R4 and, taking a 10% inflation rate, a payment of R4,40 will be made in the following year. The investor thus receives an annual cash flow which is constant — and this is important — in real terms.

As interest received is not taxable in the hands of an institution, the paper would be attractive to institutions.

Investors should also benefit by capital gains, as the price of the paper will increase in line with the higher interest payouts. This is based on the same principle as equities, where share prices rise in line with increased dividend payouts.

From an issuer's viewpoint, this instrument reduces the cost of capital. For instance, companies could replace bank debt, currently costing around 18%, with this paper, reducing their cost of capital by 14%. In fact, the after-tax cost to a local company issuing a 4% bond is 2,1%.

This paper also has the advantage that no voting rights need be attached to it.

However, the proposed instrument ties a company down to ongoing nominal payout increases (assuming inflation) — awkward if revenues and profitability do not increase at the same rate.

Also, in certain circumstances, this type of financing may prove more expensive than bank borrowings, where slack monetary policy results in a move from positive to negative real interest rates.

Inflation-linked bonds were introduced in the UK some years ago without success. However, this was because the country, under then prime minister Margaret Thatcher, entered a long disinflationary cycle, something unlikely to occur in the new SA. ■

On trail of lost millions

Shocks surface in report on CIB-Rail Commuter Corporation transactions

58 CA 17/10/92

■ There were suspicious circumstances in dealings between the Cape Investment Bank and the SA Rail Commuter Corporation, say members of the all-party committee on public accounts which reported to Parliament this week. **JEAN LE MAY** reports . . .

SCANDALS surrounding the SA Rail Commuter Corporation's massive losses through the failed Cape Investment Bank resurfaced this week with the publication of the report of the all-party parliamentary committee on public accounts.

There were allegations in evidence given to the committee that Mr Barend du Plessis, former Minister of Finance, suggested the corporation should use the facilities of the Reserve Bank to borrow money in the money market.

After Mr Du Plessis' shock departure from politics in April, there were suggestions he had resigned because of the collapse of the CIB, the merchant bank controlled by the Pickard family, and other financial institutions like Masterbond, Fundstrust and Alpha Bank.

In his evidence, Reserve Bank head Dr Chris Stals described "unprecedented" steps taken by the bank to save the CIB before eventually putting it into liquidation.

The public accounts committee has called for a judicial commission of inquiry to investigate dealings between the CIB and the SA Rail Commuter Corporation, which lost R288-million when the bank crashed.

Democratic Party MP Mr Jasper Walsh, a committee member, said: "The corporation is not financially viable and attempted to cover its deficit by unauthrised money market transactions which resulted in losses of millions of rands under suspicious circumstances."

The committee was unable to get at the truth behind these activities, he added.

Another committee member, DP MP Mr Geoffrey Engel, said it was scandalous that the former Minister of Finance, Mr Du Plessis, thought he was authorising borrowing up to half a billion rands whereas the Minister of Transport and the corporation itself saw this as open-ended permission to deal in the money market.

It was suggested in evidence that the corporation had been told by the-then Minister of Finance (Mr Du Plessis) to use the facilities of the Reserve Bank to borrow money, make a profit on the money and thereby add to its resources. Dr Stals said in his evidence there was no way that could be done.

Mr Engel said: "However, the fact is that the corporation borrowed money to fund government spending and nowhere has this money been appropriated.

"It has accumulated deficits guaranteed by the government which should have been appropriated in the budget and have not been.

"Instead of seeking a grant through parliament in the normal way in which public money is appropriated, the corporation went ahead and borrowed it."

At one stage, the corporation had investments of R1,8 billion , the committee was told.

Dr Stals said in evidence that the corporation was a "completely unviable operation".

It made a loss every year and had to cover that loss by borrowing in the market place. The Reserve Bank certainly would not lend it money.

In its first financial year, the corporation estimated expenditure of R1 billion and income of only R325 million.

The Auditor-General, Mr Peter Wronsley, told the committee the corporation was a "mendicant organisation". It had been a wrong decision to separate it from its parent body, the SA Transport Services, he said.

In his evidence, Dr Stals said the Reserve Bank knew very well that if the corporation took its money out of the CIB late in 1990 it would force the bank into liquidation. He told of steps — described by bankers as "unprecedented" — taken by the Reserve Bank to save the CIB.

Mr Jacobus Smit, financial manager of the corporation, said it rolled over its investments in the CIB just before that bank crash on the advice of the Registrar of Deposit-taking Institutions, Dr Hendrik van Greuning. The matter also was discussed with the late Mr Johan Bellingham, who took over as CIB chairman after the resignation of Mr Jan Pickard jun.

Dr Van Greuning denied having advised the corporation. He told the committee he had met representatives of the corporation for a breakfast at Burgers Park Hotel in Pretoria.

He had asked the corporation why it had invested so much with the CIB and had been told it had R1,8 billion to invest and that the money with the CIB did not represent a signifieant portion of its investments.

Dr Stals described how the Reserve Bank had intervened in 1990 in the hope of saving the CIB, by buying R855 million worth of Eskom stock from it and by discounting its clearing vouchers.

Eventually, the CIB was given a loan of R300 million by the Reserve Bank at two percent a year.

The CIB was then taken over by Prima Bank, but was liquidated by the Reserve Bank at the end of March 1991.

At that stage, the Reserve Bank stepped in with a special guarantee for all deposits with the CIB of less than R5-million.

This was done with the approval of the-then Minister of Finance, Mr Du Plessis, said Dr Stals.

In November 1990, said Dr Stals, he had asked for a list of depositors with the CIB and had found "with shock" that it had deposits of R300-million of which one deposit, for R242-million, was from one depositor — the commuter corporation.

This was in direct contravention of the guidelines laid down by the Reserve Bank that no single deposit with a bank should exceed 10 percent of the total deposits without Reserve Bank permission. Later, this was embodied in the Deposit-Taking Institutions Act of 1991.

The money was on fixed deposit, Dr Stals went on, and legally the corporation could not take it away before the relevant expiry dates.

The bank also knew very well at that stage that if the corporation had tried to take the money away, they would have forced liquidation of the CIB.

Dr Stals also defended the Reserve Bank against allegations that it should have advised the corporation to withdraw its funds from the CIB. If any such advice were given, it would be the end of any bank, he said.

The corporation had taken the Reserve Bank to arbitration on the issue, said Dr Stals, and had eventually withdrawn all its demands following a settlement which the arbitrator, Mr Justice Rabie, ordered should remain secret.

The corporation had been paid out the first R5 million of its investment in accordance with the special offer to small depositors, but all the rest was lost, he said.

M&F claims top spot

S1 Times (BUSS) 18/10/92. (58)

SHORT-TERM insurer Mutual & Federal has come out top of the pops in claims-paying ability.

By TERRY BETTY

Commercial Union, SA Eagle, Santam and Aegis follow hot on its heals.

Local debt rating agency, Republic Ratings, this week released the first informal evaluation on the ability of short-term insurers to pay policy holders' claims in the short- to medium-term. ACA, Auto & General, General Accident, Standard General and Allianz did not come out shining. They are all characterised by relatively low solvency ratios and large underwriting losses.

Republic Ratings MD Dave King says those at the bottom of the list are more vulnerable in terms of their ability to pay claims timeously and are at a significantly higher risk of default.

However, none of the companies were rated below a three because the insurance industry is highly regulated. King says that on a stand-alone basis those at the top of the list would be the last to go under.

Guardian National was not included in the survey as it was the only insurance company which agreed to be formally rated. It received a coveted "AAA" rating.

The study was done for large corporates and insurance brokers who need to know the credit risk of each insurer when they evaluate the merits of premium quotes.

King says they are concerned about another AA Mutual-type collapse because of the difficult conditions in the local and foreign insurance markets.

King warns this is an informal rating, done without the co-operation of the companies and without considering the issue of parent company support.

He says the survey presumes that the insurance companies' reinsurance programmes are acceptable but has reason to believe some do not do this adequately.

King hopes this will be revealed in a formal assessment of the industry. This will be possible if the broking community and the general public pressurise insurance companies by only conducting business with rated companies. This is the case in most countries overseas.

Resisted

King believes the South African public should be more careful where they place their business.

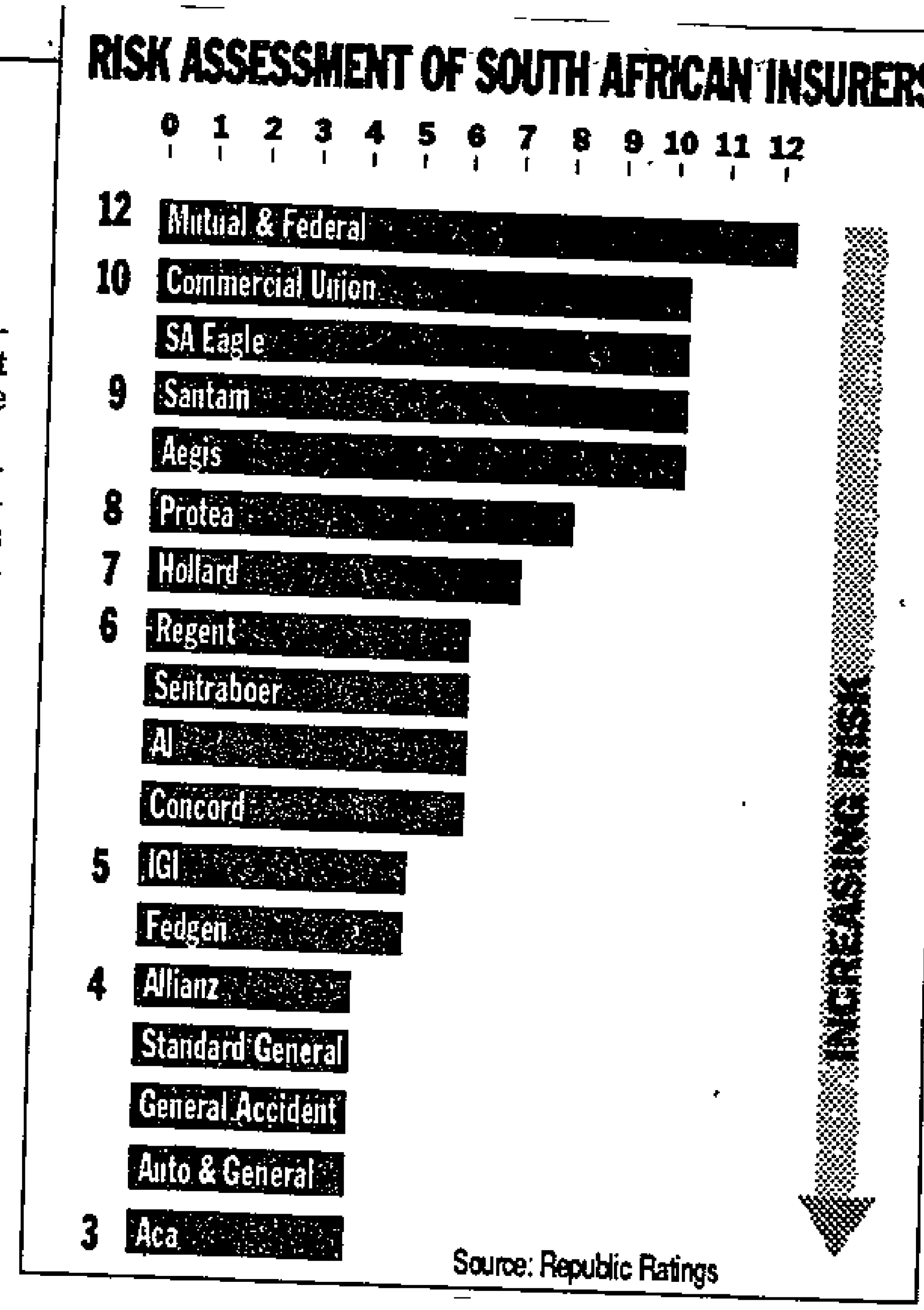
"The implications of a default by an insurance company could be more disastrous than the Masterbond failure," he warns.

King says that, as a result of the controversial informal risk rating of the banks done last year, 30% of the industry has since been formally rated. But the ratings have been resisted by the insurance industry. In June the SA Insurance Association put out a circular to all members strongly recommending them not to co-operate.

King suggests this is because it disturbs their cosy club and that any weak company would not want to have its faults exposed.

Registrar of Financial Institutions deputy executive officer Andre Swanepoel says ratings are necessary to lift standards in the industry and protect the consumer.

Swanepoel says they are already looking into the reinsurance situation and want to zero in on the question of disclosure, as has been done in the United Kingdom.



Source: Republic Ratings

COMPANY ROUND-UP

PRELIMS	Turnover (Rm)	% change	Profit before tax (Rm)	% change	Earnings a share (c)	% change	Div a share (c)	% change
Stan Eng	688,4	+8	55,3	0	121,5	+1	42,0	+5
Foodcorp	2430,0	+8	133,0	+8	163,0	+6	56,0	0
Engen	6560,0	+8	533,0	+27	275,0	+18	137,5	+19
Barnetts	63,6	+22	2,4	−15	12,5	−10	3,5	+40
Carlton	444,4	0	51,7	−19	207,0	−21	75,0	N/A
K-H Props	15,8	+16	13,2	+17	54,0	0	54,0	0
Crusader	N/A	—	N/A	—	24,0	−7	20,0	+12
Duiker	N/A	—	41,3	+32	153,7	+40	50,0	+43
INTERIMS								
Audiodek	24,6	−9	−0,9	N/A	−4,25	N/A	0	—
SPL	51,3	+28	4,5	+15	15,0	+15	6,0	+20
Woodrow	25,2	+66	2,2	+41	9,0	+13	2,5	+25
Inhold	—	—	—	—	51,5	+24	21,0	+50
Investec	—	—	—	—	81,5	+25	35,0	+25
Lenco	281,4	+17	31,1	0	25,8	+17	—	—
Newcent	—	—	1,4	+6	77,9	+6	72,0	N/A
Cutrite	23,0	−11	2,4	−29	7,6	−25	3,0	0
Smart	80,3	+4	4,3	+27	6,0	+20	—	—
Midas	148,5	+2	−2,5	N/A	−14,3	N/A	—	—
Keeley	92,5	−6	7,9	+9	11,5	−8	0	—
Kelgran	92,5	−6	7,9	+9	11,5	−8	0	N/A

STANBIC BOOSTS CAPITAL BASE

S Times (B455) 18/10/92. (58)

By JULIE WALKER

STANDARD Bank Investment Corporation plans to raise R650-million through a rights offer of ordinary shares at R60.

Shareholders will be offered 10 shares for every 100. Stanbic shares closed at R70,50 on Friday, 650c off their May peak. Based on the enlarged market capitalisation, Stanbic shares should settle at about R70.

Group managing director Eddie Theron says it is more a matter of being able to raise money from the equity market now, when the capital is not really needed, rather than waiting until the group is forced to raise money and then having to do so on less attractive terms.

In spite of recent acquisitions, Stanbic still tops the international 8% capital-to-asset requirement well ahead of the 1995 deadline.

Theron is not specific on the ratio, but he concedes that the bank's reserves have obviously been reduced through the offshore deals. It has established Standard Bank London and paid £10-million for British merchant bank Brown Shipley Holdings in May.

The expected R160-million to R170-million for the acquisition of ANZ Grindlays Bank African interests will be settled through the issue of scrip.

ADVANTAGE

Theron says ANZ will not accept the paper itself and it will be placed on its behalf. Theron will not disclose who will take the shares.

He says the issue will enable the group to take advantage of any domestic and international growth opportunities that may arise. It will also strengthen its capital base.

Shareholders holding 70% of the issued share capital have already undertaken to follow their rights. They are Liberty Life, with 39%, Old Mutual, with 22%, and Gold Fields, with 10%.

Liberty will underwrite the balance of the offer.

Several SA banks have made recent foreign acquisitions. First National Bank has been negotiating to buy London merchant bank Henry Ansbacher, Investec acquired a commercial bank, Allied Trust Bank, and Rand Merchant Bank formalised its holding in Australian Gilt Holdings.

Theron denies immediate plans for the cash, and makes light of suggestions that the group will buy out its competitors.

Standard rights issue tops up capital

SHARON WOOD (58)

THE Standard has taken the opportunity presented by its strong rating on the JSE to top up capital with a R650m rights issue.

Group MD Eddie Theron said the rights issue would not significantly influence the group's earnings a share. Theoretically the SBIC share price could move down by R1 today. This was based on the difference between the market share price of R71 at close on Friday and the R60 cost to shareholders of taking up the offer of 10 new shares for every 100 shares held.

Theron said it was a precautionary measure and the funds were not earmarked for a specific project.

"Historically the group has always had surplus capital. The setting up of Standard Bank London and various other activities have reduced SBIC's surplus capital ... there is some spare capital but we prefer to be comfortably cushioned," he said.

Theron stressed the money would not be used to finance Standard London or the group's likely acquisitions in Africa.

"SBIC believes it is now opportune to further strengthen its capital base.

"The rights issue should enable the group to take advantage of any domestic and international growth opportunities

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(58) ☐ From Page 1

Standard

BDay 19/10/92

which may arise."

The negotiations to acquire the Africa branch network of ANZ Grindlay's had reached an advanced stage and should be finalised in the next few weeks. The deal was expected to cost the group between R160m and R170m and would be financed by the issue of new SBIC shares Theron said arrangements for the share placement had been made.

He would not disclose with whom the shares would be placed

The group's major shareholders, Liberty Life (38,9%), Old Mutual (22%) and Goldfields (10%), holding up to 70% of the issued share capital, had already undertaken to take up their rights.

The balance of the offer would be underwritten by Liberty Life.

The group's risk-weighted capital-to-asset ratio remains above 8%, which is in line with international banking standards and the final level SA banks will have to meet in 1995

Negotiations on Ansbacher deal

GRETA STEYN

FNB was considering restructuring its takeover of UK merchant bank Henry Ansbacher to avoid taking a knock on the financial rand, a source close to the deal said at the weekend.

FNB senior GM Viv Bartlett was reluctant to comment, but said the bank was evaluating the position. Reserve Bank exchange control GM John Postmus said negotiations between the Bank and FNB on the financing of the deal were continuing, but the Bank could not comment further.

An exchange control source said while the Bank had approved the acquisition of Ansbacher, the financing details had not yet been approved and the deal would not take place automatically through the finrand market. BIDAY 19/10/94

The Bank still had to investigate the nature of the deal's financing. Options under consideration were a foreign loan, the finrand, or doing the deal with a partner. FNB still had to come up with a proposal on financing the deal, which was estimated at about £60m.

Dealers speculated at the beginning of the month FNB's hasty sale of finrand was one of the reasons why the unit fell to a six-year low of R5,12 to the dollar. But Bartlett said FNB's trading had been in accordance with the Reserve Bank's requirements.

Standard concludes R160m deal

GRETA STEYN

THE Standard Bank's R160m deal to acquire the African branch network of ANZ Grindlay's had already gone through the financial rand market, a bank spokesman said yesterday.

He said the finrand part of the deal had been concluded before the investment currency's recent gyrations and the Standard's deal would not have any effect on the market.

The finance for the deal was being raised through a share placement. The Standard would not acquire a foreign investor as "a local resident" would put up the cash.

The R160m would be raised over and above the R650m rights issue announced at the weekend.

A source said the delay in announcing the Grindlay's deal was the result of protracted negotiations with African governments and monetary authorities, each with different exchange control and other regulations.

Standard's share price hardly reacted to the announcement of the rights issue, ending the day slightly below its last traded price of 7 050c.

NBS comes in with sparkling increase

B/Day 22/10/92

SHARON WOOD

NATAL-based NBS surprised the market by increasing earnings 17,1% in the six months to end-September, despite tighter interest margins and higher bad debt provisions.

Banking analysts expected the group to lift earnings by between 10% and 15%, but instead earnings rose to 58,2c a share from 49,7c a share. Dividends increased by 13,3% to 17c (15c) a share, raising dividend cover to 3,42 times from 3,31.

CE John Gafney said the earnings growth exceeded the modest growth of about 10% forecast in the annual report.

"The mortgage rate has become a focal point of bank competition, which has had an adverse impact on net interest income.

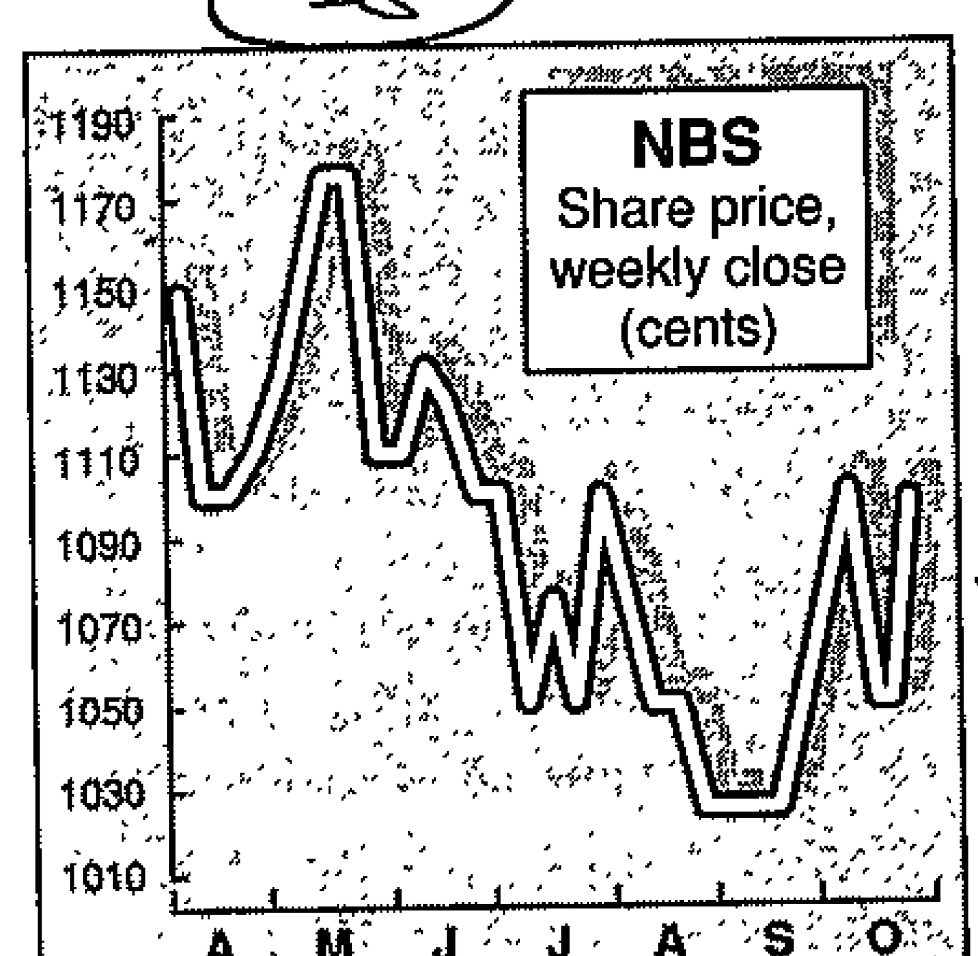
"However, this has been countered by a higher contribution from non-banking activities, mainly insurance and associate company earnings, enabling NBS to report a solid performance."

The results included French Bank for the first time. Norwich had also done much better, he said, and the bank had also done well in commissions and structuring project finance.

Net income after tax rose by 15,2% to R33,5m (R29,1m), while income from associate companies surged by 174,3% to R5m (R1,8m).

Gafney said the level of bad debts and arrears had stabilised during the last few months, but provisions for losses had still been strengthened. "There has been a steady improvement in arrears ... this could be because of the impact of lower interest rates," he said.

The ratio of provisions to total advances increasing marginally during the six



Graphic: RUBY-GAY MARTIN Source I-NET

months and he considered total provisions to be adequate to cover potential losses that could occur. The group does not reveal bad debt provisions at the interim stage but provisions were R52,8m during the 1992 financial year.

For the first time, the group's assets topped the R10bn mark, compared with the previous year's R7,8bn. Said Gafney: "With capital and reserves standing at R540m, we are well placed to succeed in an increasingly competitive operating environment."

Advances rose by 24,1% to R8,2bn in the period under review from R6,6bn.

Despite expected poor trading conditions, Gafney said NBS hoped to report real earnings growth for the full year to 31 March 1993.

He expected interest rates to decline by at least another one percent in the next six months, which would again reduce net interest margins.

Stals dashes expectations of cut in interest rates before year's end

BDay 22/10/92 (58)

GRETA STEYN

RESERVE Bank Governor Chris Stals yesterday put a damper on hopes of a two percentage point cut in interest rates before the end of the year.

Speaking at the Afrikaanse Handelsinstituut conference in Johannesburg, he said there was little scope for further easing policy. The policy stance of the past year would "at least" have to be maintained.

The capital and money markets have been waiting for a signal from Stals on interest rates, with dealers geared for a cut in Bank rate when the inflation figures are released this month. Many bankers believed a second cut could follow soon afterwards, or early next year. The bearish tone of Stals's latest policy statement has, however, raised the possibility that rates will bottom with the next Bank rate cut.

Stals said inflation was still "very high" — even the underlying rate of 12% and lower was still far above the inflation rates of SA's trading partners. Other factors working against an easing in policy was the high level of debt in the personal, corporate and public sectors, the fact that interest rates were low in real terms, the balance of payments was still vulnerable, and the money supply was growing at a faster rate than real economic activity.

He said there was room for nominal interest rates to be cut if the inflation rate declined further, interest rates abroad softened, domestic money supply growth did not accelerate, and domestic credit extension was kept under control.

He said monetary policy in recent years had never really been restrictive. Although it had been tighter than in the past, policy had not been strict enough to force the financial stability that was needed to support sustainable rapid economic growth.

Measures that could encourage economic growth were highlighted in Finance Minister Derek Keys's speech at the same conference. Keys said help given by way of Section 37E of the Income Tax Act would no longer be tied closely to export potential. "The proper test of sustainability is the ability to be world competitive and consequently the export requirement has been removed with effect from this September. This amendment will be confirmed by legislation next year."

He added that government wanted to continue supporting large developmental projects, especially as long as private fixed investment in other directions remained as "sticky" as it had been in the past few years.

He also commented on the inability of SA financial markets to mobilise capital for large development projects and small entrepreneurs. The really large "pioneering" projects like the aluminium smelter had almost as much difficulty in generating enthusiasm as small entrepreneurs, because they would start to yield income only after a number of years.

"To the extent that these essentially venture capital operatives begin to see them-

☐ To Page 2

Interest rates

BDay 22/10/92 (58)

☐ From Page 1

selves more as administrators of large estates — avoiding risk and safeguarding rather than taking risk and venturing — the mechanism will run down and the country's rate of growth with it."

With capital in essence limited to "trustee investments", a developing country could have difficulty in carrying out important parts of its programme. The Industrial Development Corporation could not fill the void because its resources were limited by comparison to what the private sector ought to be mobilising.

He did not indicate, however, whether any government action would be forthcoming in response to the problem.

On other measures for growth, he said agricultural land could be used more productively and there was scope for developing value-added agricultural exports.

● See Page 4

Foreigners ease out of property deals

BDay 22/10/92 (58)

PETER GALLI

FOREIGN buyers were less active in the residential market and most deals taking place were generally for cheaper properties, industry players said yesterday.

Pam Golding Properties director Ronald Ennik said the group had concluded sales of about R30m this financial year, which was lower than last year.

"While we have seen a substantial increase in the number of offshore inquiries, actual sales are not improving. Our figures also show that those deals taking place are for cheaper properties," he said.

Camdon MD Scott McRae said foreign interest in the market had "all but dried up". The Taiwanese were the major buyers, but in small numbers.

"Sales to the foreign market has never been a booming business and the extent of such activity has been exaggerated by estate agents," he said.

Ennik said his group was negotiating with a number of European buyers for big properties. An emerging trend was that more interest was being expressed in the Transvaal market.

"About a third of our sales to foreigners have been in Johannesburg, which is an increase on last year and is still growing. Many businessmen see Johannesburg as the gateway to the rest of Africa and want to position themselves here," he said.

McRae agreed, saying the value offered by local properties and the increasing acceptance of SA abroad was contributing to this. "We are seeing an increase of foreigners in the Johannesburg market, but in far fewer numbers than expected."

Seeff Residential Properties MD Bearnard O'Riain said activity had tapered off over the last six months.

"Those foreign buyers in the market are still buying expensive properties but are looking, and achieving, bargains. The majority are from from Africa, Taiwan and Hong Kong."

IDC meets Japanese bank

BDAY 23/10/92. (58)

SHARON WOOD and PETER DELMAR

JAPANESE Export-Import Bank officials met the IDC in Johannesburg yesterday to negotiate a credit line for capital investment in SA.

The Development Bank staff also met the Japanese this week to discuss the bank's application in June this year for a separate credit line.

Development Bank GM Nick Christodoulou said the updated and revised proposal for a concessionary $100m credit loan to the bank, which would be specifically invested in development projects, had been accepted in principle but had been put on hold until an interim government was in place.

He said the Japanese bank provided two types of credit facilities. The first, which was being sought by the IDC, was tied to Japanese investments in other countries, while the second was concessionary finance for investment in development projects.

These would include investments in small business, small farms and urban development.

IDC senior GM Malcolm Macdonald confirmed the corporation had held talks

□ To Page 2

Japanese

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□ From Page 1

with the Export-Import Bank officials this week.

Describing the officials as cautious and thorough, Macdonald said they had wanted to know more about the IDC and specific details of what the credit would be used for.

The delegation would report back to their principals in Japan, but he was hopeful that agreement would be reached soon to open general credit lines.

Macdonald said he could not speculate on what these would be worth. The first credit line, if approved, would be for a specific IDC-backed project. It is believed this first instalment could be in the region of $50m.

The Japanese, Macdonald said, were well briefed on the Alusaf and Columbus projects and the fact that they were about to come on stream.

According to the IDC's last financial report, it had set up international credit lines worth R1,5bn by June last year.

Christodoulou said the credit lines being negotiated by the IDC were for large capital investments, where Japanese business could compete for tenders.

Developer Bester in trouble

PETER GALLI (58)

PROPERTY developer Bester Investments is struggling to meet its obligations to its financiers, who are considering a scheme of arrangement to salvage their interest-bearing loans of about R139m.

"The possibility exists that the group is already technically insolvent and the directors have decided to cease doing new business and only honour existing obligations," executive chairman Theunis Bester said in the 1992 annual report, which was released yesterday.

The company was trying to realise assets to "the best of its ability and advantage of its creditors, financiers and shareholders", he said. Bester's major financiers — Absa, Boland Bank, FNB and Standard Bank — were aware of its move to realise its assets and, while any scheme would involve a change in capital structure, no decision had yet been taken.

As the group's cash flow and margins had stayed under pressure, it remained dependent on the continuing support of its financiers, Bester said.

The end-February balance sheet gave current assets at R206m, against current liabilities and provisions of R196m — R141,2m of which was for overdrafts, loans and acceptances.

However, a qualified report by auditors Coopers, Theron, Du Toit said they were unable to decide whether the financial statements fairly presented the financial position of Bester Investments at February 29, and whether the operational results and cash-flow information conformed with generally accepted accounting practice, and as required by the Companies Act.

The auditors said they were unable to satisfy themselves that the net realisable value of the group's property stock exceeded its book value of R101,7m given in the financial statements.

In the year to end-February the group posted a R8,6m loss before interest and taxation, against a R12,7m profit in financial 1991. The loss came largely from the construction division.

However, once interest and taxation was included, the 1992 loss stood at R35m from R10,7m in 1991, which translated into an earnings loss of 292,6c a share, from 89,4c.

African Life's income rises 43%

ANDREW KRUMM

AFRICAN Life posted a 43% increase in total income to R69,7m for the six months to September, against R48,9m for the comparable period last year. (SS)

An interim dividend of 6c a share, up 22% from the 4,9c distributed for the half-year to September 1991, was declared.

MD Bill Jack said the increase in income was driven mainly by a rise in recurring premium income to R55,1m in September, up from R39,9m last year.

Meanwhile, rapid growth in single premium income pushed total premium income to R58,9m for the half-year against R40,3m in 1991. BDay 23/10/92.

Investment income also made gains, rising to R10,8m from R8,6m in 1991.

Attributable earnings rose to R5,5m against R4,3m last year, which nudged earnings a share to 9c from 7,4c a share in September 1991.

Shareholders have the option of taking up two bonus shares — for every 100 shares held — as an interim dividend.

African Life had tried to minimise the effect of the recession and depressed political circumstances on short-term results by introducing a new range of niche market products, and it was positioned for considerable growth, Jack said.

African Life boosts income 43%

Own Correspondent (58) CT 23/10/92

JOHANNESBURG. — African Life posted a 43% increase in total income to R69,7m for the six months to September, against R48,9m for the comparable period last year.

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SBIC FM 23/10/92

Capital comfort (58)

FM 23/10/92 (58)

A planned R650m rights issue will increase Standard Bank Investment Corp (SBIC)'s comfortable capital cushion.

MD Eddie Theron told a press conference last week that the issue would top up capital depleted by the recent purchase of British-based merchant bank Brown Shipley Holdings and the funding of Standard Bank London. The purchase of ANZ Grindlays Bank PLC's African interests, expected to cost R160m-R170m, will be funded by the issue of SBIC shares in addition to the R650m to be raised from the rights issue.

The Brown Shipley transaction, even wholly or partly financed through the financial rand, would amount to little more than R60m and the funding of the London subsidiary would have absorbed a relatively small sum. So the rights issue will leave SBIC with a substantial excess.

This comes at a time when the banking group is already very well capitalised. The interim results for the six months to June shows total shareholders' funds at nearly R3bn, or 5,7% of assets.

In risk-weighted terms, the ratio would be even higher. For supervisory purposes, a risk weighting is attached to assets and the R9bn home-loan portfolio of the group's commercial arm, Standard Bank of SA (SBSA), would carry only a 50% weighting. Moreover, in a supervisory context, capital includes not only shareholders' investment and retained reserves; it includes, as second-tier capital, debentures and an element of revaluation surpluses on property and equity holdings. And the figure will be boosted further by the 96,8% acceptance of an offer of new ordinary shares in lieu of interim dividends.

So, even without the rights issue, SBIC is well ahead of the 5% capital-asset ratio required for 1992. With the new funds, the group should be in excess of the risk-weighted 8% (4% primary, 4% subordinated) needed by 1995 to bring SA banks into line with international standards imposed by the BIS.

And the ratio continues to grow rapidly. The holding company is not obliged to submit quarterly returns to the Reserve Bank, but figures for SBSA indicate the trend. In the four months to the end of August, capital had grown 5,6% to R2,8bn, while assets had grown only 1% to R46,5bn.

The group is clearly poised for further expansion. ■

BUILDING SOCIETIES FM 23/10/92

Mutually inclusive (58)

The not-too-distant future may see the emergence of a market in a new financial instrument: building society shares. This is one of the aims of the Mutual Building Societies Amendment Bill expected to be passed in the

FM 23/10/92 (58)

1993 parliamentary session.

Mutual building societies are subject to operating restrictions imposed by the Building Societies Act of 1965, while other deposit-taking institutions (DTIs) fall under the DTI Act. The most important are: the ratio of business other than home loans is limited; and they are not allowed to offer cheque account facilities.

A recent regulatory amendment to the Act, effective as from July 1, reduced the minimum percentage of funds required to be allocated to home loans from 70% to 30%. Because this exposes mutuals to greater risks, the Bill is designed to bring their prudential capital-maintenance requirements into line with those of DTIs. Unlike regulatory revisions of ratios, which the Act specifically permits, capital-maintenance requirements can be amended only by the successful passage of a parliamentary Bill.

The Bill will also enable mutual building societies to issue non-redeemable interest-bearing shares as a substitute for equity. The non-redeemable nature of these shares provides a permanent capital base. However, the shares will be transferable, which may give rise to a secondary market.

Says Trevor Jennings, EP Building Society CEO: "The object is to make the shares attractive to target investors, such as retired people who want to purchase a steady income stream." However, it will expose

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them to the same risk of capital loss as would ordinary equity investment.

The finer details of each society's share scheme will have to be approved by the Reserve Bank once the Bill becomes law. The shares will probably bear a higher interest rate than do fixed deposits. Another possibility is that they could carry a profit bonus, so that excess profits can be shared.

There are only two permanent mutual building societies left in SA — EP and Grahamstown — but there are others operating in the TBVC countries.

Jennings says there are two advantages to the mutual status. First, building societies cannot be "swallowed up" by other institutions. More important, he says, "the Third World sector must be catered for in the future banking environment and this sector is wary of institutionally owned banks."

Jennings sees the Bill as an interim measure to promote the evolution of a new entity, the mutual or community bank, ownership of which is perceived to vest in the people themselves. Mutual building societies might later be able to convert to mutual banks — enabling them to offer an expanded range of services — while not compromising their nature and independence.

Grahamstown Building Society CEO Jim Reynolds says: "Our risk-weighted capital-to-assets ratio already well exceeds statutory DTI requirements of 5% for 1992, so there is no immediate need to strengthen our capital core by issuing non-redeemable shares."

EP Building Society, whose capital adequacy ratio is currently around 6%, would, by issuing what Jennings considers a modest R25m of shares, increase it to 9%. The international banking standard — and the level SA banks must reach by 1995 — is 8%. ■

BADENHORST AND CZYPIONKA TO SPEAK

FM 23/10/92. (58)

Special economic adviser to the Finance Minister Japie Jacobs' recent report on overhauling the financial services industry has caused a furore by suggesting that pension contributions be partially taxed. At this year's *FM* investment conference — "Investing in 1993" — to be held at Johannesburg's Carlton Hotel from October 29-30, two top bankers will discuss levelling the playing fields.

Absa CE Piet Badenhorst will look at "Changing regulatory conditions for financial institutions in the Nineties" and Standard Bank Investment Corp economist Nico Czypionka at "Banking's challenges in 1993 and beyond."

Born in 1936 to a railway goods inspector, Badenhorst has succeeded against the odds. One of five children, whose mother died in his teens, he qualified as a chartered accountant in 1958.

After joining United Building Society, he steadily made his way up the ladder. In 1983, he shook the financial services industry by being the first to charge for cheques. A man of driving ambition, he was also instrumental in having the law changed so that building societies could diversify beyond home loans and enter traditional banking.

When the United, Allied and Volkskas merged as Absa in 1991, Badenhorst became CE. He has served on the State President's Economic Advisory Council.

Czypionka is known as a fearless speaker and analyst. In these times of political and economic upheaval, his forecasts on banking in the next few years are certain to be of interest.

He was born in Germany in 1948, schooled in Austria and has lived in SA since the late Sixties. After studying Economics at Natal University, he joined the *FM* as a journalist before moving to Standard Bank. As a GM of Standard Bank, he is a member of its major decision-making committees and has advised governments and other entities.

If you would like to hear these and other SA and international experts at next week's *FM* investment conference, call Brigitte Petty on (011) 497-2135 or Cindy Beatty on (011) 497-2134; or write to PO Box 260022, Excom 2023.

INVESTEC FM 23/10/92 (58)

Creditable performance

In present economic conditions, first-half results are creditable in the context of the strongly performing banking sector and good compared to the market generally. Year-on-year comparisons show attributable income up a healthy 71%. EPS growth has been depressed, as expected, by the additional shares issued in the Fedsure share-swap. Even so, EPS rose a satisfactory 25,3%.

Concentration on niche markets and diversification helped Investec gain on the swings what it lost on the roundabout.

The property division, which made a small loss last year, is still lagging. Executive chairman Bas Kardol says it was on target, "but then Boipatong and Bisho dampened

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the appetite for property syndications." He believes, however, that property business will recover in the second half. (58)

Also hit were trade finance activities, partly through being more cautious in a tough climate and through slack demand.

But in line with the wider margins banks are enjoying, Investec netted R54m interest income, reported for the first time as the group moves, slowly, towards fuller disclosure. Provision for bad debts, on the other hand, widened by 28,2% to R9m.

Kardol is satisfied with the results and says providing there is no further deterioration of the economy, year-end earnings should be in line with historic growth trends, which have averaged an annual compound 25% over the past 10 years.

The recent R185m acquisition of London-based Allied Trust Bank is not reflected in the interim and Kardol says it should not have much effect on full-year results. Next year, it should start to have an impact on the bottom line, providing further diversification.

The price, at R22,75, has not moved much in the past six months. But these results should underpin what has in recent years been a strong performer. *Shaun Harris*

Rand's effective value 'still stable'

BDAY 23/10/92. 58

HILARY GUSH

THE trade-weighted — or effective — value of the rand remained stable despite the unit's recent slump to a new record low against the dollar.

Economists and forex dealers said yesterday the effective rand exchange rate had remained relatively stable despite a firmer dollar.

UAL economist Dennis Dykes said that if the market knew the exact weightings of the various currencies in the basket, they could possibly set up a trading system which would make profits at the Reserve Bank's expense.

Dykes said the Bank had disclosed the identities of the currencies making up the trade-weighted basket. These were the US dollar, pound, Deutschmark, yen, Italian lira and Dutch gilder.

He said there was no question of the dollar's dominance in the basket as most of SA's trade was denominated in the US currency. "The dollar's weighting is, without a doubt, greater than 50%, and probably quite a bit higher than that."

Martin and Co economist Carmen Maynard said despite the fact that about 10% of SA's total trade was with African countries, the Bank's trade-weighted basket did not appear to include any African currencies. "For a representative trade-weighted basket African currencies would naturally have to be included."

Maynard believed the Reserve Bank did not disclose the various weightings for fear that the potential for the market to speculate about currencies would arise.

She said the effective rand had "not performed badly at all" despite falling to a historic low against the dollar. The weaker rand was simply a function of a stronger dollar.

A Reserve Bank spokesman confirmed the Bank kept the weightings confidential to prevent the market speculating against prospective Bank movements in the forex market.

He said while the rand was weak against the dollar it had gained on the crosses and that a relatively stable trade-weighted value had been maintained.

From Wednesday's R2,9173 close against the dollar, the rand slid to a R2,9275 low in morning trade yesterday. But by mid-afternoon — as the dollar slipped to DM1,50 and exporters came into the market and sold the US currency — the rand firmed to end at R2,9188 against the dollar.

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TOLLGATE/HCI (58)

Divorce pending

Rumours that Tollgate Holdings (TGH)'s asset sale programme will include the 2,6m shares held in insurance holding company Hosken Consolidated (HCI) have been confirmed by HCI chairman Michael Lewis.

Lewis says it's intended that the block (18,4% of HCI's equity) will be bought by a consortium of the managements of HCI, Safrican Life (Saflife) and IGI Insurance (IGI). TGH chairman Julian Askin confirms discussions are in progress. The deal will come as something of a gift from heaven for Askin, whose group is reported to be in straitened circumstances (*Fox* October 9).

Lewis says the price, on which "tentative agreement has been reached", is about R23m. That equates to 885c/share compared with a market price of 620c — an unusually high premium, of over 40%.

It's understood the deal will include the recent HCI dividend in specie, together with its normal half-year payment. That will reduce the effective price by about R1 a share and the premium to about 27%.

Even that's a lot. Lewis says the arrangement "will cement the relationship between the managements of three closely interlinked companies." Probably more cogent is his throw-away line that "the deal will make the group inviolate to predation."

While the transaction isn't exactly a management buy-out, it comes close to one. Lewis concedes he's anxious the block should find a secure, safe home and says it is the key to control of the group. The intention is to raise the necessary funds through a share incentive and leveraged buy-out scheme. Lewis says discussions are taking place with merchant banks but won't identify them.

Of course, this raises the issue of some form of unbundling within IGI. It holds about 12m shares or 41% of associate Saflife, priced at 575c each or about R69m in all.

But IGI itself is capitalised at only R83m, despite its 33% of Amity (the Luxembourg listed company which holds HCI's non-SA insurance business) valued at R10m, 8,2% of Crendell Investment (R3,5m), as well as the underlying insurance business.

Lewis complains that the market has valued IGI on the basis only of its various holdings. "It imputes no value to the underlying business," he says

One way of realising value may be to distribute IGI's Saflife stake as a dividend in specie. The effect would be a significant dip in IGI's capital base and the market would then have to re-value IGI. *David Gleason*

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INSURANCE FM 23|10|92

Upping the ante (58)

Industry and commerce need to find at least another R1bn for insurance premiums in the coming year. That estimate, based on industry assessments, may be conservative.

Figures on how much the commercial/industrial sector pays for insurance vary. Total premiums paid for general insurance were about R7,7bn last year and, of this, probably 50%-55% was accounted for by household, homeowners, motor and similar domestic cover.

Potentially, then, commercial and corporate business accounts for roughly R3,6bn of premiums which, given the expected inflation rate, should rise to R4,12bn.

But commercial rates have been soft and commerce has been getting insurance at comparatively low rates. Brian Seach, chairman of the SA Insurance Association (Saia), puts the underrating at 20%-30%, and probably nearer the higher figure. Ken Saggers, CEO of the largest short-term insurer, Mutual & Federal, believes the underrating is nearer 20%.

Nobody expects an across-the-board 20% rerating: that would give even more impetus towards self-insurance and risk management. But even a 12% rise in inflation — plus about a 20% adjustment for underrating of corporate business — would see total premiums for commercial and corporate risks move from R3,6bn to more than R4,5bn.

Mike Duncan, of brokers Price Forbes, expects personal lines and commercial segments to remain competitive. He accepts, however, that rerating of the corporate sector is inevitable — particularly where warranted by an adverse claims experience.

Rod Pearson, from brokers MIB, says the broking role will be critical. He points out that, during the intense competition for company business, some of the direct insurers effectively absorbed the impact of value added tax (VAT). That cannot go on indefinitely, so there is further pent-up cost pressure in the system.

Lloyd's is a further factor. The London market, after suffering horrific losses, is now leading the move to harder rates for corporate risks. Though Lloyd's represents perhaps 7%-8% of the SA market, it's influence is much greater than that percentage suggests. Seach believes Lloyd's has diminished its exposure in SA without lessening its volume of business. That implies it is becoming highly selective in the risks it takes. Saggers notes: "Lloyd's style has always been to pick the eyes out of the market."

Brokers naturally defend Lloyd's role. Some have a pen to write business in London and, even those who have no such arrangements, have in the past found London a useful safety valve, one to keep down SA rates. Whether lopsided rating is truly in SA's long-term interests is another matter.

At first sight, it would seem local general insurers have emerged in good health after the underwriting year of 1990. In a recent report, the Financial Services Board notes: "In 1991, most short-term insurers were able to contain or reduce their disastrous underwriting losses . . . with investment returns remaining fairly constant over the period, operating profits have improved the overall financial position of most insurers."

But the assessment adds: "The influence of the expenses of management on the financial results of insurers varies dramatically from insurer to insurer. The financial success of the industry will demand economic underwriting and efficient management and these issues will clearly become paramount."

Last year total claims paid reached R5bn and the total underwriting profit was R230m. It looks sound, except the total industry profit of R1bn was made up mostly of investment income which, given the state of the stock exchange and property market, is now considered fragile.

There are 53 registered insurers, of which seven are professional reinsurers and 26 specialist direct underwriters. That leaves 20 direct insurers dealing with the public in a mixture of personal and corporate business. Two are known to have assets/income ratios below the 25% considered prudent by the FSB (but above the legislated figure of 15%). Four or five others are hovering not much above the prudency line.

Says Duncan: "Brokers don't make the rules or set the guidelines and, though we obviously cannot guarantee the solvency of any insurance company or underwriter, we certainly try to place business with financially sound companies." Over the past year the short-term industry has become a barometer with the needle stuck on fair and, as with so many barometers, it is concealing the fact there are squalls ahead. ■

RESIDENTIAL PRICES (58)

FM 23/10/92.

Waiting for Absa

Build-up to the release of Absa's quarterly house price charts has begun. Perhaps that's why various property economists have begun to issue their own figures and the differences are intriguing.

Last week Multiple Listing Services MD Bruce Wilson publicised an 8,9% nominal drop in the average selling price of homes in Johannesburg — to R142 600 for the year to September; and in Cape Town a 3,8% easing from R210 000 to R202 000. He also reported a slackening in Pretoria but gave no figures. In Durban he found average selling prices rose 8,7% to R169 000 and in the Free State they grew by 32,4% to R123 738.

Real Estate Surveys, which produces the Rode House Price Index (used by the Bureau for Economic Research), has recorded national price growth up to the first quarter of 1992.

Though these figures lag by two quarters those of players like Absa and Multilisting — which use their own markets as bases — they track a representative sample of all transactions registered by deeds offices in the major cities and in different price ranges.

Rode says Multilisting's nominal house price declines in certain cities are "not impossible though they are unexpected. These could be ascribed to political tensions since the beginning of the year."

His findings are that up to the first quarter of this year house prices were keeping up with inflation. "I think this is amazing given the state of the economy," he comments. "However, the differences betweeen cities and classes were marked. Durban and Port Elizabeth continued to outperform the rest of the country.

"What was new was a deceleration in PE's growth, while Durban was still going great guns.

"Generally speaking, the trend of lower-priced homes to outperform more elite suburbs also continued. What is also notable is that Johannesburg's upper-priced suburbs showed zero growth."

Comparing growth rates in cities for the year ended March, Rode says Durban appears to have peaked at around 27% and will probably show a decline from then. Cape Town's growth rate has shown the most precipitous fall: from a high of just over 40% in mid-1990, to 3% in mid-1991, though by March it was back to about 15%. Johannesburg has been volatile but seems to have stabilised at about 10%.

From one running year to the next — comparing house price rises over the year ended in the fourth quarter of 1991 with the year ended first quarter 1992 — a significant slowdown is discernible. Whereas the national growth rate was 19,1% in the previous period, it fell to 15,4% in the following one.

By city, the difference in rates expressed in percentage points was -6,2 for Johannesburg, -6,6 for Pretoria and -8,7 for PE. Durban, confirming the levelling-off in the growth of a median house price there, came off by a mere 0,3 from one period to the next. Only Cape Town showed any rise — up 3,1 percentage points.

This decline may be confirmed in the imminent release of Absa's quarterly house price figures. Rode says the recession is also taking its toll in some sectors of the flats market: "Vacancy rates of 2% or more are

continued →

HOUSE PRICES SLOW

House price growth by city & class (%)
Year ended first quarter 1992 — Provisional data

City	Total 1992* %	Total 1991† %	Upper▲ %	Middle‡ %	Lower# %
National	15,4	19,1	14,2	16,2	20,1
Johannesburg	10,5	16,7	0,0	20,1	17,1
Pretoria	12,6	19,2	11,3	16,3	10,2
Durban	27,6	27,9	30,5	22,6	29,4
Cape Town	17,0	13,9	32,8	8,5	8,7
Port Elizabeth	20,5	29,2	20,8	25,0	15,3

* For year ended 1st quarter 1992. † For year ended 4th quarter 1991. ▲ Upper = > R350 000. ‡ Middle = R200 000 to R350 000. # Lower = < R200 000.

Source: The Rode Report.

IN SEARCH OF QUALITY

FM 23/10/92

Two major trends have emerged from office leases brokered in northern Johannesburg and Sandton over the past year. Property broker RMS Syfrets says rents are increasing and, with tenants now demanding discounts on older buildings, the rental difference between them, roughly 15%-20% a year ago, has increased to 25%-30%. This can be attributed to an oversupply of new space.

The second trend, according to RMS Syfrets commercial broker Adam Blow, is that better rentals can be negotiated with tenants up to about the 700 m² mark.

One reason is that tenants want good locations, quality and proximity to their homes — for which they will pay the premium. Location and quality are still factors in the decision-making of larger firms, which take space of 2 000 m² or more, but accessibility for all staff is placed before personal preferences. Thus lower rents have to be offered. Yet, because such moves are traditionally planned well in advance, leases are also longer, typically 10 years or more. This often compensates for the lower rental.

Johannesburg's Hyde Park and Illovo are emerging as sought-after commercial areas. Schemes such as 257 Oxford Road and Hyde Park Lane are popular, Blow says, because designs allow for individual lobby and ablution areas for the medium-sized tenant.

The broker recently placed Sagenta Trade Corp in a 700 m² office suite in Hyde Park Lane near William Nicol Highway. This new R55m Southern Life office park will be completed early next month. So far 30% of the space is let. Tenants include Standard Bank (1 800 m²) and Hyde Park Lane contractor Grinaker Construction (1 300 m²).

The development consists of six separate two- and three-storey buildings, ranging from 1 800 m² to 2 800 m² in Georgian-style architecture. Southern Life says companies in the airline, property, development, publishing and consultancy businesses are interested.

Hyde Park has two other new office complexes under construction off Jan Smuts Avenue:

☐ Centre City Property Fund-owned Hutton Court (1 600 m² retail and 3 300 m² offices, all still to be let); and

☐ Time Life's new HQ (4 000 m² of offices).

Oxford Manor in Illovo has only 1 200 m² still to let. RMS Syfrets has placed Alitalia (500 m²), Peltours (300 m²), Egypt Air (620 m²), UTA (585 m²) and Air Afrique (400 m²) in the complex. Malaysian Airways (about 700 m²) has also taken space but not through RMS Syfrets. Nearby, at 257 Oxford Road (2 600 m²), RMS placed Singapore Airlines (1 700 m²) this year.

P.T.O.

(58)

beginning to appear in other major cities besides Johannesburg's central area."

In Pretoria and Cape Town's Atlantic seaboard the vacancy factor is around 2,5% and in Bloemfontein 2,3%. These rates compare with Johannesburg CBD's 4,1%, Joubert Park's 2,2%, and Berea's 4,2%. Hillbrow has no vacancies.

☐ Rode is busy gathering data to provide companies with an inter-city house price guide. This will enable housing allowances to be reassessed when employees are transferred. For instance, a house in Cape Town could cost up to 30% more than its counterpart in Johannesburg — "except nobody knows," says Rode. The service will kick off early next year. ■

IN SEARCH OF QUALITY

FM 23/10/92

(58)

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Hyde Park has two other new office complexes under construction off Jan Smuts Avenue:

- Centre City Property Fund-owned Hutton Court (1 600 m² retail and 3 300 m² offices, all still to be let); and
- Time Life's new HQ (4 000 m² of offices).

Oxford Manor in Illovo has only 1 200 m² still to let. RMS Syfrets has placed Alitalia (500 m²), Peltours (300 m²), Egypt Air (620 m²), UTA (585 m²) and Air Afrique (400 m²) in the complex. Malaysian Airways (about 700 m²) has also taken space but not through RMS Syfrets. Nearby, at 257 Oxford Road (2 600 m²), RMS placed Singapore Airlines (1 700 m²) this year.

BUSINESS BARLOMETER

Sowetan 23/10-29/10/92

Interesting questions

(58)

RESERVE BANK governor Chris Stals' bearish speech on the outlook for interest rates at the Afrikaner Handelsinstituut conference has poured cold water on hopes of a two percentage point rate cut by the end of the year. But a cut of one percentage point is expected this month, if a lower inflation rate justifies this.

The prime rate is now 18,25 percent. So it seems economists taking part in the SPL Banking Services Forecasting project are playing it safe in forecasting a prime rate of 17,25 by the end of the year.

Banks will be forced to reveal their secrets

(58)

ARG 24/10/92

Weekend Argus Correspondent

SOUTH Africans will soon be able to get a better idea of the financial strength of banks and insurance companies, which from 1994 will have to give much more information about their finances, including "hidden" reserves.

They and other companies will also have to provide cash-flow statements and turnover figures.

All companies will have to provide an income statement, a balance sheet and cash-flow information when issuing interim and provisional financial statements.

These requirements follow the approval by the deputy Minister of Trade and Industry, Mr David Graaff, of a revision of Schedule 4 of the Companies Act.

The revised schedule is effective from next April but banks and insurance companies have been given until January 1994 to meet the requirements.

Mr Ronnie Bowker, national director of accounting and auditing services at Ernst and Young, said the main implication of the change for banks was that they would have to disclose hidden reserves, and components of their net income for the year, including the tax charge and transfers to provisions for doubtful advances.

The changes are modelled on international standards and reflect the trend towards fuller disclosure by banks.

Mr Bowker said all the larger banks had made significant advances in financial disclosure in recent years and now provided significantly more information than the minimum required.

In a survey of the world's leading banks, First National was recently highly placed for financial disclosure.

Banks affected most by the changes would be the smaller niche banks, he said. Because they would no longer be able to to allocate income to hidden reserves in certain years, they would show erratic or uneven profit trends, which could lead to a loss of depositor confidence.

Mr Ken Mockler, chief executive of the South African Institute of Chartered Accountants, said the changes were an important step in levelling the playing field between banks and insurance companies.

It meant that companies which did not comply with generally accepted accounting practices would have to explain why.

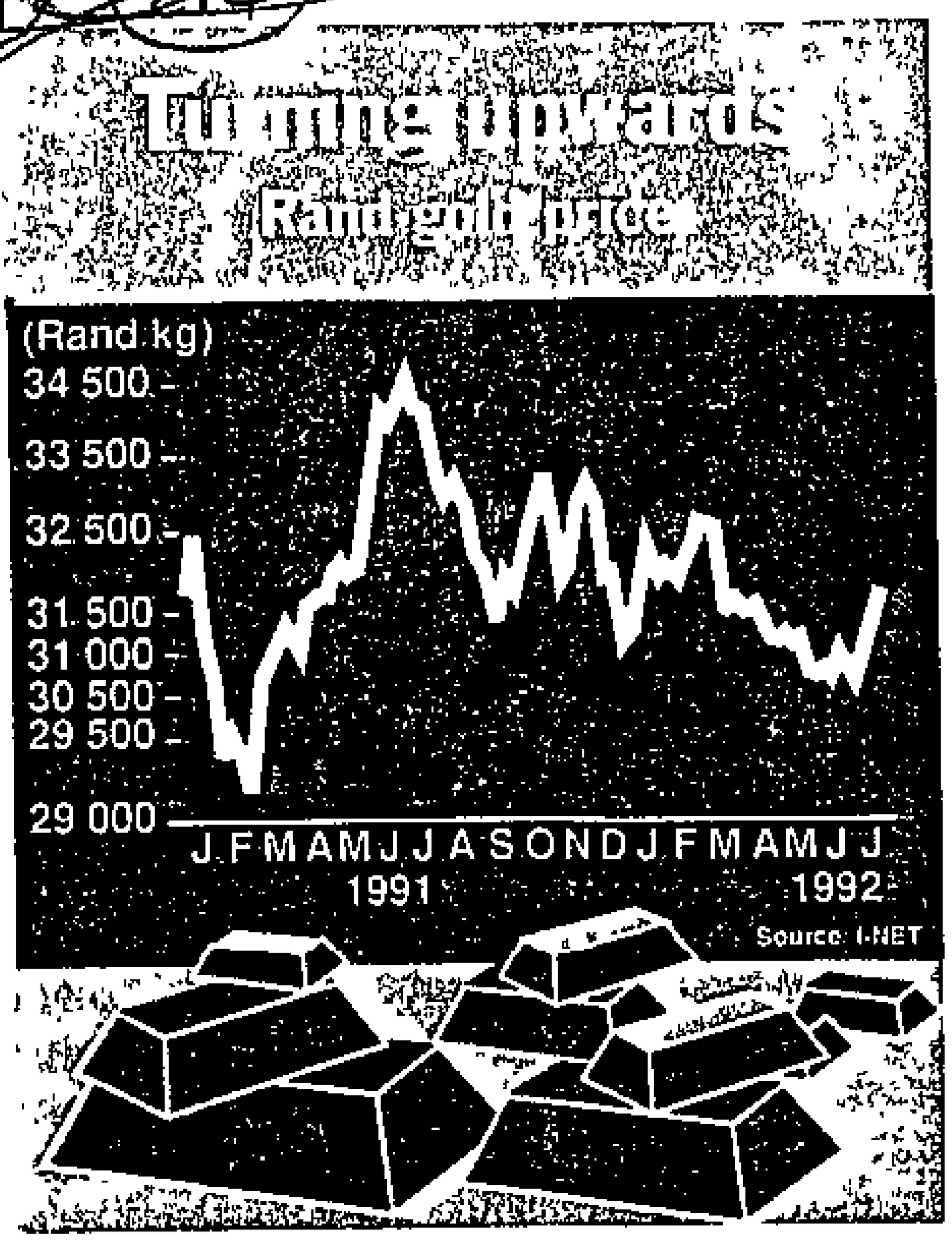
The standing advisory committee on company law said in a statement that the revision was the first since 1977 and brought South African requirements into line with international accounting standards.

One of the objectives of the revision was to harmonise the schedule with the disclosure requirements contained in the 18 statements of generally accepted accounting practices (GAAP) issued and revised by the Accounting Practices Board since 1973.

At present, the schedule only set out minimum disclosure requirements and in many instances the recommended GAAP disclosure requirements were not being adhered to, it said.

These statutory provisions had, therefore, taken precedence over, but, for the most part, did not correlate with the disclosure requirements set out in the accounting statements issued since 1973 by the Accounting Practices Board, it said.

All archaic clauses have been scrapped and previously conflicting issues between the standards recommended by the accounting profession and the provisions of the statute have been eliminated.



5,98 g/t (previous quarter — 6,45 g/t).

Reason is the steady improvement in performance shown by Joel and the fact that, after four terrible years, the survivors in the industry stand ready to reap the benefits that higher revenues would bring for their leaner, more cost-efficient operations.

Figures compiled by Ed Hern, Rudolph gold analyst Grahame Graham-Parker show how well the underground mines managed by the major mining houses have coped. Their average cost, including capex, to produce one ounce of gold rose just 1,1% to R924,75/oz in 1991, from R914,50/oz in 1990. The 1990 figure was 5,6% up on the 1989 average of R866/oz which in turn was 7,3% up on the 1988 average of R807,50/oz.

Average cost of R127,62/t milled for the June quarter is just 20% up on the average of R106,4/t milled recorded in the September quarter of 1987. Graham-Parker calculates if the mines had not acted and instead let their costs run at prevailing inflation rates, then the average cost for the June quarter would have been around R218/t milled.

The June quarter was marked by another series of good cost performances by the heavyweight producers, among them Driefontein, Hartebeestfontein and Vaal Reefs. Average working cost for Gold Fields' mines rose only 0,5% to R21 346/kg (R21 246) despite the increased losses from marginals Libanon, Venterspost and Doornfontein.

Gengold's mines dropped their working costs on average by 0,4% to R27 508/kg (R27 626/kg), while Anglo American Corp's gold and uranium division fared badly by comparison with average unit costs rising 2,1% to R26 925/kg (R26 367/kg).

Anglo gold division chairman Clem Sunter views this as a blip in an otherwise good performance since the beginning of 1991, and he sticks to his view that the rise in his division's costs will be close to zero for the two-year period ending December.

Such comforting overall statistics cannot hide the fact that a number of marginals are on the point of no return if the gold price does

It's nowhere to hide for banks

S[ ]Times (Buss) 25/10/92 (58)

BANKS and insurance companies will in future have to give a full disclosure of their financial affairs.

By TERRY BETTY

Companies which are notoriously secretive with their results — such as the Rembrandt Group — will also be caught by new financial reporting rules.

However, Old Mutual and Sanlam are not bound by the new rules as they are mutual, not providential, insurance companies.

"This is patently unfair," says Liberty Life deputy chairman Dorian Wharton-Hood.

A revision of the fourth schedule of the Companies Act has been approved by deputy Minister of Trade and Industry David de V Graaff and was published in Friday's Government Gazette.

It means that, from January 1994, financial institutions will no longer be able to hide their affairs as they have done according to a "philosophy of secrecy".

Sensible

SA Institute of Chartered Accountants technical director Monica Singer says banks have been able to play down good years by increasing reserves, and have shown profits when they have actually made losses by transferring funds out of their reserves.

Singer says detailed information will allow the public to evaluate the degrees of risk and compare institutions.

Life Offices Association executive director Dick Geary-Cooke refuses to comment on the disclosure of reserves.

An insurance source says there are certain reserves that are not in the public interest to disclose, as they are technical and may give the wrong perceptions.

Standard Bank senior general manager financial services Andrew Fleming says that, if done in a sensible fashion, increased disclosure can only be good for the investing public.

ABSA chief executive Piet Badenhorst says it has been moving towards full disclosure. He says the inner reserves, which have not been disclosed, will probably form part of the bad debt provisions. Southern Life deputy general manager financial services Brenda Doyle says an accounting statement AC204 will hopefully be finalised next year. This will apply to the mutuals, although it will still not be mandatory for them to comply.

The other hope of roping them in is the changes to the Insurance Act, which is expected to be passed through Parliament in 1994.

The new Schedule 4 makes it mandatory for companies to give the rand value of their turnover and the basis on which it was determined. They can no longer merely give the percentage change.

They also have to give a cash-flow statement instead of the old source and application of funds, so that the public can ascertain a company's liquidity and whether or not it will succeed in the foreseeable future.

The other important change is that companies will have to give full balance sheet and income and cash-flow statements when they report their interim and provisional results.

Singer says this is so that investors do not have to wait until the end of the financial year to know the health of the company.

SPLIT INVESTMENT LINK

S Times (Buss) 25/10/92.

SENIOR executive of Protea Assurance, Nick Criticos, has announced their Goal Getter Plan, which enjoys the facility of a split investment link. Policy holders are able to direct the investment element of their plan into any of five different portfolios — either singly or in any combination — and to alter the direction of investment at any stage during the life of the contract. In terms of the plan, a tax-free lump sum becomes available after 10 years, followed by the payment every five years of ever-increasing amounts until retirement. Policy holders could include those wishing to amass the deposit for a car or a house, money for their children's education or holidays overseas.

58

AIDS threat to insurers

S Times (Buss) 28/10/92

THE AIDS epidemic sweeping through southern Africa is infecting insurers as well as the insured.

Dave Johnson, Southern Life's assistant general manager, life marketing, points out: "Obviously, no one could have foreseen the AIDS epidemic, so all the insurance companies have thousands of policies on their books that were issued years ago without an exclusion clause for HIV-related death or illness.

"Claims on some of these policies have already made a major impact on insurance company finances and have emphasised the need to have adequate funds in reserve to cover AIDS-related claims."

WRONG

Johnson also talks of suggestions that future legislation should prevent insurers demanding HIV tests or inserting clauses excluding payment for HIV-related claims.

"It is said that this would be discriminatory, but is it any more so than the currently accepted policy discriminations between male and females or smokers and non-smokers?"

In Johnson's view, the black community — which is most affected — has been and is still being given the wrong perception of AIDS.

"They are being told," he says, "that all the AIDS propaganda is just another attempt by the whites to control black social activity — to spoil their fun.

"Until their own publications tell them the full truth about the epidemic we cannot expect them to approach the problem in a responsible manner.

In full agreement is Chris Newell, assistant general manager, employee benefits, with Old Mutual.

"AIDS has already had a significant impact on the cost of medical, disability and death cover," he says. "One only has to look at Zimbawe and Malawi where the problem — at the moment — is far greater than in South Africa. The cost of some policies has literally doubled.

"There is a macabre balancing factor, in that less policy holders live to draw their retirement pension, which obviously saves money, but this again is offset by more pensions going to widows.

"Education is our only hope, the only way to engender safer habits and lifestyles, and I don't think the government can do it on its own. It is a social responsibility and the private sector must lend its strong support.

"Old Mutual is running a major internal educational programme. This has been so well received that we are now offering a consulting service to other companies."

Where there's life there's Life . . .

A Business Times SURVEY

South Africa's life assurance industry has held up extremely well given the current economic adversities. But it is an industry which, like the political structure of SA, needs to adjust to meet popular demands. Precisely what are the issues facing the administrators of the huge mutual societies and the host of limited companies which offer life assurance? What shape is the industry in? What are the challenges it will have to face in the years to come? SID LANE reports from Cape Town

S[T]imes (Buss) 27/10/92.

THE life assurance industry is in a healthy state. So says Marius Smith, managing director of Metropolitan Life, and Pierre Steyn, chief executive of Sanlam. (58)

Annual benefits paid out in 1991 amounted to R15,7-billion, with the latest available annual premium income amounting to R26,5-billion — an increase of almost 19% compared with the previous year.

Marius Smith points to AIDS as probably the major problem and forecasts major changes in market segments over the next few years

No doubt the new dispensation will mean more insurance business being conducted with the black community and, as Metropolitan Life is already well entrenched in this market, it should benefit accordingly.

He sees a new government possibly prescribing investment possibilities and social security benefits replacing insurance at the lower end of the economic scale.

Pierre Steyn has faith in the sophistication and effectiveness of the South African insurance industry and believes that it will play an increasingly important and beneficial role in the new South Africa, particularly in the area of job creation through capital investment

He points out that net domestic investment was 14% in the 70s, 8% in the 80s and today stands at about 1%. To create new jobs the economy has to grow, and this requires capital investment on a far greater scale than at present

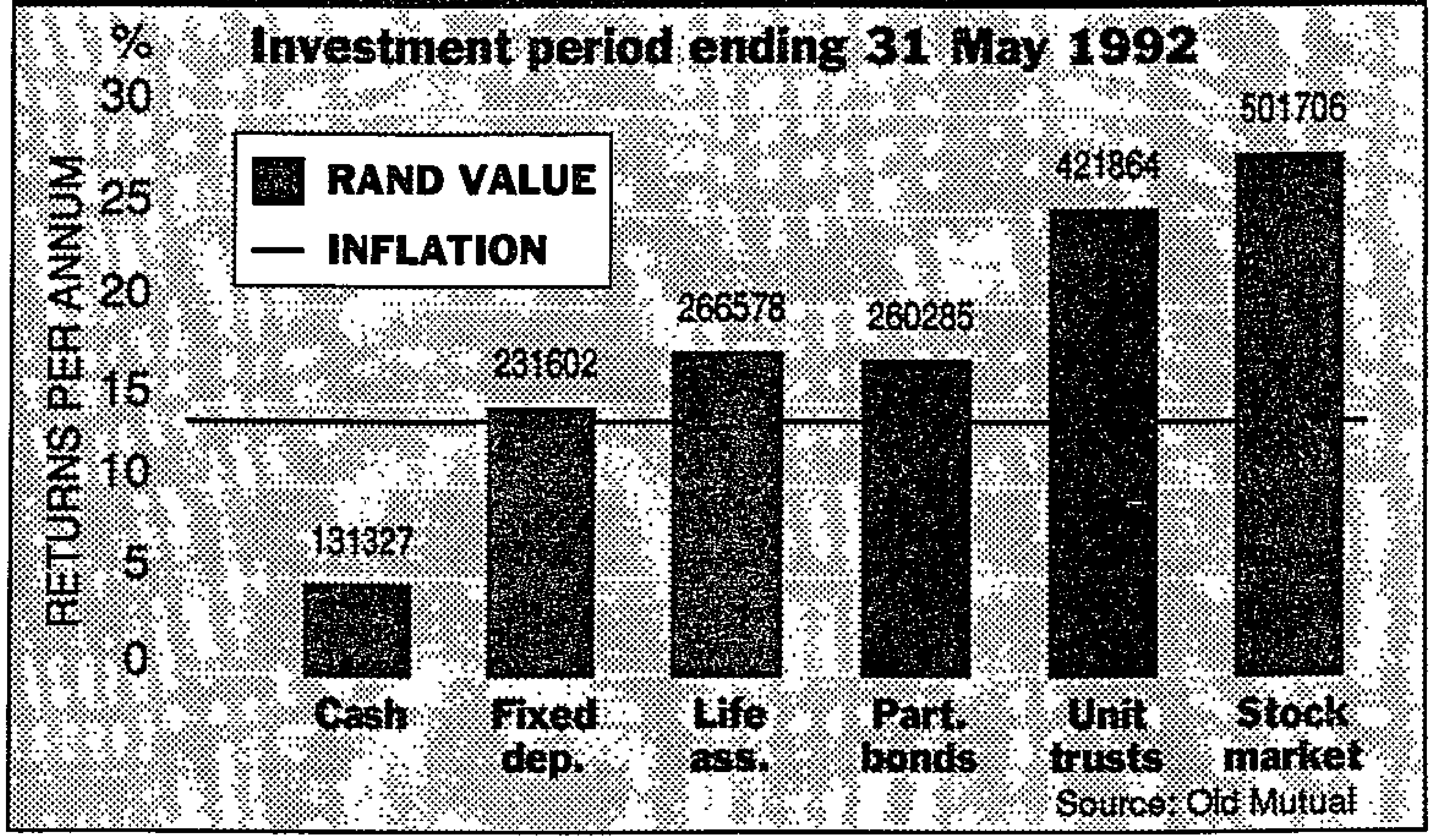
Steyn believes that a healthy life assurance policy in the private sector is vital for mobilising capital to finance job-creating projects, such as Columbus and Alusaf, which are not only crucial to the country but are also expected to yield investment returns that will satisfy policy owners and pension fund members.

VITAL

The two mutual societies, Old Mutual and Sanlam — which at present account for about two-thirds of the market share in the life assurance industry — are expected to at least maintain their share, largely because of their economy of scale.

It is generally accepted that in the future, even more than now, it will be the quality of service that will determine the success or otherwise of life assurance companies.

R10 000 P.A. INVESTED FOR 10 YEARS



Insuring the Windsors (58)

IT WILL surprise many to find that the live of Di, William and Harry are covered by th South African Shield Insurance Brokers. Th trio — known familiarly as "The House o Windsor" — are, however, not the familia royal faces that dominate the world's medi. although their own, considerably more hir sute, visages have had considerable exposur through cinema and television. They ar chimpanzees, trained to perform before th cameras S[T]imes (Buss) 25/10/92.

Shield, only formed in mid-1990, discov ered a niche in the life assurance world an made it all its own.

They assure the lives of the principal working on film and TV features, mini-serie and commercials, with the production bein the beneficiary. Producer, director, camera man, principal performers, stunt man ... al are covered.

"With a typical 30-second TV commercia costing R500 000 to make," explains Shiel MD Steve Levitt, "the illness, incapacity o death of any one of the production's princi pals can be extremely expensive.

"We have just prepared a scheme fo members of the Association of Advertisin Agencies that gives accidental death, dis ablement and medical benefit for every ar tiste on a production. Being a group scheme we have been able to keep cost to a mini mum."

Principal artists, as already stated, ma not be human. Levitt then went on to de scribe how they assured the life of a came from Paarl.

Old Mutual's comic approach

S I Times (Buss) 25/10/92.

IN A joint venture with Syfrets, Old Mutual is preparing a comic-based onslaught on the South African public to explain the workings and the benefits of unit trusts.

Although unit trusts have been with us since the 60s, there are apparently many potential investors who still have not fully grasped the principle under which they work.

Then, too, through South Africa's new dispensation there are many who are only now discovering the pleasure of having disposable income to invest.

Due to hit the streets at the end of this month, the comic — entitled "Unit Trusts — An Investment In Your Future" — will use traditional comic-book styling to portray real-life situations in which problems are posed to which investment in unit trusts is the most effective answer.

Says Peter de Beyer, Old Mutual's unit trust manager: "The unit trust market is still growing at a very healthy rate in spite of the recession.

"We have some 400 000 accounts today, which is double what we had three years ago. So obviously there are many investors who know all about unit trusts and are willing to invest in them.

"At the same time, there is still an enormous number of people out there who just don't understand the principle of unit trusts. We researched the market and finally decided that the most effective means of communication to the greatest number of potential investors was through popular literature. In other words — comics."

Chris Newell, assistant general manager, employee benefits, with the Old Mutual, has also hit the comic trail.

"So many companies still do not appreciate the value and importance of good communications," he says. "They spend a lot of money setting up a good employee benefit plan — and they can be costly — but don't bother to explain clearly to the workers exactly what they're being given.

"Surely it makes sense to spend a little more and give each employee a clearly understandable explanation of the benefits they will receive? The communication should be simple and it should be clear. That means comics."

German bank buys majority stake in SA ba

58 CT 26/10/92

From GRETA STEYN

JOHANNESBURG. — In another sign that SA is emerging from the financial cold, Germany's Dresdner Bank is to inject foreign capital into a small SA bank to become the majority shareholder, say market sources.

In terms of a deal already signed, Dresdner would invest about R25m in the Commercial Bank of Namibia's Johannesburg branch, with a further R10m to come later, the sources said at the weekend.

The bank's name would be changed to the International Bank of Southern Africa and it would become independent of the Namibian-based banking group.

It is understood the registrar of deposit-taking institutions has already approved the name change.

The other shareholders were Banque Nationale de Paris (BNP) and a Belgian bank, Banque Bruxelles Lombard (BBL), the sources said.

Commercial Bank of Namibia MD Franz Kipping said it would be premature to comment at this stage and an announcement would be made in due course.

Dresdner, BNP and BBL already have a stake in the Commercial Bank of Namibia group through a French holding company SFOM. The German government also owns a chunk of the Namibian operation, which has a sizeable portion of small shareholders as well. When the Johannesburg branch leaves the fold, SFOM retains its stake in the new outfit with Dresdner becoming the major stakeholder.

Sources said Dresdner's decision to invest in SA was made after a 15-man team visited the country in May.

Since then the political situation had deteriorated, but sources said they decided to stick to their decision.

Dresdner already has a re office in Johannesburg. It i few foreign banks to ha foreign capital into the coun

The return of Standard Ch not accompanied by any ca British bank only opened a tive office. It was rumoured t ering an investment, but ta concern about the political si put the idea on the backburr

FNB tipped to show 14% lift in earnings

(58) CT 27/10/92

JOHANNESBURG. — First National Bank Holdings is expected to report at least a 14% increase in 1991/2 earnings to 604c per share following further widening in interest rate margins, analysts said.

"Talk is that the earnings increase could be higher than the market expects at about 18%, but the big unknown is once again the bad debt problem," David Southey of stockbrokers Edey Rogers said.

First National is due to report tomorrow results for the financial year to September 30, 1992.

Doug Ellish of Anderson Wilson Partners, who forecast increased share earnings at a weighted average 610c from a previous 529,3c, expects a final dividend of 150c per share, making 200c for the full year versus 175c.

Southey said earnings could be higher at 620-625c per share with a total dividend of 202c on increased cover.

He said a scrip dividend could be offered as an alternative, as other banks have done this year to avoid possible capital growth constraints in terms of the new deposit-taking institutions act.

The act will require banking institutions to hold in reserve 6.0% of their capital against risk-adjusted assets from 1993.

But, Graham Baillie of Davis Borkum Hare said a scrip dividend was unlikely as First National's capital base was bolstered earlier this year by a R550m rights issue.

First National said at the time it would use the money raised to strengthen its ability to maximise openings in both domestic and international markets. It is currently holding talks on the financing of its recent acquisition of Henry Ansbacher Holdings, the UK unit of Belgian Groupe Bruxelles Lambert SA (GBL).

Baillie said: "Demand for borrowing is incredibly low because of the recession and this would have enabled First National to store up capital." He expects a 14,2% rise in share earnings to 604c and a year dividend of 195c.

Analysts attributed expected earnings growth to sharply higher net interest income, which was R1,6bn in the previous year.

Apart from better asset and liabilit management reported by the company a the end-march half-way stage, analyst said interest rate margins continued t widen substantially in its second half a a result of the growing gap betwee wholesale and retail rates.

"That gap has been consistently wi ening ever since the Reserve Bank i plemented its tight monetary policy 1989, leading to a lack of credit dema and increased liquidity levels," Sout said. — Reuter

Sanlam pays out R1m every 20 minutes

(58)

Business Staff ARG 28/10/92

MORE than R1 million in benefits is paid out every 20 minutes by Sanlam.

Benefits paid rose by 38 percent to R5,8 billion in the year to September and to put this into perspective, this amount exceeds the total net asset value of Sanlam only 10 years ago.

The insurance giant Sanlam shrugged off the effects of the recession and boosted its premium income by more than 27 percent to above R10 billion.

However, the rapid growth in individual premiums — a feature of the 1980s — has tapered off substantially to rates more in line with the inflation rate.

This clearly reflects the dire financial straits of the average South African today.

The rate of growth in individual recurring premiums slowed down to an increase of 17 percent for a total of R3,9 billion.

This was more than counter-acted by a sharp increase of 42 percent in group business, which rose from R2,8 billion to R4,08 billion.

Despite the depressed economic climate, Sanlam's investment income rose by 17 percent to R40,14 billion.

In all, total income rose by 24 percent to R14,4billion

The total assets of Sanlam rose by 18 percent to top R60 billion for the first time.

COMPANIES

Sanlam's income jumps 27%

BDAY 28/10/92

ANDREW KRUMM 58

ASSURER Sanlam has posted a 27% increase in income to R14,4bn for the year to September from R11,6bn in 1991, says CE Pierre Steyn.

Releasing the group results yesterday, Steyn added that the assurance giant had paid out a record R5,88bn in policy benefits, representing a 38% increase over the R4,26bn received by policyholders in 1991.

He said total premium income broke through the R10bn barrier for the first time, despite weak economic conditions which made marketing difficult and encouraged early termination of policies.

The biggest gains in premium income were made in the group benefits sector, where income increased by 42% to nearly R4,1bn from R2,9bn last year.

Steyn attributed this to a significant increase in the number of pension funds placing investments with Sanlam, as well as meaningful growth in provident funds administered for trade unions.

Individual premium income rose to R6,3bn from R5,3bn in 1991. Investment income increased in unfavourable conditions to more than R4bn against R3,4bn last year.

"With investment returns under considerable pressure, Dr Japie Jacobs's tax proposals on the taxing of life assurers have come at an opportune time." However, the proposals on pension benefits required a great deal more work and discussion.

The market value of the assurer's assets was more than R60bn in September, compared to R50,8bn last September.

"Shares represent 49% of Sanlam's assets, fixed property 12%, stocks and loans to the public sector 18%, other interest-bearing instruments 15% and fixed and current assets 6%."

He envisaged a difficult year ahead, and if the proposed scrapping of the sixth schedule of the Income Tax Act materialised, assurers would be able to satisfy their clients' financial needs by means of attractive product adjustments, Steyn said.

Sanlam's premiums top R10bn

(58)

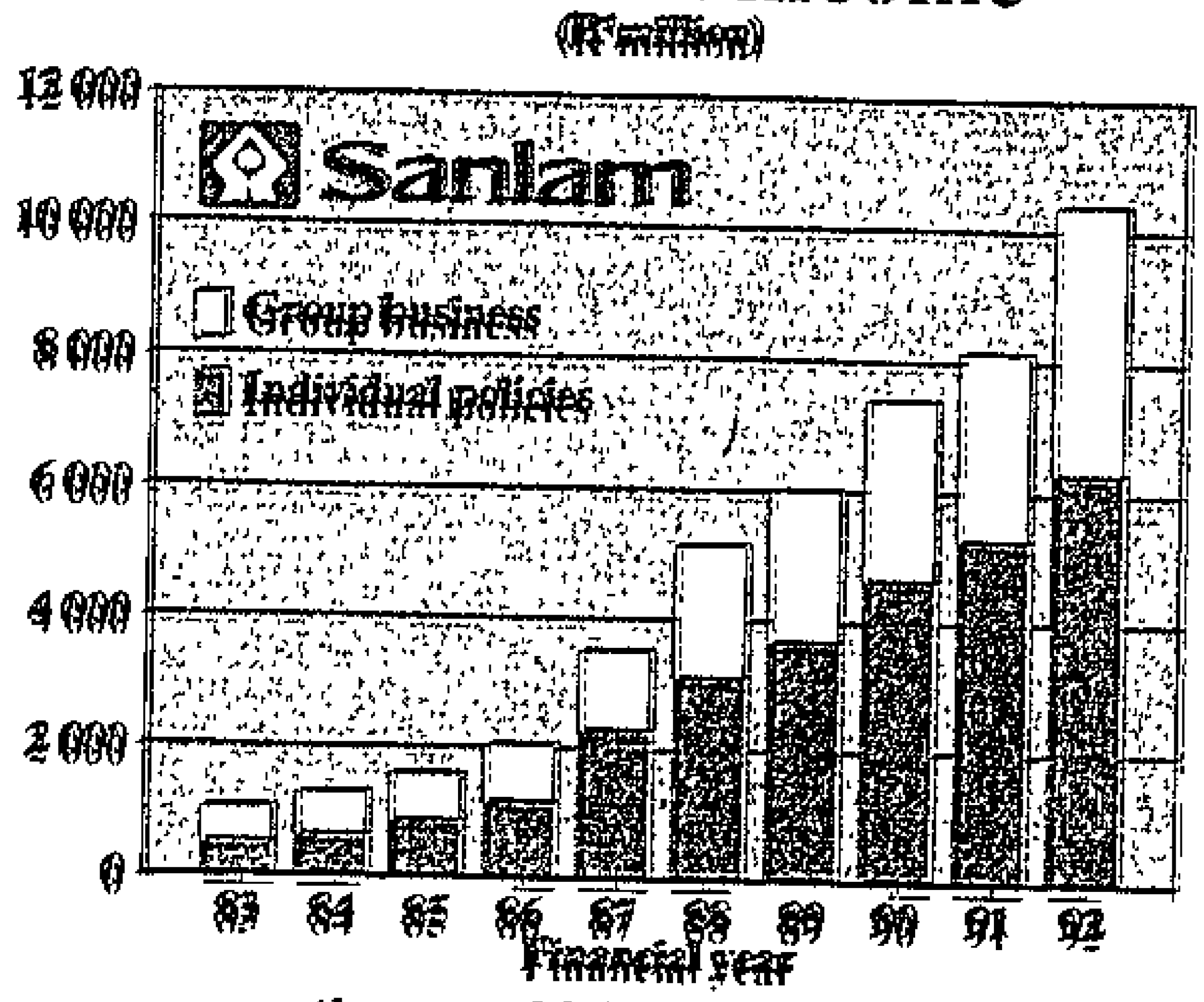
CT 28/10/92

By AUDREY D'ANGELO
Business Editor

SANLAM lifted premium income by 27% to a record R10,4bn in the year to September 30, in spite of recessionary conditions. And it paid out R5,8bn in benefits — an average of R3m for every working hour, and 38% more than the previous year.

Investment income rose by 17% to R4bn. This was achieved in spite of a disappointing performance by the JSE over the past year. The JSE Overall Index was 2,6% lower on September 30 than a year earlier.

Premium income
(R million)



Shares represent 49% of Sanlam's assets. GM George-Rudman said yesterday he expected its investment performance to continue to be good, "assuming an improvement in the economy, which will depend on political progress."

Rudman said most of the growth in new individual business had come from the black market. This now represented about 20% of new business.

But he admitted that inflation had played a part in the rise in premium income from both individual and group insurance — each of which were up by more than R1bn.

Higher wages pushed up group pension contributions. Individual lump sum premiums were usually inflation-linked. And most individual policyholders increased their retirement investments and life cover to make sure they would be adequate.

However, the big rise in benefit payments indicates that some policies have been surrendered early.

In a statement MD Pierre Steyn says that the weak state of the economy made marketing difficult and "encouraged early terminations of policies."

In the light of this he regards "these net increases as an excellent achievement."

Steyn points out that the increase of R2,2bn in premiums is greater than Sanlam's total premium income six years ago. "This means that in only one year premium income has grown more than in the first 68 years of Sanlam's existence. Individual premiums rose by 19% to R6,3 bn — the recurring portion by more than 17%."

Premiums paid by the group benefits sector rose by an astounding 42% to almost R4,1bn.

Merchant bank strikes investment deal

MEREDITH JENSEN

LONDON-based merchant bank Chartered WestLB announced yesterday it had acquired a 15% stake in local merchant bank Durolink, with an option to increase its holdings to 50% within the next two years.

The financial terms of the deal were undisclosed, though a Durolink executive described the figure as a "significant sum".

Chartered WestLB deputy chief executive David Gemmill said the two companies would specialise in structuring deals for SA corporations looking to invest outside the country.

Gemmill said the banks also hoped to consolidate deals with European and South American, as well as other foreign-owned, companies looking to invest in SA. "We anticipate two or three deals a year coming out of SA at an estimated $100m apiece. Incoming deals may be smaller than the outgoing deals for the moment."

Durolink MD Mike Bolton said the company had been looking for an international partner to help develop its cross-border mergers and acquisitions business.

"We have found a partner who wants to make a positive contribution and, if down

☐ To Page 2

28/10/92

Durolink

☐ From Page 1

the road capital becomes an issue, then they will be here," Bolton said.

Gemmill said the flow of trade and dividends back into SA would be highly beneficial to the country and expressed positive sentiment about SA's future.

Gemmill said while there had been concern about the political situation the consensus was that issues would be resolved.

"As countries emerge from political change there is a need to restructure and investment bankers have an important role to play in that restructuring."

Gemmill said it was important for Chartered WestLB to have a matrix of offices, relationships and investments in the world's financial centres.

"This region will continue to be very important for our business," he said.

Chartered WestLB is jointly owned by Standard Chartered Bank and WestLB Europa, and operates primarily in Africa, Europe and the Far East.

Driven by a mutual respect

BDDM 28/10/92

LAST year's winners of the Gold Award, Southern Life, believes its corporate philosphy and culture creates a working environment that is conducive to bringing out the best in all its staff.

In its 27-page submission to the Gold Award judges, Southern outlined what exactly it had brought out in its staff "given the necessary flexibility and freedom to achieve the maximum they are capable of achieving", says public relations manager Sue Snow.

In the company's benefits divsion, the Marketer of the Year was a woman, as was the winner of the Chairman's Award, and of the 24 contributors of the month, 10 were female.

"Southern is gender blind," says Snow. This is evidenced by the fact that superior-subordinate relationships within the company, irrespective of the genders involved, are characterised by mutual respect and appreciation.

"We even have two males in secretarial positions at Southern."

At the same time an increasing number of women are being appointed to positions in areas previously regarded as all-male domains.

Snow gives examples of store clerks, security guards and technicans.

Southern statistics on professional women are impressive: three out of the five full-time actuaries in SA work for the company; one of its two economists is a woman, and out of a total of 36 underwriters 27 are women.

"Since 1988, Southern has been addressing the need for improved communication and enhanced relationships in the workplace via a specially developed programme called Equity," says Snow.

The programme covers differences in perceptions between cultural and religious groupings, between management and non-managerial staff, as well as between men and women.

Snow says this gives the 260 participants, evenly split between men and women, the opportunity to exchange ideas and share insights, beliefs and values.

Southern also looks after its employees through an employee care programme which provides staff with a 24-hour service to help them with financial-related dilemmas as well as drug and alcohol abuse, bereavement, depression, divorce, health, stress, suicide, violence, personal growth and personal relationships.

At the top in Southern Life: from back left, Margaret Stevenson (corporate actuarial), Jennifer Preiss (legal and tax services senior manager), Brenda Doyle (assistant GM), Virginia Ogilvie-Thompson (Southern Foundation executive director), Trish Acton (computer audit senior manager), Ann Roux (employee benefits senior manager.

Interest margins give FNB the edge

BDM 29/10/92 (58)

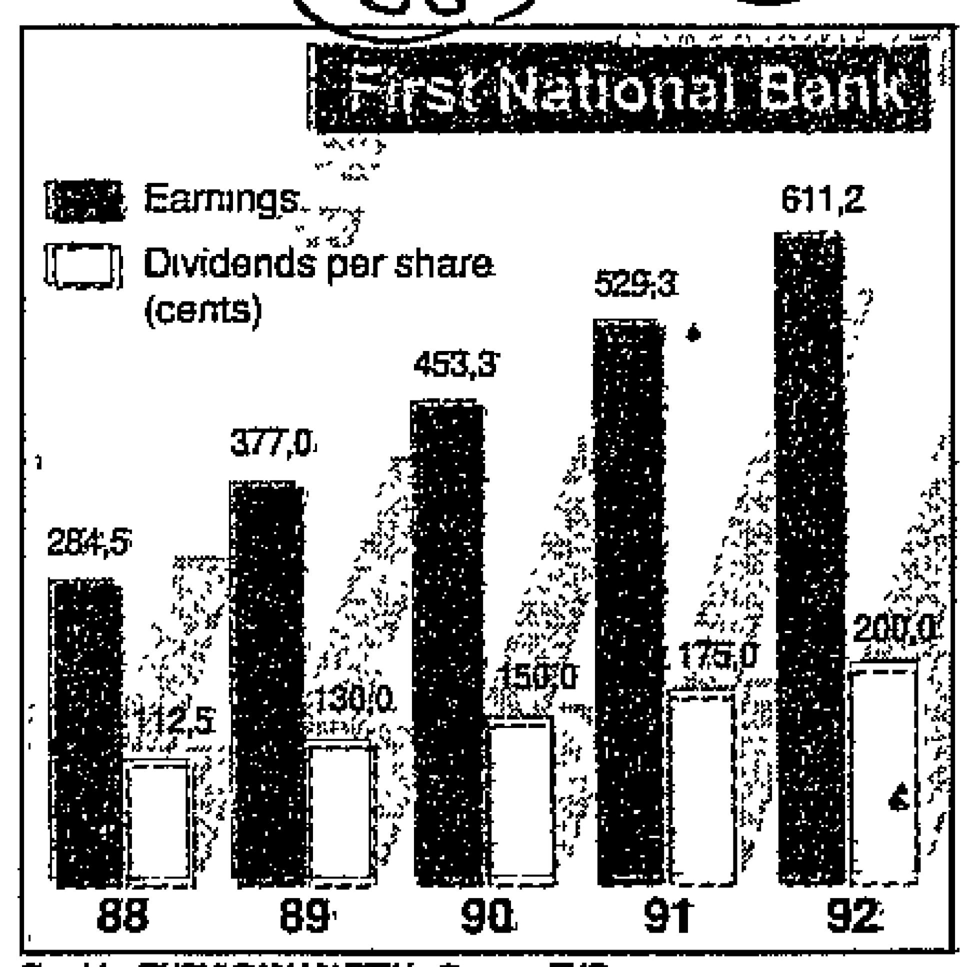
GRETA STEYN

FAT interest margins helped FNB defy the recession and post a 15,5% increase in earnings per share to 611,2c for the year ended 30 September 1992.

The rise in eps was at the bottom end of analysts' predictions as the bad debt charge was higher than expected. They nevertheless described the results as a solid performance as earnings kept pace with inflation.

Earnings were diluted by the increase in the number of shares after the rights issue in March. The rise in net income before extraordinary items was 24,4%. A dividend of 200c a share was declared (1991: 175c).

FNB's performance reflects fat interest margins resulting from a combination of the monetary policy environment and the bank's reading of developments in the money market. Senior GM Viv Bartlett said expectations of falling interest rates had benefited banks by triggering reductions in deposit rates. The cost of funding had therefore fallen faster than the bank's interest earnings. Reserve Bank Governor Chris Stals's policy to keep interest rates positive in real terms had been good for margins but that had not been the only factor. Asset and liability management was a crucial factor with the bank's return



Graphic: RUBY-GAY MARTIN Source: FNB

on assets the highest in the sector (1,16%).

But the benefit of healthy margins was tempered by a 32% surge in the bad debt charge to R347m. Bartlett said the bank had budgeted for a fall in bad debts, but it had been compelled to take a conservative view as the economy had not yet shown any sign of revival. All the bank's subsidiaries were providing evidence that the borrowing public was in distress.

Also eating into earnings was the high operating expenditure (up 20,2%). Bartlett

☐ To Page 2

FNB

BDM 29/10/92. (56)

said the rapid increase was largely the result of branch automation. Installation of "state of the art" automatic processing required spending on electronic hardware.

Further pressure on costs had come from the bank's expansion into Botswana. Organically, costs were rising at 16%-17% per year. Although the demand for credit was generally weak, aggressive marketing of home loans had pushed total advances up by 14,2%. Bartlett said the bank would not specifically target low income home loans until it could be sure there was no danger of a bond boycott.

Extraordinary items of R27m were charged against taxed income (R25m to an independent trust to promote social upliftment and R2m as the financial rand premium on the acquisition of the Botswana subsidiary). Asked about a possible finrand premium if UK merchant bank Henry Ansbacher was purchased, Bartlett said he could not comment other than to say discussions on the acquisition were proceeding. The group is exceptionally well capitalised at 9,8% of assets, compared with the legal requirement of 5%.

FNB earnings buoyed by fat interest margins

ST 29/10/92
(68)

From GRETA STEYN

JOHANNESBURG. — Fat interest margins helped FNB defy the recession and post a 15,5% increase in earnings per share to 611,2c for the year ended 30 September 1992.

The rise in eps was at the bottom end of analysts' predictions as the bad debt charge was higher than expected. They nevertheless described the results as a solid performance as earnings kept pace with inflation.

Earnings were diluted by the increase in the number of shares after the rights issue in March. The rise in net income before extraordinary items was 24,4%. A dividend of 200c a share was declared (1991: 175c).

FNB's performance reflects fat interest margins resulting from a combination of the monetary policy environment and the bank's reading of developments in the money market.

Senior GM Viv Bartlett said expectations of falling interest rates had benefited banks by triggering reductions in deposit rates. The cost of funding had therefore fallen faster than the bank's interest earnings.

Asset and liability management was a crucial factor with the bank's return on assets the highest in the sector (1,16%).

But the benefit of healthy margins was tempered by a 32% surge in the bad debt charge to R347m. Bartlett said the bank had budgeted for a fall in bad debts, but it had been compelled to take a conservative view as the economy had not yet shown any sign of revival. All the bank's subsidiaries were providing evidence that the borrowing public was in distress.

Also eating into earnings was the high operating expenditure (up 20,2%). Bartlett said the rapid increase was largely the result of branch automation. Installation of "state of the art" automatic processing required spending on electronic hardware.

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(3) General

B. Day 4/11/85

Jobs hunt to avoid selling land

Cash slump drives farmers to cities

LINDA ENSOR

FARMERS are heading for the cities in increasing numbers to try to stave off financial ruin.

Piet Gous, GM of the National Maize Producers Organisation (Nampo), says more farmers are looking for city work to avoid selling their farms and leaving the land for good.

Contrary to some reports that the drift from the land is accelerating, Gous believes relatively few farmers — "much less than 10%" — have moved permanently to the cities since 1982, when the drought became serious.

"Very few farmers have left the land because of the massive loan programme, reduced interest rates and production credit available to them," he says.

He says it is a buyer's market and farmers cannot obtain good prices if they sell. The commercial value of farms has dropped in real terms by between 20% and 40% compared to 1982.

Spokesmen for Transvaal farming co-operatives point to the growing number of liquidations as proof of the financial pressures on farmers.

Most of those going under are small-to-average-sized farms, says one, with small creditors forcing the liquidations.

A spokesman for the South Western Co-operative — an area hard hit by the drought — confirms that farmers there are temporarily leaving their farms to get work in the cities.

Farmers working in the cities sometimes let their farms to neighbours while they are away.

In other instances, especially in the Northern Cape, the farms are abandoned until the drought breaks, says Gerrie Smit, of the South African Agricultural Union (SAAU).

Another trend is for farmers to sell portions of their farms to neighbours to settle debts.

Gous believes the trend is towards greater concentration in farm ownership, with small farmers selling out to bigger farmers.

butable to: the group
— Outside

BUSINESS

Future Bank to channel R30m into loans for low-cost housing

B'Day 29/10/92

(58) (123) (128) (629)

PETER GALLI

FUTURE Bank would channel R30m into loans for the low-cost housing market over the next five years, marketing GM Philip van den Heever said yesterday.

The IDT would initially provide about 70% of the finance at an interest rate that took notice of the risk factor. However, this level of funding could decrease to about 15% over the period, with the interest rate dropping as the bank assumed more risk, he said.

The package was tailored to enable employers to assist with the provision of housing for lower earning staff without having to give massive financial guarantees for loans.

"Loans will be granted of between R3 500 and R12 500 for a three-year period. However, the employee, employer and contractor each have to place 10% of the loan amount with us, which will be put in a 32-day notice account and accrue interest at the going rate over that period."

In addition, the buyer would give a deposit of 5% of the purchase price. To reduce costs, no mortgage bond would be granted over the loan, which could be rolled over after the initial three-year payment period.

However, the fixed rate of interest for the loan would be individually determined by the level of risk, the stability of the person and the nature of his occupation, he said.

"The minimum rate will be 24,25% as small loans are enormously expensive to administer. Given the short duration of the loan and other short-term interest rates, we believe this is fair," Van den Heever said.

It would also be mandatory for the repayment amount, which worked out at about R41,50 a month per R1 000 borrowed, to be debited from the company's bank account. If the employee left his employ, the employer would still be liable for his 10% surety.

To get the scheme off the ground, companies would need a minimum of five staff members to participate.

Only certain suppliers would be allowed to build the homes and these were being approved at the moment.

Alwyn le Roux of consulting engineers V3 said the proposed systems would be judged on lifespan, weather resistance and suitability.

Tanzania ripe for SA exports

(128) (338)

PETER DELMAR

THE first SA trade mission to Tanzania, which returned last week, has described its visit as a breakthrough for exporters.

B'Day 29/10/92

SA Foreign Trade Organisation spokesman Andrew Maggs said the 12-member delegation had met members of the formerly hostile country's business community, many of whom were interested in doing business with SA.

Industrial Commodities shareholder Peter Wales described Tanzania as a "gold mine" waiting to be exploited.

"This is so, despite the maintenance of official sanctions," he said.

BUSINESS Delegatesfrom 15 countries in response to growing trade links

High-powered African bankers arrive

Sowetan 29/10/92 - (58)

■ **Trade ties prompt visit by French-speaking financiers:**

By Joshua Raboroko

A GROUP of high-powered bank executives from French-speaking African countries arrived in South Africa this week to establish contact with local bankers, business and political organisations.

The visit is in response to the trade that is beginning to take place between South African companies on the African continent.

Major banks

Delegates include presidents from most major banks in the French speaking countries and will also familiarise themselves with local banking systems.

Representing 39 different institutions, the delegates come from 15 countries, including Burkina Faso, Burundi, Cameroon, Cote d'Ivoire, Djibouti, Madagascar, Rwanda, Niger, Chad and Zaire.

The group is being brought to South Africa under the auspices of the Centre International de Formation de la Profession Bancaire (CIFPB) based in Orleans, France.

CIFPB is an international banking institution, which was formed by French banks to meet their specific training and consulting needs.

It provides education for over 60 000 people annually and has developed a number of training centres.

A spokesman for the group said that the group was scheduled to meet representatives of the Development Bank of Southern Africa, African Bank, Nedbank, Government officials and the ANC.

During their week-long visit they will hold talks with leaders in Cape Town and Natal before flying to Maputo on November 1.

NEWS Insurance company makes positive move

MD's giant step

Sowetan 29/10/92 (58)

By Joshua Raboroko

IMPORTANT MILESTONE Major black-controlled insurance company rockets into SA business firmament:

INSURANCE Induna Mr Khehla Mthembu has been appointed managing director of the first major black-controlled African General Insurance Company.

The company has been formed by the Foundation of African Business and Consumer Services (Fabcos) and one of its satellites, insurance brokers Afsure (Pty) Ltd.

Backed by Futurebank and two insurance companies, South African Eagle and Aegis, the newly formed company has been described as a giant step for black advancement.

Mthembu, who left his position as managing director of Afsure, said his new job was an important milestone in his career as an insurance personality.

Afsure and Fabcos hold majority shares with Business Personal Insurance in the company, while SA Eagle and Aegis acquired 24,5 percent shares.

Mthembu said: "When forming the company we did not want to be small players in the insurance industry.

"We were thinking big and wanted to make millions of rands. We did not want to be part of the informal business sector."

Futurebank's chairman, Mr Jabu Mabuza, said the company was a giant step for black economic empowerment.

Afsure board member Mr Alan Hackett has been appointed acting deputy managing director, while deputy managing director Mr Japie Moropa has been given added responsibilities.

Golding expands despite recession

■ Company is recruiting people to service key areas:

Sowetan 30/10/92. (58)

PAM GOLDING Properties has embarked on a drive to recruit professional estate agents to service key areas in the Transvaal.

Director Mr Ronald Ennik said this was linked to the company's expansion in the greater Johannesburg and Pretoria regions.

He said: "Factors contributing to this expansion include the collapse of small estate agencies which have been unable to survive the recession".

Ennik said the company was looking for established professionals.

"We are also interviewing candidates who are successful in other sales-orientated environments, with a view to training them into residential sales specialists for the company.

"Service excellence, integrity, dedication and a sensitivity to both buyers' and sellers' requirements are fundamental to the way we work," he added.

'Change needed in financial sector'

HILARY GUSH

ADEQUATE capitalisation, improved competition and investor protection formed the basis for structural change in the financial sector, Absa CE Piet Badenhorst said yesterday.

At the Financial Mail's investment conference in Johannesburg, Badenhorst said in terms of international comparisons, SA financial institutions were generally undercapitalised.

He said that by January 1995, SA banks would have to top up their capital from the 5% minimum requirement to the international minimum standard of 8%.

Badenhorst foresaw a move towards "federal banking" in which the subsidiaries of a financial conglomerate could be individually regulated; and where each subsidiary would be adequately capitalised.

This system would mean that only banking institutions would be afforded the facility of recourse to the central bank as lender of the last resort. BDAY

He said the authorities were bound to follow international practice in respect of capital adequacy rules applying to banks and other credit institutions. 30/10/92

Badenhorst predicted increasing competition between financial institutions, but said the number of players in the market would decline as the number of mergers, acquisitions and consolidations mounted. Risk management systems would constitute an essential, albeit expensive, investment given the increased risk profile of financial markets.

On the subject of investor protection, Badenhorst said: "Although it is incumbent on the regulatory authorities to go out of their way to protect investors in general, they can in principle only guarantee the deposits of small investors at banks. (58)

"How this protection should be given, if at all, is still a debated issue internationally."

Fidelity Bank improves by a strong 21%

(58) B/DAY

SHARON WOOD

HIGH interest income and a large increase in advances saw Port Elizabeth-based Fidelity Bank's earnings a share rise by a strong 21,5% to 93,7c in the year ended September from 77,1c. 30/10/92.

Interest income jumped by 28% to R24,7m (R19,3m) and advances by 28,2% to R513m (R400m).

The bank increased dividends by 18,8% to 28,5c a share from 24c.

MD Jules Langenberg said bad debts were lower then the general industry experience and were much in line with the level expected. They grew by 45,5% to R5,6m (R3,8m) during the year.

The bank retained R6,6m of its income, compared with R3,7m previously.

Total assets expanded by 36% to R582m from 428m. Langenberg said the main operating strength lay in the general banking division which, whilst bearing the brunt of the economy's recessive conditions, was able to meet or exceed all targets set for the year.

"The result is a very satisfactory return of 1,94% on average assets, a figure which I am sure will lead the industry at this time."

He expected similar future earnings growth.

COMPANIES

BoE posts 14% rise in earnings

B/DAY 30/10/92

SHARON WOOD (58)

BOARD of Executors announced yesterday it had increasing attributable earnings by 14% to R13,5m in the year ended September from R11,8m the previous year.

MD Bill McAdam said this strong performance, at a time of economic and political uncertainty, was encouraging and augured well for BoE's future as a niche player in the financial services market.

A 39% rise in issued ordinary shares, following the conversion of 3 573-million loan stock units, diluted growth in earnings a share, which were up only 4% to 97c from 93c. Dividends rose by 5% to 40c a share from 38c. The good inflow of new business pushed assets under administration up by 22% to R4,7bn, he said. "While activities in the property division slowed down the planned rate of growth, all the other divisions performed very well," he said.

The BoE Merchant Bank had achieved excellent results and the corporate finance division had been involved in a number of major transactions, including the Pep Group restructuring, Abcon listing, Fidelity Bank rights offer and acquisitions by the Royal group. Bad debts in BoE's mortgage scheme were negligible and in the merchant bank were non-existent.

Financial controls to be probed

BDAY 30/10/92 (58)

SHARON WOOD

THE Finance Department yesterday announced it had set up a committee to investigate the regulatory control structure of all financial institutions in SA.

Deputy Finance Minister Theo Alant said the committee had been formed in light of the Jacobs committee's findings and the Reserve Bank's expressed wish to reappraise its relationship with the registrar of deposit-taking institutions.

The Jacobs report, released last month, proposed that either a single financial regulation policy board be reponsible for the co-ordination of financial institutions and two separate authorities should control supervision; or that the existing statutory function of the Financial Services Board be extended.

At the Reserve Bank's AGM, Governor Chris Stals questioned the wisdom of the Bank's relationship with the registrar in view of the Bank's involvement in several controversial issues recently. He said the credibility of the Bank could be undermined by its involvement in bank supervision and that a perceived moral obligation to provide financial assistance to institutions under its supervision was likely.

Alant said the committee would urgently consider the recommendations made by the Jacobs committee and would then make recommendations to government.

"An effective and safe financial services industry plays an extremely important role in the economy of any country, and adequate financial supervision is needed to ensure the stability of the financial system."

The chairman of the committee would be Judge D A Melamet and its members would be Finance Department deputy director-general R Burton, Deputy Reserve Bank Governor Chris de Swardt and Council of Southern African Bankers executive director Tony Norton.

Alant said the committee would be requested to submit its findings and recommendations to government as soon as possible because an effective regulatory structure was a priority.

In view of the new investigation, the Financial Services Board's term of office — due to expire in December — would be extended to June next year. This would give government the opportunity to consider the committee's recommendations and decide on the composition of the board at that time.

He stressed that the investigation would not automatically result in the integration of all supervisory structures but said it should, however, finalise a policy-making structure to ensure a market-orientated, risk-based approach to all financial regulation and supervision.

Ties with Francophone countries established

BDAY 30/10/92.

SHARON WOOD

TENTATIVE business ties with Francophone countries were established for the first time this week when a 27-man banking delegation from 22 countries met a range of senior SA banking, business and political players.

Bankers from Burkina Faso, Burundi, Cameroon, the Ivory Coast, Djibouti, Madagascar, Rwanda, Niger, Chad and Zaire yesterday were confident their visit would soon be followed by a trade mission from the Francophone region. The governments of the countries had given their blessing to the mission.

One banker said the delegation was interested in setting up communication with banks and commercial businesses.

He said the delegation would like to enter joint ventures with SA businesses at a later date, but exchange control was a problem. The delegation wanted to see how to approach exchange control on a monetary and political level.

A banker said they had held discussions with the ANC and were reassured things would progress solidly.

President of the executive club of Francophone African bankers, Mohamed Aden, said it would be premature to call the visit a total success.

"SA has its own political, social and economic problems which have to be solved before it can start giving financial assistance to the rest of Africa."

However, he added, the banks visited by the delegation were very impressive because of their organisation, facilities and earning capacity.

Merger with AHI could be on cards

SHARON WOOD

A MERGER between Sacob and the Afrikaanse Handelsinstituut (AHI) could be on the cards.

Retiring Sacob president Hennie Viljoen announced in Durban that the option had been put on the table, and working groups would be set up to discuss the proposal. BIDAY

He was aware of the cultural sensitivities, but business would not be able to take on challenges in the future on a fragmented basis. 30/10/92

Sacob and the AHI had developed a cordial and co-operative relationship in the recent past.

Eliminating duplication and increasing cost efficiencies would be among the major benefits of a merger.

The AHI said yesterday the possibility of merging with one or more existing employer organisations was not on its agenda at this stage. The issue would be discussed at the AHI's full executive committee on November 24.

SANLAM FM 30/10/92

Termination problems

(58)

The good news at Sanlam is that premium income in the year to September 30 rose 27% and went through the R10bn barrier. The bad news is an increase in the lapsing rate. This is not published in the financial statement but deputy chairman and CE Pierre Steyn says it is lower than the industry average.

The industry is reluctant to provide information on policy lapsing and official statistics are 18 months out of date. The Life

continue ->

Offices Association has a committee considering ways of speeding up the reporting process.

Steyn says Sanlam has given branches instructions to pursue any lapse and explain to policyholders there are alternatives to early termination — including reducing premiums (and benefits) or retaining life cover while surrendering investment benefits.

Steyn is concerned that branch managers of banks, which have accepted policies as collateral, are not always aware that these options are available.

For the rest the news is good. Despite slack conditions on the JSE, investment income rose by 17% to just over R4bn. Total assets went to just over R60bn, an increase of 18%. Individual premiums rose by 19% to R6,3bn, with the recurring portion rising 17%.

Sanlam paid out R5,9bn in policy benefits — 38% more than in the previous year. That works out at R3m for every working hour during the year. The most interesting statistic is a 42% increase in group benefit premiums to R4,1bn. Steyn says trade unions are increasingly influencing where their pension and provident funds are administered and Sanlam has formed a sound relationship with many of them. "They are hard-headed and know what investment returns mean. Since 1982, the average increase in investment income has been 25% and total asset growth averaged 28%."

Steyn says any perception that Sanlam was on the other side of the political fence to trade unions has been dispelled. ■

FM 30/10/92 (58)

NBS

Less business on margins

As an analyst notes: "Banks earn one thing and show another." NBS's 1992 interim earnings are difficult to analyse as little income statement information is provided. That said, the results appear impressive, with a 17% EPS rise, despite narrower margins and increased bad debt provisions.

The narrower margins are evident, with pre-tax profit rising 5,2%, even though advances jumped 24% to R8,2bn. Admittedly, one reason for this disparity relates to an increase in bad debt provisions. Management believes provisions are now adequate to cover possible losses.

However, finance director Mark Farrer agrees margins have narrowed, "as the mortgage rate has become the focal point of bank competition, having an adverse impact on net interest margin." NBS's exposure to mortgage income is high, compared with the large banking groups.

The advances surge resulted largely from increased activity in the corporate banking division (albeit off a low base), according to Farrer.

However, the pre-tax increase also came on the back of higher fee income, particularly from project finance, following management's strategy of reducing NBS's dependency on margin business.

NARROWER MARGINS

Six months to	Sep 30 '91	Mar 31 '92	Sep 30 '92
Net income before tax (Rm) ...	46,3	43,7	48,6
Attributable (Rm) ..	30,9	42,4	38,5
Earnings (c)	49,7	65,9	58,2
Dividends (c)	15,0	25,0	17,0

Farrer adds that insurance activities were also behind the profit improvement. Firstly, the short-term business, a wholly owned subsidiary, recorded improved results thanks to "better" weather conditions, meaning there were no claims relating to floods and so on. Secondly, commission income rose following growth in insurance broking activities.

But the 5,2% increase at pre-tax level does not explain the 17% EPS hike. This results from a lower tax rate and a surge in income from associates, up to R5m compared with R1,8m in the previous period.

Two factors account for the lower rate. First, NBS has increased its investment in preference shares, on which dividend income is tax free. Second, Farrer says last year's merging of NBS Bank with Natal Building Society enabled offset of allowances in the corporate banking division against the earnings of the savings and loans division.

However, increased income from associates, coming from higher activity at both life assurer Norwich Life and the French Bank of Southern Africa, is more significant. But

FM 30/10/92 (58)

the figures exaggerate the improved fortunes at the associates as this is the first time French Bank's results have been included.

In fact, the shares issued to finance the French Bank purchase were included in the previous period's EPS calculation, though the new acquisition's results were excluded, suggesting results between the two periods are not fully comparable at EPS level.

Despite this, NBS performed creditably, indicating there is potential for a narrowing between its 8,9 p:e and the sector's ratio of 12,5.

William Gilfillan

FM 30/10/92 (58)

MUTUAL & FEDERAL

FM 30/10/92

Building reserves

(58)

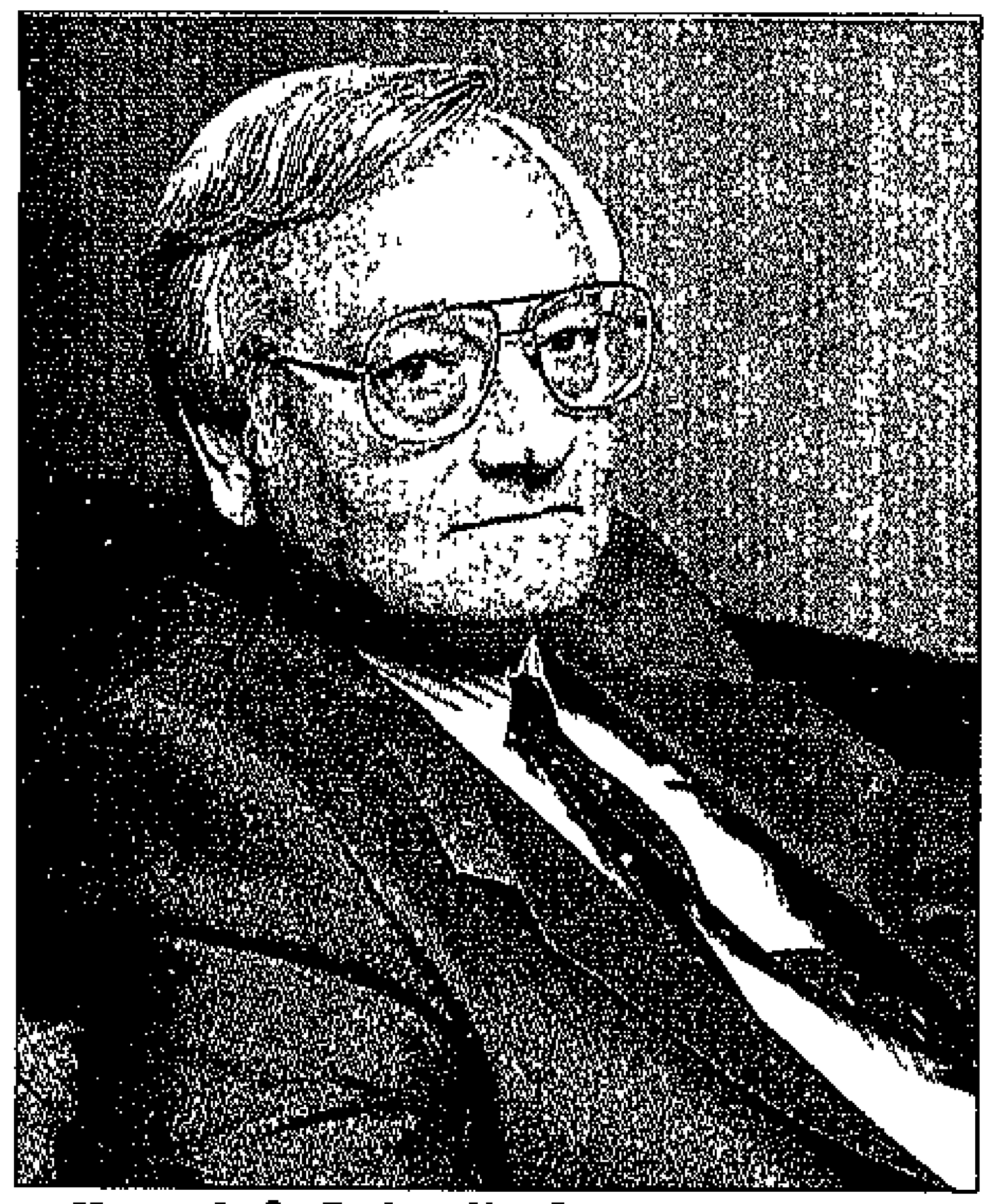
Activities: *Short-term insurance.*
Control: *M&F Investments 79%.*
Chairman: *G A Macmillan; MD: K T M Saggers.*
Capital structure: *46,9m ords. Market capitalisation: R1,5bn.*
Share market: *Price: R32,25. Yields: 2,1% on dividend; 9,2% on earnings; p:e ratio, 10,9; cover, 4,4. 12-month high, R36; low, R23,25. Trading volume last quarter, 241 000 shares.*

Year to Jun 30	'89	'90	'91	'92
Total assets (Rm)	1 369	1 764	2 091	2 519
Solvency ratio (%)	115,1	140,0	126,7	146,5
Underwriting pft (Rm)	54,0	11,6	19,0	52,5
Investment inc (Rm)	91,0	109,7	126,4	145,3
Pre-tax profit (Rm)	143,8	121,3	145,4	197,8
Earnings (c)	195	190	232	298
Dividends (c)	30	40	52	68
Net worth (c)	1 684	2 251	2 751	3 431

There appears to be a contradiction in Mutual & Federal's 1992 annual report between the sentiment in the chairman's statement and results reflected in the accounts. Chairman Alistair Macmillan bemoans the difficult trading conditions and competition, putting most credit for the group's remarkable 176% increase in underwriting profit to "the absence of any major natural catastrophes." He also warns of the increase in fire and crime losses in M&F's commercial and industrial accounts, and adds that the "favourable" weather-related claims experience cannot be expected to continue.

Absence of hail and flood claims has certainly helped the sector but M&F has shown it has the resources and management ability to get through tough times. It was the only short-term insurer not to post underwriting losses during 1990 and 1991, and has been putting aside significant amounts — R123m in its statutory contingency reserve and an additional R60m in a newly created catastrophe reserve — against a future rise in disaster claims.

In short, it has shown astute management of the underwriting cycle compared to the rest of the industry. As a long-term investment, M&F can be compared to the life offices in the sector rather than its more volatile short-term competitors.



Mutual & Federal's Saggers ... *rates should be increased*

Why, then, the gloomy outlook? Perhaps M&F is clearing the ground for some higher-than-inflation rate increases, at least on the commercial and industrial sides. MD Ken Saggers makes no bones about this, saying that on pure arithmetic there should be increases, in broad terms, of about 20% in the commercial and industrial sectors. The problem is what competitors are going to do. A rate undercutting war, according to Saggers, remains a concern in the sector.

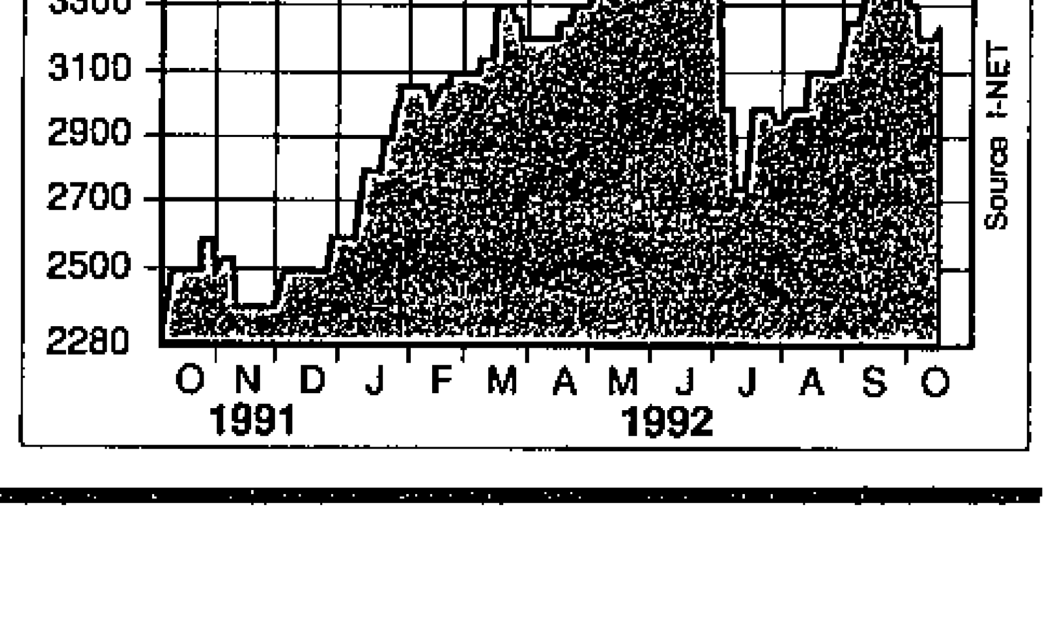
Yet M&F's outstanding results, generous dividend policy, and the strong performance of the share make it hard to be sympathetic. In the present economic climate a 28% increase in earnings is good. Dividends grew 31%, in line with the average dividend increase since 1986.

The share price has appreciated 41% over the past year, despite the recent cooling of the market. At R32,25 it trades at a small discount to net worth, which, with latest results, suggest upside potential, certainly in the medium term.

One aspect, though, does seem to indicate the coming year might not be too rosy. While investment income grew a reasonable 15% over the year, the drop in equity markets is putting solvency margins in the sector under pressure. M&F's margin, 146,5% at year-end, has dropped to around 120%.

While way above the required 15% solvency margin, the recent drop has obviously cost the group a lot of money, but one suspects there must be a lot of investment portfolio reshuffling going on. Saggers won't comment on this. While M&F's investment income increase could be lower in the coming year, the group should still outperform most competitors.

Shaun Harris



FINANCE FM 30/10/92.

Eurolinks

(58)

A number of off-shore banks have strengthened their ties with SA companies. Banque Nationale de Paris, Dresdner Bank and Banque Bruxelles Lambert have increased their stakes in the SA-based Commercial Bank of Namibia (SA), which will change its name to International Bank of Southern Africa-SFOM. MD Franz Kipping could not provide details which, he says, will be announced soon.

And Chartered WestLB (CWB), an international merchant bank, based in London, has formed a "strategic alliance" with DuroLink, a company specialising in structured and project finance.

CWB will take a 15% stake (for an undisclosed sum) in DuroLink, rising to 50% over the next two years. CWB deputy CE David Gemmill will join the DuroLink board.

CWB, owned equally by Standard Chartered and German-based WestLB (Europa), advises on mergers and acquisitions and on large capital projects.

DuroLink was formed three years ago, following a management buyout by the corporate finance wing of Duros Bank. It is not a deposit-taking institution.

DuroLink MD Mike Bolton says CWB has representatives in 15 sub-Saharan countries, which will give his company access to a cross-border network. The benefit to CWB says Gemmill, is that it will add to its "matrix of relationships in key centres of the world." ■

OLD MUTUAL (58) FM 30/10/92

Terminological trap

A few questions remain regarding the scam which Greg Blank and his associates worked against Old Mutual. It is even possible that Old Mutual will end up with slightly more petty cash than before, though at the cost of considerable pain.

The mechanics of the scam were simple, once the wrong people were in the right

continue →

FutureBank boosts mass housing in SA

Sowetan 30/10/92. (58)

By Joshua Raboroko

■ TAILORED SCHEME Lower income groups are given even chance:

WITH THE ENTRY of FutureBank into the affordable housing finance market, the critical issue of mass hous ing in South Africa is set to receive a tremendous boost.

A new, and very necessary, attitude to home loan finance is evident in the bank's specially tailored scheme which enables employers to provide their lower-income staff housing loan facilities.

The scheme was announced by FutureBank's general manager Mr Philip van der Heever at a Press conference in Johannesburg this week.

He said: "It is becoming increasingly obvious that the availability of finance, rather than the actual supply of land, is the major obstacle facing the current housing crisis.

"Our scheme is designed to provide these funds to the employee, without calling for exorbitant guarantees from employers."

As with many of the other services offered by the bank, the methods of lending was unconventional and had been moulded to the needs of the market, involving the commitment of the employer, the contractor and the customer.

The scheme is intended to cover housing costs up to approximately R12 500, with loans repayable over a maximum period of three years.

Funds will be made available on a loan basis without the expense of mortgage bond registration. However, some form of long-term tenure over the site will be mandatory.

Currently living in shacks

According to experts, the housing shortage is about 2,2 million homes and it appears that many of those people currently living in shacks are perfectly capable of meeting a reasonable monthly instalment.

Extensive research, both locally and internationally, has shown that long repayment periods are inappropriate to the low income sector and it is more important to provide a revolving facility for the upgrading of accommodation in the future.

Van den Heever said: "Our plan caters for this admirably, as the facility can be 'rolled' after three years to enable the employee to expand his basic home."

Another serious predicament cited by Van den Heever which faced the affordable housing market was the poor construction of homes.

"Low cost should not necessarily mean low quality, however, and we are most impressed with some of the innovative building systems currently on offer.

"We are therefore insisting that contractors have their systems vetted by a dedicated firm of consulting engineers prior to being admitted into our panel, thereby protecting buyers' interests in the long term," he said.

He said the bank aimed to provide loans which were suitable and appropriate to the needs of the borrower

"We hope to be able to provide more South Africans with the security and comfort of a home through our new housing loan scheme," he said.

places as dealers on the JSE and as corrupt portfolio managers at the Cape Town-based life assurer. The shares concerned were bought at prevailing prices, sold to Old Mutual at rates inflated so minimally as to attract little initial attention and the proceeds eventually sent to London. Over a period, this provided more than R10m of "profit" for the criminals.

Most of this is now back in the country or en route. Some will stick in the Reserve Bank which has to be recompensed for its time and effort in tracking and freezing the money. But Old Mutual will probably get most of it back. In addition, some of those who fled have left assets in SA, which gives Old Mutual scope for civil proceedings. To Old Mutual R10m is almost lunch money — it has nearly R90bn of assets — but it was the biggest scandal to rock the assurer and management is determined to pursue the last cent.

The question is, would that money have been created (and largely recovered) without the activities of Blank and his cohorts? It is impossible to say where normal market forces would have driven the prices of the shares involved without their manipulation. Some Old Mutual managers talk of the sums involved as "notional" but that leads to a terminological trap. If there was a notional R10m profit (of money which would probably not have been created in the first place), then there has also to be a notional loss if less than the full amount comes back.

But academic questions aside, Old Mutual did everything possible to salvage the situation. Two of its managers, David Schapiro and Marco Celotti, have fled the country and escaped jail but this, says Old Mutual's chief operating officer Gerhard van Niekerk, was because "an over-zealous press" alerted them to the fact that an investigation was starting. "They were certainly not tipped off by anyone at Old Mutual." It was the assurer which, with the JSE and Cape attorney-general Frank Kahn, set the investigation in motion. "I've taken a lot of pain but the Mutual has nothing to be ashamed of," says Van Niekerk.

Within hours of instigating the inquiry, Old Mutual had contacted all the pension funds it manages, to explain what had happened and to assure the trustees there would be no losses to the funds. Where it was established that funds had been allotted shares at the inflated prices, they were reimbursed for the difference.

Since Old Mutual belongs to its policyholders, it could be argued that its members lost when the funds concerned were reimbursed out of reserves (though these will now be topped up). But Van Niekerk responds: "Any prudent organisation has reserves and carries certain insurances." He would not be drawn about which reserves or insurance policies were used to reimburse the pension funds.

As for Celotti and Schapiro, they left assets behind when they fled. These have been frozen. Says Van Niekerk: "Our mistake was to advance these people to positions where they could abuse their trust." He adds that Old Mutual has 17 000 employees. "At least we acted — and promptly. There were other institutions where crimes were going on and no-one took action in time." ■

BCCI

Apportioning blame

Finely honed defence statements by, and on behalf of, the Bank of England have failed to disguise the fact that the Old Lady of Threadneedle Street was caught with its knickers down in the affair of the Bank of Credit & Commerce International (BCCI).

The verdict of the inquiry, conducted by Lord Justice Bingham into BCCI, closed by the Bank in June last year in the world's biggest banking crash, can be summed up briefly: Governor Robin Leigh-Pemberton and his team of supervisors failed. The Bingham report concedes the problems entailed in overseeing a Luxembourg-registered bank, with a web of global operations, which was accountable to no lender of last resort. It also admits the difficulties in detecting fraud and irregular lending in such an organisation.

But the report on BCCI — which was founded in 1972 and became a laundromat for drug runners (Panama's Manuel Noriega, Colombia's Medellin cartel) and terrorists (Abu Nidal) — chronicles warning signals that the Bank of England failed to follow up. BCCI may have been a free-floating international bank but its headquarters were in London.

The report finds the Bank should have been more rigorous before licensing BCCI in the UK in 1979. That was a year after the Bank of America decided to sell its 25% founding stake and two years after New York regulators barred BCCI from acquiring Chelsea National Bank because of their worries.

In 1982, a senior Bank of England supervisor said the only effective way to police BCCI was to force its boss, Agha Hasan Abedi, to incorporate the bank in the UK. A "truculent and angry" Abedi objected; the Bank retreated.

Bingham found it surprising that "no effort was made to bring the Bank's traditional authority to bear . . . The Bank was, I think, rather easily deterred."

As 98% of BCCI's business was conducted outside Luxembourg and the headquarters were in the UK, its biggest single market, the duchy asked, in 1985, if the Bank would assume full responsibility. It declined the "formidable" task of monitoring a group which traded in more than 70 countries, many with weak or non-existent banking supervision. Two years later, a "college" of eight countries' regulators was set up but was ineffective.

In 1988 — when BCCI helped move Noriega's drug money out of the US and 11 of its employees were indicted — the Bank received two warnings of fraud, one from the City of London Fraud Squad, the other from a Middle East accountant. (Three years previously an anonymous letter also contained details of malpractice.)

Neither of these produced any action.

BCCI auditors Price Waterhouse found "false or deceitful" dealings in 1989. Price Waterhouse was itself then receiving information of fraud from a BCCI insider. Matters were so bad that a US$1bn bailout by Abu Dhabi was approved by the college of regulators.

From then on Price Waterhouse uncovered more and more skeletons, from dubious loans to insiders, to $600m of unrecorded deposits. But, while the Bank held back — fearing action would stop a new $1,5bn Abu Dhabi rescue — the US authorities were moving in.

It was not until March last year — a good half decade after BCCI was visibly wobbling — that the Bank ordered a full report under the Banking Act, from Price Waterhouse. Three months later the auditing firm delivered a story so devastating that BCCI was closed.

Bingham does not seek more laws in his recommendations — unlike those that followed the Bank's last fiasco, the Johnson Matthey crash. He has, however, recommended a series of commonsense measures to lessen the chances of a recurrence — from better internal communications within the Bank, to refusing banking licences to secretive organisations, co-operation within the EC and through the Bank for International Settlements, and making auditors legally bound to provide the Bank with information.

A special investigations unit is to be set up in tandem with a legal team whose job will be to ensure supervisors can and do use their full powers under the law.

On the communications front, one particularly telling point was that the Bank was so *sang-froid* about the Price Waterhouse investigation that its head of supervision, John Barnes, was on holiday when BCCI was shut down. And, even though Barnes had left his telephone number, he learnt of the event from newspapers.

The recommendations are being implemented in full. The Bank, however, has been subjected to criticism fully matching the eloquent but effective tones of Bingham. It is accused of being too timid — this being rationalised as the Bank did not want to risk losing any legal action and so losing its "infallibility."

Others, such as *The Wall Street Journal*, note the scathing references to the Bank in the report of the US investigation presented this month by Senator John Kerry. They also raise the question of the eight appendices to the Bingham report which have not been published for "legal reasons" — suggesting a cover up because they could contain evidence to support law suits against the Bank by BCCI creditors who may see only 40% of their money, from the $1,7bn restitution

Accounting to the customers

Banks may not be getting away with murder but they have been known to lose cheques as well as inadequately control customers' accounts without incurring any penalties.

After the *FM*'s survey of bank charges (August 21, 28 and September 4) readers contacted us with complaints about the standard of service they receive from banks and what they're charged. Two of the complaints concern Standard Bank but this does not mean it is the worst offender. Our letters page often features complaints against other banks.

One reader said two cheques he had deposited were lost in transit. He was not satisfied with the bank's response that, since it acts only as an agent, it was not obliged to make good the lost funds. The reader referred to comments by Nico van Loggerenberg of the Council of Southern African Bankers. In one of our series of articles we quoted his explanation that bank charges on large cheques are higher because they expose a bank to greater risk.

The reader questioned this statement, in the light of his experience that the bank evades liability.

Standard Bank divisional GM John Holloway explained that the charges to which the customer referred — which are paid by the person who issues the cheque, not the one who receives it — are to cover the risk that the bank would "give value to fraudulently issued cheques," as well as administrative costs.

Holloway added that, in terms of a legal technicality, banks — in their capacity as agents — are not responsible if cheques are lost. He admits this is an "unhappy and unsatisfactory situation." There may, however, be a solution in sight. New imaging technology, which obviates the use of a cheque form in the processing of payments, reduces the risk of loss.

Goodwill gesture

This is still in the future; meanwhile, Holloway says: "We are sympathetic to customers' problems and assist wherever possible. Our branch tried to help the customer to obtain a replacement cheque from his overseas patient. When this failed, as a gesture of goodwill, we met half the loss incurred."

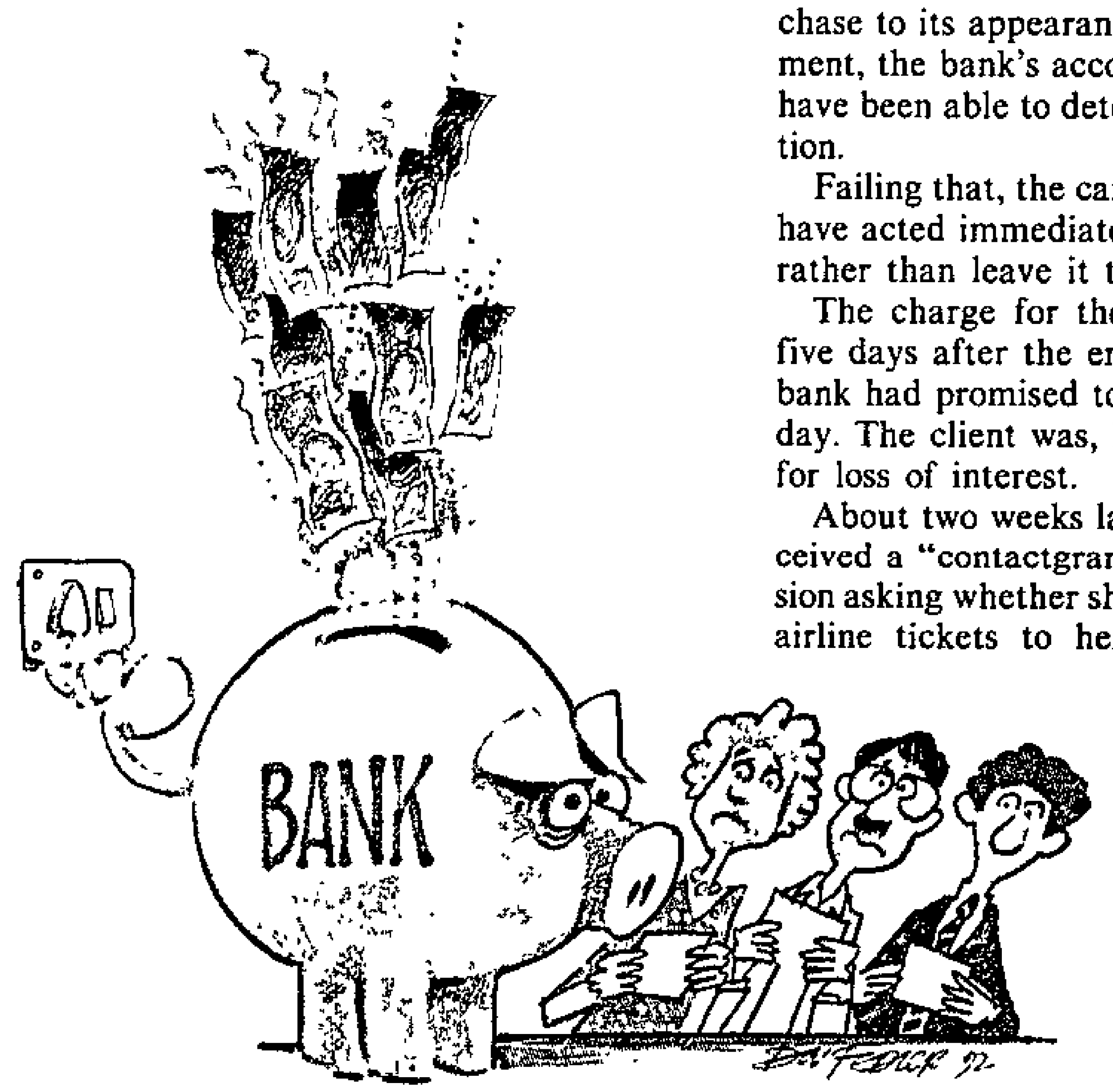
A customer can minimise his risk of loss, however, if he deposits a cheque "for collection," pays a special *ad valorem* rate of 30c per R100, and accepts that his account is credited only once proceeds of the collection are received from the paying banker. In those circumstances "it would be easier to establish negligence and establish a claim against the collecting bank for compensation," should the cheque be lost in transit. The *ad valorem* fee is payable only after the proceeds have been paid into the customer's account — if the cheque gets lost the client pays no fee.

"When a cheque goes through the normal mass central clearing system, where the processing is done by a third party, a bank may give immediate value for the cheque . . . but by using this system it is almost impossible to establish how and where in the process the cheque got lost."

The first option, however, does not offer an automatic guarantee of responsibility from the bank.

Credit card customers also feel abused. An *FM* staff member who maintains a credit balance on her credit card account was surprised, on attempting to withdraw some cash while on holiday, to be told her credit limit had been exceeded.

On further inquiry she was told it was payment for two airline tickets to Portugal that had pushed her account into the red.



Her surprise deepened because she had not bought airline tickets. It was an error that deprived her of access to savings.

She called Standard Bank card division in Johannesburg to notify it of the error and, more importantly, to request that her credit balance be immediately reinstated. The card division said this would not be possible and took the cavalier attitude that, since the error originated at a central processing centre, it — and not Standard Bank — would have to correct the mistake.

In turn, the clearing centre, Bank Settlement Plan (BSP), which does the processing of all airline tickets, said the travel agent who sold the airline tickets had supplied the incorrect card number. When asked why it did not bother to query the transaction when the name of the purchaser and that of the cardholder did not tally, employees at the processing centre said that it was common for people other than cardholders to buy airline tickets.

Standard Bank card division assistant GM Alistair Graham told the *FM* the travel agent "appeared to have captured an incorrect account number."

The International Air Transport Association owns BSP. Brian Bailey, BSP manager for southern Africa, said the error arose because the imprint made by the passenger's credit card on the sales voucher was indistinct. It was therefore incorrectly entered on the magnetic tape sent to Standard Bank Card division for further processing.

The client believes that, somewhere along the chain of events linking the original purchase to its appearance on a monthly statement, the bank's accounting systems should have been able to detect errors of misallocation.

Failing that, the card division staff should have acted immediately to correct the error rather than leave it to the customer.

The charge for the tickets was reversed five days after the error was reported. The bank had promised to rectify it by the next day. The client was, however, compensated for loss of interest.

About two weeks later the cardholder received a "contactgram" from the card division asking whether she wished to charge the airline tickets to her ordinary or budget account!

Another caller told us he has two accounts with the Absa group: a mortgage bond at TrustBank and a savings account at United. He arranged a standing monthly transfer from the savings to the bond account but, though his savings account is debited on the correct day, the credit does not take place until later.

In the meantime he loses interest on the savings account and incurs arrear interest on the bond.

Investigation revealed that, at the time the arrangements were first made, the two institutions were not part of the same group. Therefore, United would mail a cheque to TrustBank.

This accounted for the delay. Absa's Gavin Webster says that facilities for electronic transfer are now available.

Anthony Sarankin

Sanlam wary about shares

S|Times (B4SS) 1/11/92

(58)

SANLAM's performance record has been consistent enough to win it an extra 42% of premium income in the group benefits division in the year to September.

Sanlam's assets have grown at a compound annual rate of 28% in the past 10 years. In the past year assets appreciated by 18% to top R60-billion. That is good going for a group with half of its assets in equity in a year when the JSE All-share index fell by 3%.

General manager of investments Ronnie Masson says that R7-billion was invested. A total of R3,5-billion went into the equity market in the last quarter of the year — a time when share prices dropped from their June highs.

Property investments accounted for R600-million and the rest went into cash or near-cash instruments.

RONNIE MASSON: The outlook's still uncertain

Mr Masson says: "We invested in the gilt market at the start of the financial year, but disinvested towards the end when the returns exceeded 30%. There was a zero net investment. We do not believe there is much more downside on rates.

"Government spending is destined to grow. This will mean inflation and higher interest rates."

He says the equity market has historically given the best inflation-beating returns. But at present, global share markets look vulnerable.

Drought and political instability in SA compound the recessionary climate and foreign economies are reluctant to recover. An upturn will not show up in company performances for perhaps 15 months.

"At best, the JSE can come off another 5% or 10% in the next three to six months. At the start of the year, we hoped there would be a recovery in commodities, but unfortunately it did not materialise," says Mr Masson.

"The major obstacle is political. If we can get back on track for a settlement or an interim government things will start to look better. Couple that with good rains and everything brightens up. Shares will move up ahead of improved results under those circumstances."

Other factors include the American presidential election and its effect on the Dow Jones index. If Wall Street sneezes ... then the gold price might run.

Ten shares represent a quarter of all Sanlam's investments. They are Gencor, SA Breweries, Anglo American, Malbak, Richemont, Rembrandt, Murray & Roberts, Sasol, Absa and De Beers — "a very big disappointment to us".

They are all highly liquid — a mixed blessing. In boom times they go up faster, yet tend to fall quicker in bad times.

Except for De Beers and Anglo American, the companies feature in the Business Times Top 100 companies table based on share-price appreciation over the five years to September 30. But the best of them was only 30th and the next best 59th.

The Top 100 companies will be published later this year.

Mr Masson says: "I've been in the investment game for more than 20 years. Most of that time the Government was at least predictable, even though it was often wrong. Even then, every year I used to say that the outlook had never been more uncertain. I'm still saying it."

Dear mo

SEARDEL chairman Aaron S holders contains a message to policies.

Admittedly the words were consultant Paul London about b cap fits SA: "High interest rates in the way that chemotherapy w along with the bad cells and m

"Physicians, to their credit, a will kill cancer cells without ki economic policymakers have leap."

The sentiments speak for ma inevitable and that we should le fling the economy. The 1990s will around the world — witness the facing redundancy in the wake o

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DIAGONAL STREET by JULIE WALKER

Risk control pays at FNB

S/Times (Buss) 1/11/92 (58)

BARRY Swart, managing director of First National Bank (FNB), credits in part his group's good results in the year to September to a risk control policy implemented some time ago.

I asked why had provisions for bad debt jumped by a third from an already high R263-million to R347-million?

"Good question," he said. "When we budgeted for the past financial year, SA's gross domestic product was expected to grow at a rate of 2,5%.

"But what have we had? Minus 2%. That's a huge swing and more businesses have gone under. People found it harder to meet commitments than if we had had a positive GDP. Many did nothing wrong, but still got into financial difficulties.

"The new risk control policy is working because it is alerting us sooner about problem advances. This allows us to make a provision and to take steps to recover debt before it is too late."

In the 45th consecutive month of recession in a time of high interest rates, FNB turned in a fine set of accounts. Interest income continued to grow by half as much again as did interest expenditure in percentage terms, giving a net interest income figure 24% above the previous year's at R1,95-billion.

Aggressive marketing of home loans has pushed the value of that book to R7-billion with another R1-billion in the pipeline.

Operating income from areas such as fees, trading and foreign exchange grew by 17% to R1,3-billion.

Mr Swart attributes the unacceptable 20% climb in operating expenditure to one-off costs incurred in buying the Botswana subsidiary, its electronic network First-Net and branch automation.

Shareholders are rewarded with a 15,5% rise in earnings a share to 611,2c and a 14,3% lift in dividend to 200c in spite of there being 15% more shares in issue after the rights offer at the half-year.

The proceeds of the issue handsomely capitalise FNB — its capital ratio of 9,8% is twice the statutory requirement.

Mr Swart hopes that interest rates will fall by another 1% this year and perhaps 2% next year. Although concerned about national debt, he says government spending is the only thing keeping some wheels of the economy turning — "the private sector won't invest".

"Considering the fact that the world's economy averaged only 1% growth in the last year our country has done very well. Exports have grown at 10% yearly since 1986, but we must be careful not to allow inflation to get out of control.

"A differential of 10 points between our inflation rate and that of our trading partners means that the rand must depreciate by 10% a year to keep up. What will we end up with — a 5c-rand and a banana republic?"

FNB gave R25-million to an independent trust which promotes social upliftment and education. The amount is treated as an extraordinary item.

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PETER IBBOTSON: Away from the "big box" Picture: ANDY KATZ

A blow for the sceptics

S/Times (Buss) 1/11/92.

IT is always gratifying for a company to crush its sceptics with a set of flawless results. Those who sold Persetech down to 120c earlier this year must regret it now — it has rallied to 200c, is on a dividend yield of 5,5%, cash flush and booming.

Chief executive Peter Ibbotson is happy that the split of Technology Systems International into its constituents — Persetech and ISG — this year was done at the right time for the right reasons.

He will not be the only keen observer of ISG's results due this week — will it achieve better growth than Persetech's 32% earnings-a-share climb?

In the year to September, Persetech raised turnover by 27% to R504-million — impressive considering it operates in a field where the value of stock depreciates. That means that volume had to grow — "we have to run harder every year", says Mr Ibbotson.

Operating profit jumped by 60% to R39-million. There were no losers and expenses were contained. On 30 September Persetech had R100-million in cash — enough for a 10c special dividend to be declared in addition to 11c ordinary out of 21,7c earned.

Persetech managed to move away from its "big box" image of supplying mainframes by expanding into the networks market and establishing a maintenance operation targeted at the open systems user.

The financial and banking sectors continue to offer opportunities. Banks offer ever more services and their client bases are growing.

Mr Ibbotson says few banking transactions are performed electronically — filling in forms is still necessary for many and they must ultimately be computerised.

Persetech was awarded the distributorship of Microsoft, the developer of Windows — the way of the future. The group expanded geographically by buying two Namibian businesses.

Mr Ibbotson believes there is plenty of opportunity in Africa.

Acquisitions will be looked at cautiously.

"Now we're bedded down as Persetech we will have to see what's out there, although organic growth will continue," he says.

The share at 200c is only nine times historic earnings. It looks good value even in this miserable market.

Stanbic clinches African deal

(58)

MELBOURNE — The Australia and New Zealand Banking Group (ANZ) is to sell its African operations to SA's Standard Bank Investment Corporation (Stanbic).

An announcement was made by ANZ's CEO Don Mercer at the weekend.

ANZ had agreed a price of A$53m, which represented a premium on the book value of the operations, Mercer said in a statement reported by the Australian Associated Press.

B|DAY 2|11|92

Stanbic MD Eddie Theron said yesterday full details of the deal would be released in Johannesburg.

The businesses to be sold include ANZ's 100%-owned operations in Zimbabwe, Zambia, Zaire and Botswana, its majority-owned operations in Kenya and Uganda, and its minority interests in Ghanian and Nigerian operations.

The sale involved total assets of more than A$600m and risk-weighted assets in excess of A$500m, Mercer said.

The sale was part of an ANZ strategy of selling non-core operations and expanding into the Asian region.

"When our new branch in Vietnam opens later this year, it will increase our Asia-Pacific representation to 18 countries."

All of the more than 1 100 staff employed in Africa would be retained, Mercer said. — Sapa-Reuter.

Stals remains firm on interest rate cut

BIDAY 2/11/92 (58)

DUMA GQUBULE

RESERVE Bank Governor Chris Stals ruled out the possibility of an interest rate cut at the weekend after last week's sharp decline in the consumer price inflation (CPI) rate to 13,6%.

The announcement followed intense speculation of a possible rate cut on Friday, which the market felt was justified after the release of improved inflation data last week.

Capital market rates, however, rose on Friday, which surprised many dealers. One attributed this rise in rates to earlier expectations of a two percentage-point rate cut having been dampened.

Economists were divided on whether the recent data warranted an immediate cut.

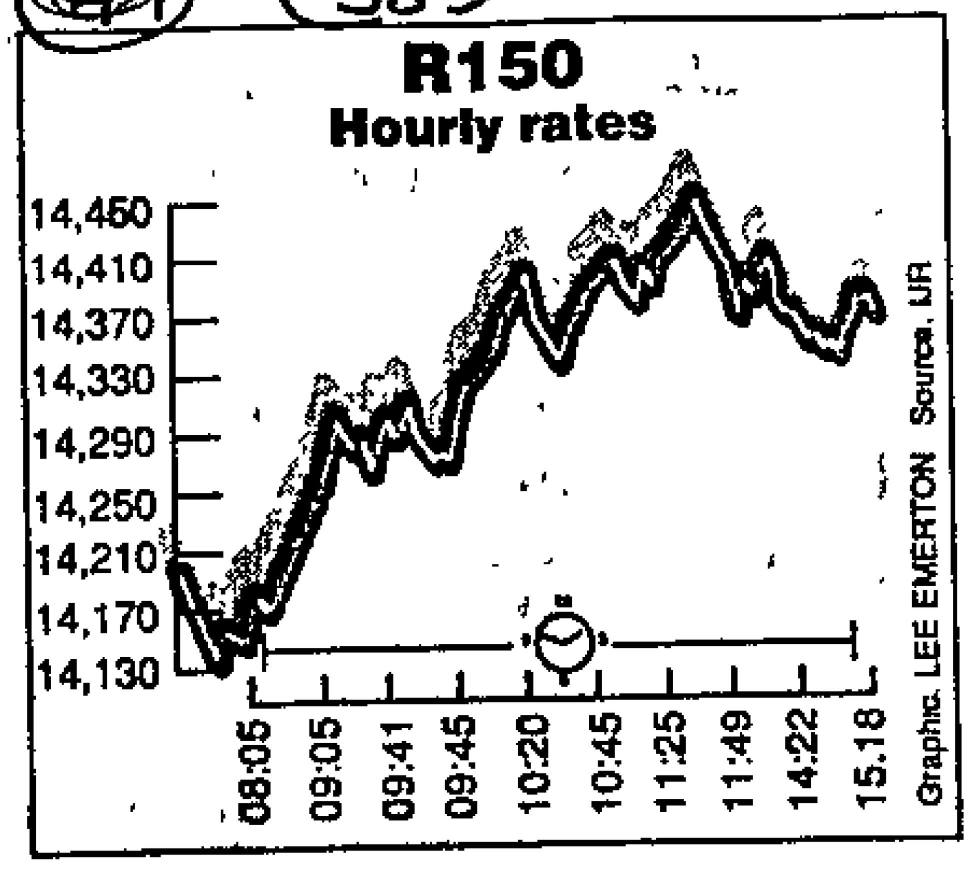
Nedbank economist Edward Osborn said he did not see any grounds for Stals's hesitancy in reducing rates.

Such a move would alleviate financial distress without implying a relaxation of monetary policy, he said.

Osborn said October's CPI figure, to be released at the end of this month, would show a significant drop to about 12,8% after the effect of VAT was removed from the year-on-year figure.

Inflation would fall rapidly to about 11,8% at the end of the year, he said.

Rand Merchant Bank economist Rudolph Gouws said all factors pointed to a cut in interest rates. But the Bank was probably concerned about the state of government finances.



Sacob economist Ben van Rensburg said the Bank should be given another month's leeway, as there were a number of danger signals looming for the inflation rate.

The deficit before borrowing, running at about 6%-8% of gross domestic product (GDP), was getting out of control and threatening to fuel further inflationary pressures. The weakening rand/dollar exchange rate was providing a new set of inflationary pressures, he said.

Sanlam chief economist Johan Louw expected a rate cut at the end of the month.

Ansbacher 'good only as long-term prospect'

(58)

B/DAY 2/11/92

SHARON WOOD

FNB would not get a good return on its investment in the short term if it bought UK bank Henry Ansbacher, analysts said on Friday.

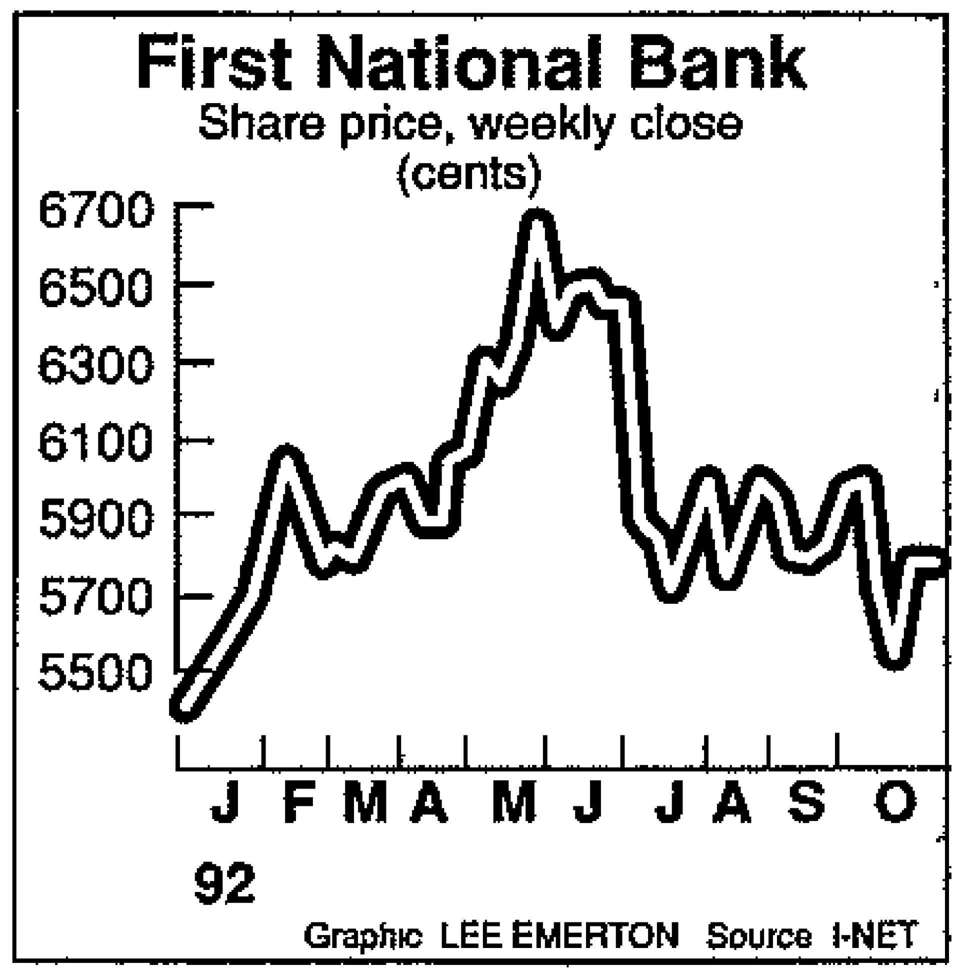
Negotiations between the two banks are still on and FNB says an announcement is expected to be made soon.

Davis Borkum analyst Graham Baillie said the UK bank would not be profitable in the short term. Latest financial results showed it made a small profit of £650 000 in June and even if this turned around to between £2m and £3m, it would still not provide a very good return on capital.

However, he said FNB would get a bargain if it bought Henry Ansbacher. It would pay between £48m and £50m for a bank that was worth about £80m.

If the deal went through, FNB would probably concentrate on trading assets and currencies which generated better returns. The UK bank was not a traditional lending bank but concentrated on asset trust management.

He said an advantage of the deal was that FNB would be able to raise deposits offshore. It could therefore provide trade facilities to its corporate customers and eliminate corporate risks. Ansbacher could also lend back to FNB at a rate far cheaper than in SA, he added.



Payment for the bank would probably be a combination of cash, through the finrand, and through the issue of shares. FNB could persuade Ansbacher's major shareholders to buy shares in FNB. The new dispensation allowed corporates to hold up to 10% of their share capital offshore to raise money. Shares could also be sold locally.

Simpson McKie analyst Kennett Sinclair said acquisition of Ansbacher would not have a short-term effect on FNB profits. But it would be a good long-term deal.

He said payment for the bank through the finrand would make the deal a lot more expensive than a month ago.

Banks put township lending on hold

BDAY 2/11/92

GRETA STEYN 58

A PLAN by FNB, Standard and the Perm to renew bank lending in townships had been put on hold, sources said at the weekend.

The three banks had decided to set up shop jointly in townships to share the risk and start-up costs, sources said. Spokesmen for the banks confirmed they were working on the issues of township lending, but declined to comment further.

It is understood that although the original proposal for joint home loan centres has fallen through, the banks were still pursuing the idea of risk-sharing and bringing home loan finance closer to communities.

• The SA National Civics Organisation's (Sanco) threat of a bond boycott and other mass action against financial institutions had been a major problem, sources said.

Sanco chairman Kgabisi Mosunkutu confirmed mass action against financial institutions remained on the agenda.

The other problem delaying the proposal was the growing expectation that the home loan centres would take over the loans of people in financial difficulties to avoid

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Banks

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☐ From Page 1

evictions, sources said. It is understood the banks felt they could not commit themselves on that score and were concerned about raising expectations.

The Perm has signed an agreement with Sanco to work on creating home loan centres, but the other two banks have not signed the accord. It is believed they would prefer not to sign an agreement binding them on a national level but would rather negotiate with the representatives of communities where home loan centres would be opened.

Banks do not acknowledge on the record that lending in townships has come to a virtual standstill.

Their overall exposure is estimated at R6bn to R7bn, with the Perm and UBS, in the Absa-fold, the largest lenders. Standard and FNB have virtually no exposure.

The World Bank has said there was scope for much greater involvement in black housing by the private sector.

Mortgage market growth boosted

BIDAY 2/11/92 (58)

ANDREW KRUMM

GROWTH in the mortgage market — which outstripped growth in domestic credit in the 12 months to August — had been bolstered by a trend to finance consumer spending with long-term debt, economists said at the weekend.

Latest Reserve Bank figures showed the mortgage market had grown 16,9% to over R25bn in the year to August, compared with a 9,4% growth in domestic credit extension over the same period.

"No doubt this indicates a switch of short-term debt to cheaper and more flexible long-term financing," a monetary official said.

He added that the consumer's search for lower interest rates could benefit institutions as they could lower their capital requirements — since mortgage advances had only a 50% capital risk rating — and increase lending capacity.

The Reserve Bank said in its September Quarterly Bulletin flexible bond facilities had given customers access to less expensive financing that was not necessarily earmarked for real estate purposes only.

This had reduced the relationship between an increase in financial institutions' holdings of mortgage bonds and an increase in the value of real estate transactions.

An economist warned that the latest statistics could show a dangerous trend to increase existing mortgages to finance consumer spending.

"There is a problem here, since financing spending through mortgages looks cheap in the beginning, but is expensive in the long term."

Bank spokesmen said they did not collate statistics on the proportion of bank customers who were extending existing mortgages or taking out second mortgages. They attributed the disparate growth statistics to pent up demand over the past few years, and the effect of "massive inflation" on house prices.

However, the economist said if one compared the 30% drop in activity in the deeds office to growth in the mortgage market, it appeared that consumer spending and not increased home ownership was behind the growth in mortgage financing.

(58) CT 2/11/92

African bankers in key talks to revive SA links

By ARI JACOBSON

AN influential group of African bankers is currently on an historic visit to SA to explore the possibility of restoring financial ties in post-apartheid SA.

Spokesman for this top-flight group from French-speaking African countries Aden Mohamed said in a breakfast interview yesterday that SA had the potential to rejuvenate the whole of Africa.

"Everything is bigger and better in SA," he said.

He said that the group had been welcomed with open arms by SA's leading banking organisations as well as the country's top political representatives.

"Everyone realises that there is a need for financial institutions to work closer together in Africa."

The delegation of 75 executive bankers comes from as far a field as Burundi, Cameroon, Chad, Djibouti and Guinea.

Mohamed said that he had been impressed by the sophisticated nature of the SA banking system and that technology and know-how previously imported from Europe may well in the future be obtained from SA.

"SA is way ahead of most African countries as regards financial networking and even the average black person seems better off," he said.

But Mohamed added that SA also needed the opportunity being afforded by African countries to participate on the continent.

Mohamed said African banks, in general, had been through a long period of poor credit management but that this had been rectified and the banking system in Africa was now in a solid state.

He noted central banks in Africa were controlled by government, while in SA the Reserve Bank is an independent body determining monetary policy.

Mohamed said that exchange controls were likely to limit immediate investment opportunities locally: "But through communication hopefully we can all build something together for Africa."

Standard scoops ANZ's African interests

(58) CT 2/11/92

MELBOURNE. — The Australia and New Zealand Banking Group Ltd (ANZ) will sell its African operations to the Standard Bank Investment Corporation, ANZ CEO Don Mercer at the weekend.

ANZ had reached an agreement with Standard to sell its operations for Australian $53m ($37m), which represented a premium over the book value of the operations, Mercer said.

The sale is part of an ANZ strategy of selling non-core operations and of expansion into the Asian region, and follows an announcement last week that Standard would take over Grindlay's Bank of Uganda.

"There has been a programme of sales of non-core business in the past couple of years," Mercer said. "In our international bank, we are focusing more strongly on the Asia-Pacific region."

The businesses to be sold include ANZ's 100%-owned operations in Zimbabwe, Zambia, Zaire and Botswana, its majority-owned operations in Kenya and Uganda, and minority interests in Ghana and Nigeria.

The sale involves total assets of more than A$600m ($420m) and risk-weighted assets in excess of A$500m ($350m), Mercer said.

All of the more than 1 100 staff employed in Africa will be retained.

SBIC silent on Grindlays deal's beneficiary

BDAY 3/11/92

(58)

SHARON WOOD

STANDARD Bank yesterday remained tight-lipped as to the identity of the local beneficiary of 2,4-million Standard Bank Investment Corporation (SBIC) ordinary shares which financed its acquisition of ANZ Grindlays.

The shares, with a total consideration of R165,7m, were used to finance the £23,65m purchase of the Africa banking network of London-based ANZ Grindlays.

The deal had been signed on Friday and was effective from yesterday.

Group MD Eddie Theron would not reveal the size of the newly acquired African branch network's bad debts but said SBIC had conducted an extensive due diligence study and the group was satisified that sufficient provisions had been made for potential bad debts.

SBIC stressed that movements in the finrand yesterday were not as a result of the acquisition. Theron said there would be no impact on the investment currency because the necessary currency transactions had been completed some time ago.

He said the acquisition did not represent a major commitment of capital resources and was only about 5% of SBIC's capital. "For the same reason, the impact of the acquisition on SBIC's bottom line is likely to be modest for at least some time.".

SBIC would continue to use the Grindlay's names in the seven countries because it was well-respected, but Standard's name would be added. The acquisition gave SBIC representation in Zimbabwe, Zaire, Kenya, Uganda, Zaire, Ghana and Nigeria.

The network had 25 branches and a staff complement of about 1 400. Existing management and staff would be retained but there could be some movement in the future, Theron said.

COMPANIES

Boland banking on more capital

SHARON WOOD

BOLAND Bank MD Gert Liebenberg yesterday confirmed that the Cape-based bank was investigating ways to raise capital but said it had not yet decided how this would be done. BDay 3/11/92 (58)

Boland Bank's interim results are expected on Friday.

Liebenberg said merchant bankers were still working on the best way to increase the bank's capital base.

"Obviously the bank will have to be ready for the implementation of capital requirements," he said.

There has been speculation that the bank would announce a R100m rights offer to lift its risk-weighted capital-to-asset ratio in line with the 1993 6% requirement. Boland Bank does not disclose the size of its capital-to-asset ratio but it is known to be well under the 1993 requirements.

Banking analysts said the bank could have difficulty raising capital in a rights issue. Major shareholders would probably refuse to take up their rights unless Boland Bank gave them voting control. The bank's articles of association gave major shareholders only one vote each, regardless of the size of their shareholdings.

Major shareholders are Absa with a 9,7% stake, Sanlam (10,8%), Rembrandt through Financial Securities (9,9%), Momentum (9,3%), Sechold (7%) and the Mineworkers' Pension Fund (3,9%).

Davis Borkhum Hare banking analyst Graham Baillie said the bank's articles of association had been a big stumbling block to raising capital.

Liebenberg would not comment on speculation that Boland Bank was involved in discussions with the Board of Executors. However, he said BoE would never take over Boland because it was relatively small. Discussions between the two banks were believed to have been terminated.

An analyst said major shareholders could also block a deal with BoE until they received voting control and representation on the board. "There is a good chance that the big boys will stop a takeover unless the price is very good."

Higher vacancies pull down Sycom results

PETER GALLI (58)

INCREASED vacancies and lower interest rates pulled down the results of Syfrets and Commercial Union Property Fund (Sycom) for the year to end-September.

The total distribution a unit edged up only 3,5% to 77,8c from 75,18c last year, but the 1991 figure included a special distribution of 25,85c a unit. Income rose 20,4% to R52,88m (R43,92m), largely as a result of a 167% rise in interest to R11,59m (R4,34m).

UAL Property Fund Managers MD John Peters said the fund had kept R50m in cash after its rights issue last August, resulting in an increase in interest income despite the lower rates. BDAY 3/11/92.

Fixed property companies' dividends rose 4,3% to R41,28m (R39,59m), with net income up 20,7% at R50,45m (R41,82m).

COMPANIES

RMB Holdings to list on JSE

SHARON WOOD

RAND Merchant Bank Holdings announced yesterday it would be listed on the JSE's insurance sector on November 25.

MD Paul Harris said the rationale for the move was to make shares available for the broader investment community and provide an avenue for funding should any future investment opportunities arise.

RMBH would not need to raise capital until 1995, he added.

When asked why the group would be listed in the insurance, and not banking, sector, Harris said 70% of RMBH's assets were insurance-related. Another reason could be that insurance shares are better rated by the market than banking shares.

The group had decided to go ahead with the listing despite the current political and economic environment because it was already effectively listed through Momentum Life. "We are already at the mercy of the market," Harris said.

The JSE had granted a listing for 55,08-million shares in RMBH and as no shares were being offered to new investors, the price at which the share would be traded would be set on listing.

RMBH shares had previously been traded in the secondary market, with buyers and sellers agreeing on prices between them. Trade in the shares had increased significantly following the Momentum Life acquisition. The last price the share had been traded at in the secondary market had been 850c. (58)

Jannie Mouton, analyst at sponsoring broker Senekal, Mouton and Kitshoff, said he would not be surprised to see the RMBH share price reach R10 on the first day of trade. BIDAY 4/11/92

"There has been good demand for the share even on the secondary market, and the fact that RMBH management is highly regarded in the market suggests a good rating for the RMBH share."

The RMBH shares are currently held 46,3% by directors and management, 26,2% by Sage group, 13,1% by Absa and 14,4% by other institutions and individuals.

During the last five years, RMBH's attributable income rose to R37m in 1992 from R17m in 1988, representing an annual compound growth of 21,5%.

Permanent capital rose to R272m from R87m during the same period and assets increased to R2,8bn from R600m.

Both rand units get Bank support

B/DAY 4/11/92 (58)

TIM MARSLAND

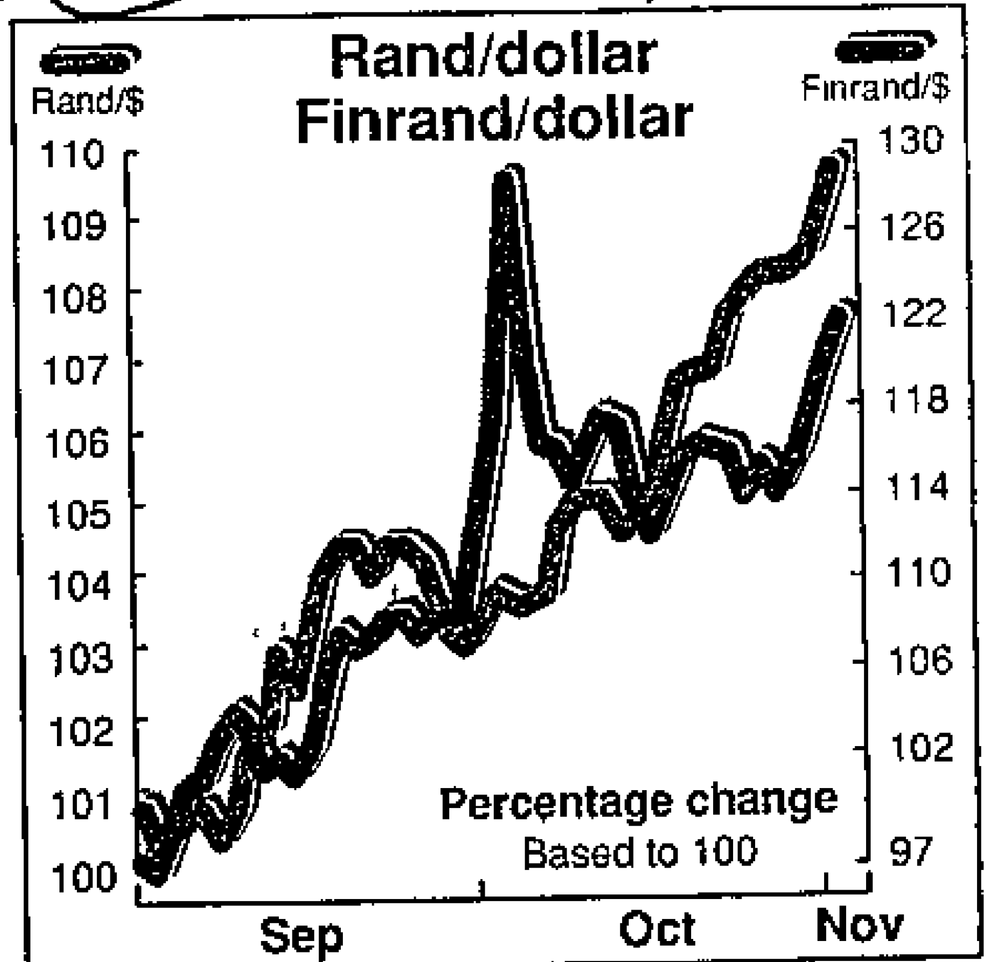
THE Reserve Bank entered the volatile currency markets yesterday, propping up both the commercial and financial rands after the units weakened sharply in early morning trade, dealers said.

Early selling of about R30-R40m saw the finrand lose 15c against the dollar to R4,6598 in see-saw trading. The unit lost more than 20% against the US unit since the dollar bull run began in September.

Dealers said there were signs that the Reserve Bank had actively taken out surplus finrands during mid-session trading. Bank intervention was also reported by Reuters, but the Bank is rumoured to have kept its intervention low-profile.

Dealers linked the decline in the finrand to continued outward-bound investment, but said selling was widespread.

"Sterling is looking cheap at the moment to anyone investing in the UK," one said.



Graphic: RUBY-GAY MARTIN Source I-NET

The commercial rand regained its early losses, ending at R2,9728 to the dollar from its overnight R2,9748. However, it hit an

☐ To Page 2

Rand

B/DAY 4/11/92 (58)

☐ From Page 1

all-time low during the day of R2,9968 — just off key support of R3,00 to the dollar.

"If it breaks R3,00, it's going to be tough pushing below that level . . " a dealer said.

The dollar bull run has cost the rand 10% against the US unit since September.

Dealers said the market had been long on dollars towards the close and the Bank bought at R2,9760 shortly before the close.

Exporters sold enthusiastically during the lunch break when the dollar failed to break resistance of DM1,57.

The dollar has been making steady gains during the past few weeks in anticipation of a Bill Clinton win in the US election.

The rand kept its chin up against the crosses, though, ending steady at R4,5907 against sterling.

MERVYN HARRIS reports currency factors were dominant on the JSE yesterday as further finrand weakness bolstered share prices in rand terms to keep the market in firmer territory.

The JSE overall index rose 13 points to 3 031 with gold shares, bellwether De Beers and mining houses the major beneficiaries of the unit's renewed downturn.

The soft commercial rand and a steady gold price at about $338 enabled the rand gold price to hold above R1 000. Dealers said JSE trading was directionless as players waited for new factors like an interest rate cut to inject life into the market.

They cautioned, however, that underlying sentiment remained bearish.

Capital market stocks had a day of mixed fortunes, with government's R150 easing to 14,395% from 14,400% while Eskom's 168 firmed to 14,405% from 14,400%.

Dealers blamed the weaker Eskom stock on Eskom's funding.

Innovation in housing urged

58 ~~223~~ ~~306~~ 339

BDAY 4/11/92

PETER GALLI

THE provision of housing in SA should represent formal and informal initiatives and the role of organisations like Standard Bank would be intricate and delicate, Standard Bank home loans divisional GM Duncan Reekie said.

He told the Pam Golding Property Group managers' convention in the Cape yesterday the bank would have to balance this against its need to remain a stable financial services provider which had to support the medium- and long-term prosperity of its customers — both borrowers and depositors.

"This will require innovative financing mechanisms and entering into working relationships with agents, other financiers, development agencies and community associations to find solutions, implement policies and thus manage change," he said.

Initiatives to deal with the national housing problem were essential for social and economic stability and it would be a mistake to believe the upper-income white housing market would be immune to the effects of national housing initiatives.

"These initiatives will mean a diversion of resources from the traditional market and will probably be encouraged by state intervention. If this happens, demand in the traditional market will outstrip supply, causing prices to rise," he said.

A third of South Africans were not adequately housed, which meant they had little or no financial investment in permanence and thus constituted a social threat.

"They have the potential to upset economic and political consensus, structures and plans. A view is emerging that squatter settlements can meet immediate needs reasonably adequately," he said.

Unless the law took a pragmatic view of unconventional housing schemes and local authorities took a supportive one, these schemes could cause social tension.

It was probably necessary to build on systems and forms of housing that had arisen from need and treat them as intelligent adaptations to circumstance, rather than dismiss them because they did not fit "some grand scheme", he said.

Crusader's UK firm profitable again

(58) (??)

DUMA GQUBULE

CRUSADER Life's UK-based investment Pegasus Financial Holdings returned to profitability in the first three months of the financial year, CE Don Rowand said in the group's 1992 annual review.

Pegasus management was expecting monthly profits for the rest of the year and a profit for the full year.

The trend was expected to continue and an acceptable return on shareholders' funds would be earned in financial 1993, he said.

Crusader Life had increased its investment in Pegasus by a further £1,3m, bringing total investment at end-June to R20m. Since then Pegasus had been supported by a further £364 000. B/DAY

Crusader Life, an Anglovaal Insurance Holdings subsidiary, reported a 38% increase in total net premium income to R160,7m (R118,6m) for the year to end-June.

Rowand said it was difficult to forecast Crusader Life's prospects for the year.

But the group was seeing further increases in new business arising from a number of new products. 5/11/92 runs international business

Standard invests in Africa

■ Corporation acquires R165,71 million interest in Grindlays:

Sowetan 5/11/92

By Joshua Raboroko

58

STANDARD Bank Investment Corporation (SBIC) has acquired about R165,71 million African operations of ANZ Grindlays Bank with effect from November 2.

SBIC will assume equity control of ANZ Grindlays banks in Zimbabwe, Zambia, Kenya, Botswana, Uganda and Zaire.

Significant minority interests in banks in Nigeria and Ghana are also part of the acquisition.

The banks together have 25 branches and almost 1 400 staff members, all of whom will be retained.

The operation will be managed from Johannesburg as part of the Africa Banking Group within SBIC, which presently includes banks in Botswana, Namibia and Swaziland.

At a Press conference in Johannesburg this week, SBIC's group managing director Mr Eddie Theron confirmed the deal and said it was an important step.

He said the acquisition of the operation further strengthens SBIC's capacity for helping trade lows in Africa and, taken with its newly established operations in London, Jersey and Isle of Man, enhances its capability to serve clients internationally.

As a strategic initiative, the acquisition is in line with the Group's stated intention to play a more significant part in regional development on the African continent.

FNB's Europe plan based on UK bank

BI DAY 5/11/92

(58)

SHARON WOOD

FNB announced yesterday that it had offered to buy the entire shareholding of UK merchant bank Henry Ansbacher for £57,8m, after weeks of negotiation.

Responding to speculation that the financing of the deal had been depressing the finrand, senior GM Viv Bartlett said financing arrangements would not have an impact on the financial market.

He would not comment on whether the capital to finance the deal would be raised offshore. Banking analysts said this week the deal could be financed by selling up to 10% of FNB shares overseas to Ansbacher's major shareholders.

The offer, more expensive than analyst expectations of between £48m and £50m, represents about 12,5% of FNB's market capitalisation.

FNB MD Barry Swart said the proposed acquisition held exciting promise in FNB's drive to re-establish itself internationally.

"We will, once again, have a physical presence and banking licence abroad to support our customers more widely in their international activities ... Ansbacher will form the nucleus of the European operations of the FNB group."

Undertakings to accept the offer unconditionally had been received from 89,3% of shareholders, and the remaining shareholders had three weeks to respond. Minority shareholders in Ansbacher had been offered 32p a share.

Ansbacher's preliminary financial results for the nine months to September this year show an attributable profit of £1,1m, after a loss of £9,64m in the year to December 1991.

The group's capital resources were £89,5m at the end of September and undisclosed inner reserves, including a general loan loss provision, were £5,1m.

The inner reserves were available to absorb future losses on the loan portfolio before there was an impact on shareholders' funds.

Bartlett said the results indicated that the group was profitable and he hoped it would continue to be profitable.

He said there would probably be moves of FNB staff to key positions in Ansbacher.

FNB's earnings a share, which rose by 15,5% in the year to September, were diluted by the increase in the number of shares after the R550m rights issue in March. FNB announced at the time that the rights issue would be used to fund the bank's international drive.

FNB in £57,9m bid for UK merchant bank

58

CT 5/11/92

Own Correspondent

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Federal attributes in govt's proposals

6/11/92

LLOYD COUTTS

GOVERNMENT's proposed regional government system would not be a continuation of the homeland system and would have federal attributes, Constitutional Development Minister Roelf Meyer said yesterday.

Meyer said strong regional government did not mean weak central government. "Both can be strong. But the closer strong government is brought to the people, the more sensitive it will be to needs."

Meyer welcomed a recent ANC document on regionalism, saying it showed the organisation had realised the importance of regional government.

However, there were basic differences between ANC and government policy.

"The ANC would not want the regions to have autonomous powers — this means an all-powerful central government that could override regional decisions even on issues falling within the legislative authority.

"Our approach is that regions should have autonomous jurisdiction over functions entrusted to them in the constitution, and that it should not be possible for those functions to be taken away from them without their consent," Meyer said.

The ANC would want to give only limited residual taxing powers to regions, on the basis of "one country, one tax base".

Government believed that without a proper tax base and without autonomy regional government would become an extension of an overriding and all-powerful central government.

This did not mean that regions should have full autonomy over all functions of government, but over those allocated to them.

"Regional boundaries can only be finally drawn once there is also clarity on function. These boundaries will not be those of self-governing and TBVC territories."

Meyer denied government had converted to federalism to protect minorities to the detriment of possible redistribution and empowerment programmes.

Education on mortgages

WILSON ZWANE

BANKS and township civic organisations are to launch a major initiative to teach home buyers about the intricacies surrounding mortgage finance.

The costs of developing and executing this education programme will be borne by government, business and banks.

The Association of Mortgage Lenders and the SA National Civic Organisation (Sanco) have reached a tentative agreement on the need for such an education.

At a meeting this week, the two organisations endorsed a proposal by a working group on mortgage lending issues that home buyers should be educated in the workings of mortgage finance, including fluctuating interest rates, lawyers' fees and bond registration costs.

An information circular released by the association and Sanco says all relevant parties will have to be approached with a view of establishing joint working committees to develop the educational package.

The circular says builders should be approached with a view to getting them to agree to the establishment of a building industry code of conduct.

"It is anticipated that in order to facilitate the implementation of the code of conduct, association members will provide finance only to builders who agree to be bound by it," it says.

In a brief joint statement this week, the association and Sanco said they had endorsed the proposal and would refer it to their decision-making structures.

It is believed that Sanco's executive, which meets at the weekend, will ratify the proposal. The association's council will discuss the matter next Tuesday.

Sanco president Moses Mayekiso said earlier the agreement between his organisation and the association was a "positive move", which could pave the way for other agreements on housing issues.

COMPANIES

Bad debts prove bad news

BDAY 6/11/92

58

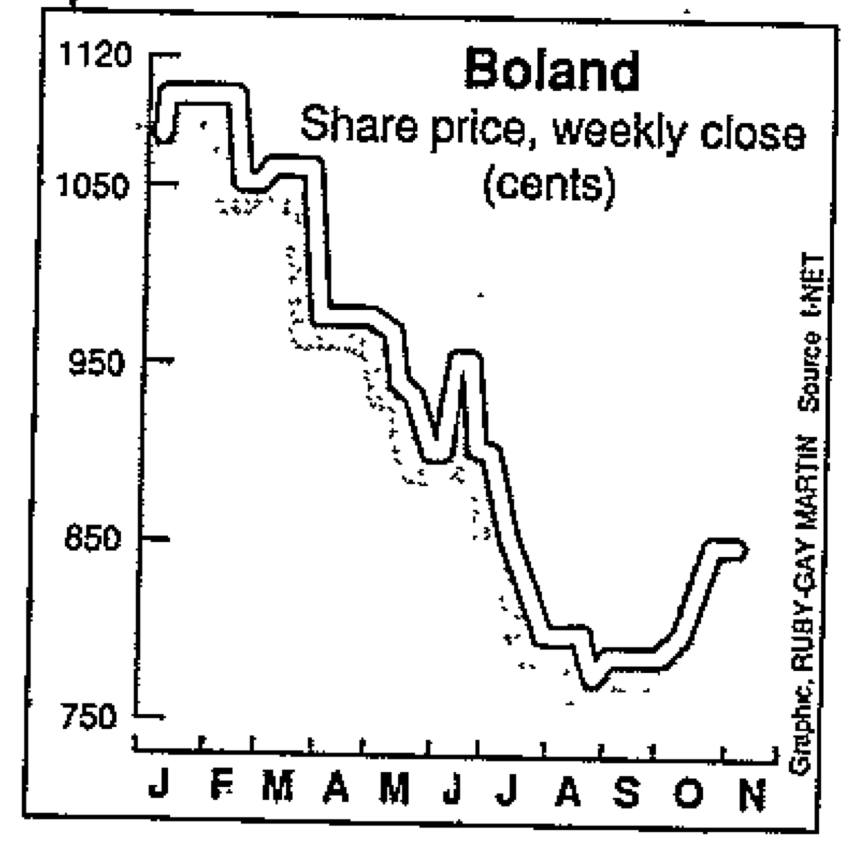
LINDA ENSOR

CAPE TOWN — Boland Bank, the subject of intense discussions over its future capitalisation, increased earnings by 14,3% in the six months to end-September, with profits heavily affected by bad debt provisions.

The interim dividend of 23c was maintained on earnings of 68c a share (59,5c). The decision to maintain the dividend was made in the light of financial institutions having to increase their capital next year to fulfil the requirements of the Deposit Taking Institutions Act.

MD Gert Liebenberg said exposure to bad debts had stabilised, but had affected profits strongly.

After the R27,4m (R23,7m) provision for bad and doubtful debts, tax and transfers to internal reserves,



which increased by 15,6% over last year, profits rose by 14,4% to R9,2m (R8m). He said Boland's assets had shown limited growth during the half year because of the low level of economic activity and the weak demand for credit. Total assets amounted to R3,5bn (R3,3bn).

Deposits and other accounts totalled R3,2bn (R2,9bn), while advances and other accounts amounted to R2,7bn (R2,5bn).

"However, improved interest margins led to a sound increase in the bank's net interest earnings.

"Similarly, the group's income from services and other sources reflected a satisfactory increase," iebenberg said.

Total income rose 20% to R103,7m (R86,4m) with interest income contributing R62,9m (R50,8m) — an increase of 24% — and other income contributing R40,8m (R86,4m), a rise of 14,4%.

Expenditure was higher because of the expansion of Boland's infrastructure to provide for future growth. This was reflected in the 22,8% rise in operating expenses to R67m (R54,7m).

COMPANIES

Full disclosure 'will affect small banks'

(58) SHARON WOOD

FULL financial disclosure requirements for the banking industry would prevent smaller banks from smoothing earnings from year to year, a banking analyst said yesterday. BDAY 6/11/92

Smaller banks, such as Rand Merchant Bank, Sechold, Boland Bank and Prima Bank, were nowhere near full disclosure and in the past had been able to transfer to and from hidden reserves to show smooth profit growth during good and bad years.

The "big four" banks were close to full disclosure and would be virtually untouched by the implementation of full disclosure requirements, but would have to reveal previously undisclosed hidden reserves, banking analysts said.

Disclosure of hidden reserves would allow shareholders to determine whether a bank had a sufficient buffer against unforeseen circumstances, one analyst said.

Disclosure by Investec, as one of the smaller banks, had improved significantly in the past two years.

Ed Hern Rudolph analyst Alan McConnachie said the reason for limited bank disclosure was to protect depositor confidence and the banking industry as a whole.

The Standing Advisory Committee on Company Law announced in October that banks would have to implement full financial disclosure by January 1994.

Homes slump hurts Aida

(58)

PETER GALLI

AIDA Holdings' margins were subjected to extreme pressure in the six months to end-August as operating profit plunged 86% to R73 000 from R521 000 in the comparable 1991 period on the back of a 5% dip in turnover.

BIDAY 6/11/92.

Recent research has shown that house sales had dropped by as much as 30% and homes were taking longer to sell.

After the interest bill of R8 000 (R5 000 previously) had been paid, pre-tax profit was 87% lower at R65 000 (R516 000) and taxed profit was 83% down at R39 000 (R227 000).

Chairman Aida Geffen who, along with the rest of her board, was unavailable for comment yesterday, said in a statement that this period "has seen an exceptionally difficult market characterised by lower unit sales. This has been caused by the uncertain sociopolitical climate and the violence in the country".

Tough market conditions were expected for the next 12 months as it could take that long before political problems were solved, she said.

Prospective sellers were also trying to place houses with agents who cut commission the most.

The soft end of the market continued to be in the R1m-plus bracket, where many offers fell between R100 000 and R150 000 below sellers' expectations, Geffen said.

STANBIC FM 6/11/92 (58)

Something new in Africa

Standard Bank Investment Corp (Stanbic)'s R166m purchase of ANZ Grindlays Bank's African operations reinforces its attempt to internationalise. Acquisition of the eight banks follows the recent opening of a fully-fledged London office, the purchase of offshore interests in Jersey and the Isle of Man and the establishment of a Botswana office. There are also operations in Hong Kong, Taipei, Swaziland and Namibia.

This strategy probably makes sense. Stanbic is well established locally and, with the banking industry and economic concentration potentially sensitive issues in the new SA, diversification abroad can only be well received — providing it is profitable.

Stanbic will take over ANZ Grindlays' operations in Zimbabwe, Zambia, Kenya, Botswana, Uganda and Zaire and significant minority stakes in Nigeria and Ghana. Total assets of R800m will be added to the balance sheet. The banks together have 25 branches and about 1 400 staff. The Zimbabwean operation is the largest, with nine branches and about 500 staff.

MD Eddie Theron says the deal is part of the strategy of "controlled international expansion to become a major regional force."

The acquisition is not particularly large, representing roughly 5% of Stanbic's capital, so should not have much short-term effect on EPS. As one analyst notes, critics must take a five- to 10-year view.

The purchase was funded by the issue of 2,47m Stanbic shares to ANZ Grindlays, which have been renounced in favour of an unnamed local institution specified by ANZ Grindlays. One would assume Liberty Life, as SBIC's largest shareholder, is the institution in question, but a Liberty spokesman declines to comment. Why the secrecy?

This issue is distinct from Stanbic's recently announced R600m rights issue.

Theron won't disclose the African branch network's bad debts but says SBIC, after an extensive due diligence study, is satisfied sufficient provisions have been made.

Though currency depreciation in these

* continued

FM 6/11/92 (58) FOX

countries is a worry, Theron notes the rise in value of fixed assets and size of new loans (through inflation) roughly offsets the depreciation. He adds that though the currencies can fluctuate wildly short-term, sterling values have been held over time.

The acquisition won't be plain sailing. Theron says "trading conditions in continental Africa differ from those of SA. The financial services infrastructure is either non-existent or only partial in many countries where the group is now represented."

This raises the question why ANZ Grindlays was a seller Theron says the group, facing problems in its Australian and global banking activities, has decided to concentrate on Pacific Rim operations.

It's probably more logical for a SA bank to be involved in Africa, rather than an Antipodean banking group

Goodwill of roughly R15m was paid, for the time and effort it takes to establish operations, including the attainment of banking licences. Standard may incorporate Grindlays' name with its own for three years.

William Gilfillan

adrenalin in the business community. But it is also dependent on reaching agreement on certain sound economic principles. ■

MONEY SUPPLY FM 6/11/92

Government moves 58

Domestic private credit extension grew only slightly in August but total domestic credit extension was boosted by a large increase in net claims on the government sector, according to the monthly credit aggregates released by the Reserve Bank.

Private credit extension rose 0,36% in the month (9,43% year-on-year) to R201,8bn. But balances of the government sector changed from a positive R1,5bn in July to a net debt of R5bn to the banking sector in August. This pushed up total domestic credit extension for August by 3,64% (9,57% year-on-year) to R206,9bn.

The Bank says the jump was caused mainly by a decline in government deposits with

continued

FM 6/11/92

the Bank in the month, when around R3,8bn was transferred from the stabilisation account to the gold and foreign exchange contingency reserve account, to repay forward cover losses incurred on behalf of government.

Money supply growth in September remained within the guideline range for growth, of 7%-10%, for the second successive month. Over the 12 months to September M3, the broad aggregate, grew a provisional 8,88%, down from a revised August figure of 8,99%. In the month it grew 0,93% to R195bn. Measured from the base of the current guideline year, seasonally adjusted and annualised, the figure for September is a provisional 9,51%, up from August's revised 9,07%.

Other monetary aggregates for August were as follows:

- ☐ M0 declined 0,1% in the month, growing 16,6% year-on-year;
- ☐ M1A rose 3,74% in the month, 10,27% year-on-year;
- ☐ M1 went up 7,05%, 14,92%; and
- ☐ M2 rose 1,24%, 13,18%.

M0 is the narrow aggregate representing notes and coins in circulation and deposits of deposit-taking institutions with the Bank. It is not published by the Bank. ■

PROPERTY TRENDS FM 6/11/92

(58)

Heading for the bottom?

It's always difficult to tell where the bottom of the market is but, based on Real Estate Surveys MD Erwin Rode's theory of a 17-year property cycle, we're still heading for the trough. It will probably occur at the beginning of 1994.

It's well known that the property market bottomed out after Sharpeville in 1960 and again in 1977 after the 1976 riots. This being so, what kind of political upheaval does Rode's 1994 trough portend?

Obviously, from the consumer's perspective, house buying and office rental opportunities couldn't be better and should continue to present themselves for another year.

For investors, the wise thing would be for them to time their purchases or developments for the upswing, but it's not that easy. There are varying degrees of oversupply in the office, industrial and retail sectors in different areas across the country (*Property* September 23 and 30).

At the *FM* Investment Conference last week Rode confirmed the general perception that office prospects in the short term are best in certain parts around Johannesburg — in Sandton in particular — and in Durban. Over the past year, Rode noted, real office rentals had held up better in Cape Town and Durban than in Johannesburg and Pretoria. Yet he added that Durban rentals "have been showing extraordinary resistance to recessionary forces over the past 18 months."

The detraction for the Cape Town office market is that cap rates, as a result of oversupply, have been rising steadily since the first quarter of 1992, indicating more wariness among investors.

Forecasts by property economist Neville Berkowitz, that the Pretoria office market will take the longest to recover of the four major centres, are confirmed by Rode's graphs. Quite disturbingly, Rode pointed out that, like Pretoria, real office rentals in the Johannesburg CBD were significantly lower than at any time since 1985.

Industrial rentals for units of 1 000 m² are performing best in coastal cities, especially Durban, "because of the general shortage of suitable, flat, industrial land in the area." Central Witwatersrand rates, he noted, had also held remarkably steady over the past year. However, the heavy-industrial East Rand is demonstrating the steepest downward trend. In the short term, industrial rentals in Cape Town and Port Elizabeth have the strongest upward potential.

House prices have been climbing steadily in Cape Town since 1989, though they tend to be cooling now, followed by Johannesburg, Durban and Pretoria. However, Rode believes the decline in real prices and rents will continue. He again reminded investors that parts of the residential market were still buoyant, especially lower-priced properties.

Returning to his long-term forecast, Rode said: "Given the poor performance of the economy this year and the four-quarter lag of the property market, our forecast evidently cannot be expected to be inspiring to developers."

However, his points to note are:

☐ The relatively lower increase in building costs in 1992 (revised to 5%) due mainly to the one-off effect of VAT, should bounce back in 1993 (see table);

☐ Relatively strong growth in the residential market is predicted, particularly in flat rentals; and

☐ The Cape should continue its pre-eminent position in industrial rental performance.

In the office rental market, Rode said, Johannesburg and Sandton, "which both take the biggest dose of recession medicine in 1992, should begin to claw their way back, relatively stronger in the case of Sandton. Pretoria looks set to suffer from the great political uncertainty affecting its CBD office market. Cape Town and Durban are set to pay the price for their current oversupply of new office space, though Durban's hard core looks like it'll emerge less scarred." ■

No great shakes
SA property trends

	1991	1992	1993
BER BCI *	12%	5%	11%
Rode's HPI **	12%	11%	10%
Flat rentals	20%	15%	14%
Industrial rentals			
Central Rand	2%	0%	5%
Durdan & env	3%	2%	5%
Cape Peninsula	6%	6%	8%
Prime CBD office rentals			
Johannesburg	0%	-7%	0%
Sandton	7%	-7%	5%
Pretoria	2%	0%	-5%
Durban	0%	3%	0%
Cape Town	4%	0%	-5%

*Bureau of Economic Research's building cost Index
**Rode's House Price Index
Source: Real Estate Surveys (preliminary figures)

RETAIL BANKING FM 6/11/92 (58)

If you can't beat 'em ...

FM 6/11/92 (58)

The banking sector's love affair with shopping centres appears to be over. As retail rentals escalate, the major banking groups are cancelling their shopping centre leases and moving to other localities.

The trend among banks towards scaling down their operations in shopping centres to mere ATM outlets or agencies, was first reported in the *FM's Property Gazette* (August 7). Arguing that a bank's customers are largely a captive market — after all, everyone has to bank — they have opted for siting their main branches in strip shopping localities, where rents are less than half those prevailing in shopping centres.

And rather than fight the trend, developers are seeing it as a new opportunity.

Six months ago, Standard Bank turned its Cresta Shopping Centre operation into an agency and established a main branch in new strip premises on the corner of Weltevreden and Valley roads, across the street from United Building Society. At the same time, Nedbank was making noises about moving its administration centre out of Cresta Centre.

So Old Mutual Properties' investment manager Ian Watt jumped at the opportunity to accommodate Nedbank in OMP's newly completed Blackheath Mews, adjacent to Standard Bank. Now Nedbank will reduce its Cresta space from 1 200 m² to 600 m² in the second half of 1993 and take up 500 m² in OMP's new building where it will be paying office rentals of roughly R27/m².

Cresta Shopping Centre management doubts whether Nedbank will end up paying less rent overall in the two premises, but confirms that establishment costs will definitely be less for the bank in an office situation. It also concedes that banks can achieve rental savings by moving out of shopping centres, especially since retail centre rentals are around R60/m² or higher.

Blackheath Mews has a further 297 m² of banking space to let on the ground floor and another 2 570 m² available in three upper storeys. New tenants may include some of Old Mutual's own operations currently scattered throughout the area. The balance will be offered to small office tenants.

Watt says he first noticed resistance from banks to high shopping centre rentals two years ago in OMP's Menlyn Centre, Pretoria. To accommodate main bank branches, OMP put up the Menlyn Park office development nearby.

"When we went into Rivonia a year ago we did it the other way around. We built Mutual Place office park first to house FNB and United and then put up the Mutual Village shopping centre next door," he says.

The institution is now building a small office block in Kempton Park CBD primarily for Standard Bank's main branch. However, the bank has not decided whether to maintain a full branch or agency in the recently completed Kempton City. ■

SAGE GROUP

A matter of faith

FM 6/11/92 (58)

Activities: *Life assurance, financial services and property.*
Control: *Sagecor (jointly owned by Rembrandt Group and Louis Shill) 20,7%; Rembrandt Group direct 7,6%; Mines Pension Funds 24,9%; Absa 13,9%.*
Chairman/MD: *H L Shill.*
Capital structure: *82,8m ords. Market capitalisation: R381m.*
Share market: *Price: 460c. Yields: 5,4% on dividend; 11,1% on earnings; p:e ratio, 9,0; cover, 2,1. 12-month high, 470c; low, 400c. Trading volume last quarter, 596 000 shares.*

Reconstruction of the group under what used to be Sage Holdings' partly-owned subsidiary, Sage Financial Services (SFS), may justify the late publication of the report for the year to March, but, unfortunately, the delay has done nothing to ease analysts' task.

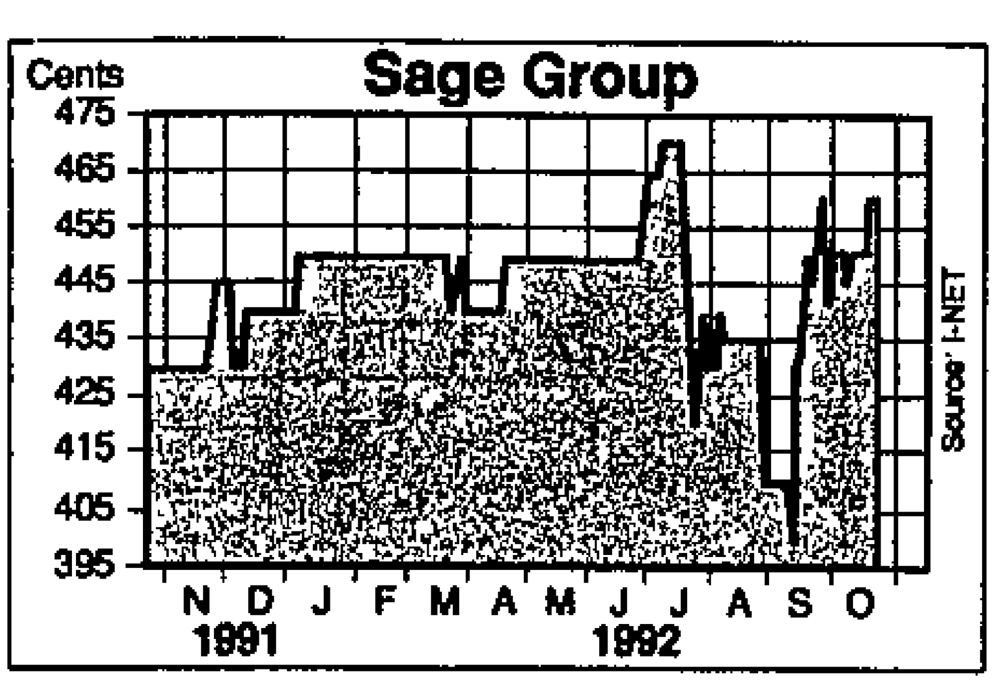
There's a post-merger balance sheet but a P&L account for the old SFS, with only a brief *pro forma* for the old Sage Holdings adjusted for the present equity. Sadly, this does not detail such vital items as interest capitalised by property subsidiaries — which is always one query over Sage's accounting techniques *(FM* August 16 1991).

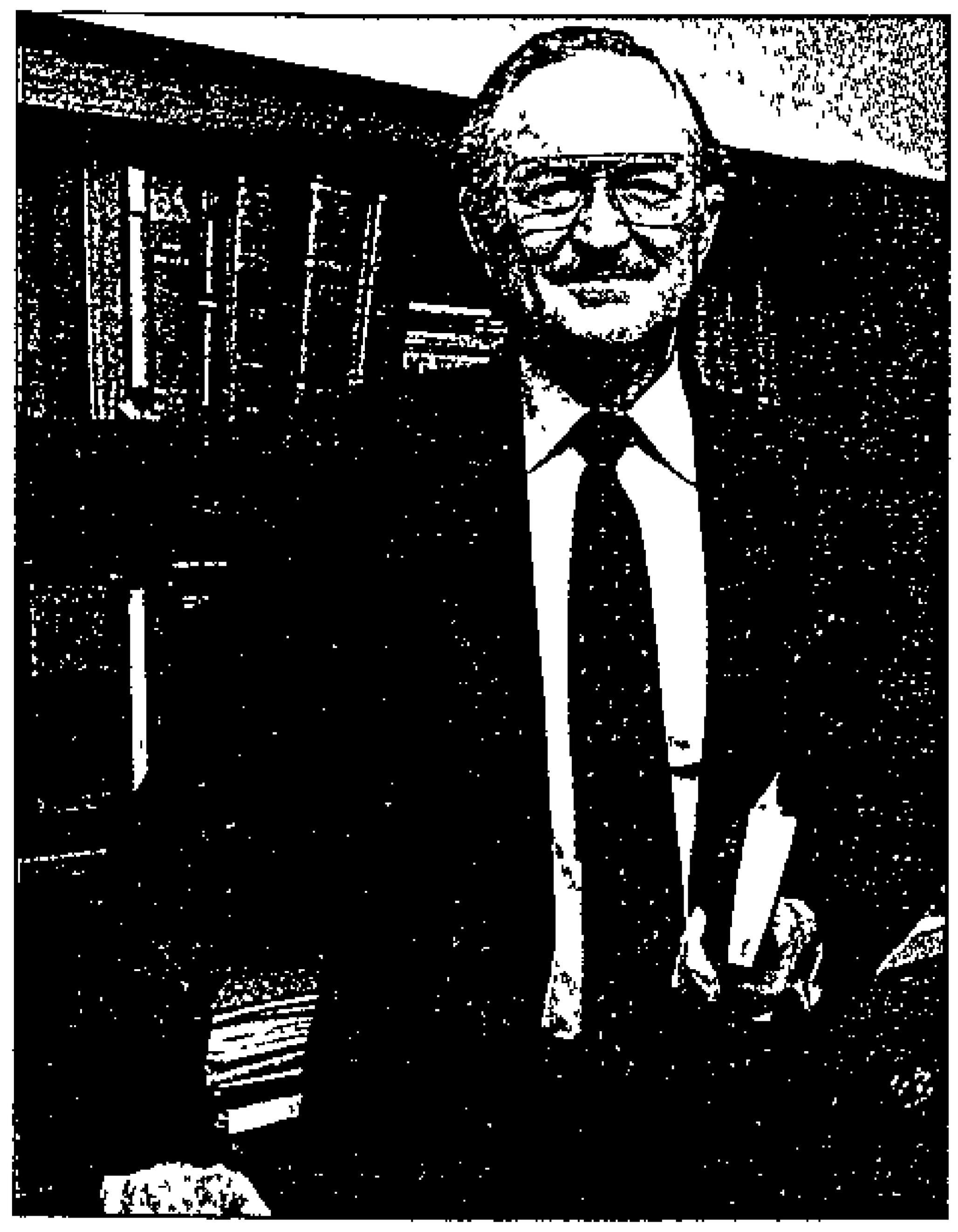
Sage tells the *FM* that interest capitalised fell from the previous 15 months' R21m (R16,8m annualised) to R13,9m, so that at least is a move in the right direction.

For what it's worth, the *pro forma* says Sage Holdings EPS on the equivalent Sage Group shares would have been 43,7c, against 38,2c the year before.

EPS of the old SFS, at 51,2c (1991: 42,0c) were ahead of the forecasts made both last year and in the interim report, thanks to the strong performance of the core life assurance and financial services divisions and of banking and other interests, in spite of the burden of high interest rates and lower earnings from the property division.

Of the main interests, Sage Life's total premiums rose 21,7% and new business premiums 27,0%. Expenses were only 14,2% up. Assets topped R2bn and have grown by 21,4% compound over the past five years. Disclosed earnings rose 20,2% to a record R22,6m and have grown by a compound





Sage's Shill .... *looking for more liberal payout*

19,4% over the past five years, entrenching Sage Life's position as the "dominant element and core activity" and a "major" contributor to profits.

As the interest in Sage Life is 51%, it would seem that it contributed R11,5m of SFS's reported R43,4m net profit.

Net earnings of Sage Property Holdings (now owned 64,2% directly and 35,8% by Sage Life) fell from R10,4m annualised to R7,6m, which the company says is in line with expectations, bearing in mind unfavourable conditions in the property and home-building industries.

Net profit of wholly owned unit trust management company Investors Mutual Funds was R1,29m, against R1,48m in the preceding 15 months.

Financial planning subsidiary FPS placed total business of R319m (R302m) but the only comment on profits is that they deteriorated. Profits were not disclosed in the 1991 report either, but as there was a reference to a "reversal" in its results, this seems to be the second year of downturn — something that will presumably demand attention this year.

The directors say the restructuring will permit a more liberal dividend policy. SFS's 25c total last year included a 5c special dividend from accumulated reserves. Though restructuring was completed only on September 21 and full benefits won't be felt this year, EPS are budgeted to exceed SFS's historical 51,2c; by how much will depend on how the disposal of non-core investments and further rationalisation go.

Benefits of the planned disposal of a "substantial portion" of the R400m non-core investments include improved cash flow, the substantial or even total elimination of gearing, enhancing the ability to expand core businesses, unlocking the group's underlying value, simplifying its structure (thereby cutting costs) — and, of course, the more liberal dividend policy already mentioned, whose objective is to reach a pay-out of at least 60% of earnings, against the current 50%.

There's certainly room for unlocking value. The stated value of so-called non-core investments actually exceeds Sage's own ordinary market capitalisation, suggesting the market attaches a negative value to Sage itself. Wags might even be forgiven for wondering whether it might not be an idea to sell off the core businesses and turn the company into an investment trust. The company points out that to include the convertible prefs boosts market cap to about R470m.

The main non-core investment is 5,3% of Absa — about 29m shares, worth R249m at Absa's current 845c. Absa was R10,10 on March 31, so this holding has depreciated by R48m. There is also an indirect 13% of Rand Merchant Bank Holdings, which should be worth about R65m, but this is described as "strategic" in the report.

Smaller investments which might be considered non-core include Sage Computing, Fraser Street Registrars, Encyclopedia Britannica (all wholly owned), Imperial Car Rental (40%) and Highrise Homes (50%), equivalent to a 25% stake in Southern Sun Timeshare).

Balance sheet long-term liabilities are put at R124m, against ordinary shareholders' funds of R244m, preference capital of R80m and minority interests of R175m, so given the size of non-core investments eliminating gearing looks by no means impossible.

Until a detailed P&L account for the reconstructed group, reflecting the effects of rationalisation, is available, it's difficult to gauge the quality of earnings. Year-end tangible NAV was 384c. Depreciation of Absa will have knocked almost 60c off this, but the holding in Sage Life must be worth well above book value. Nevertheless, valuing Sage Group remains as much a matter of faith as of analysis. *Michael Coulson*

INTERLEISURE FM 6/11/92

Showing agility

Interleisure has been a strong performer on the JSE since its listing in 1987, but more recently investor perceptions have turned decidedly chilly. Since the June 30 year-end, the price — now 275c and at a 12-month low — has retreated 31%, reducing the p:e from

continued

(58) FM 6/11/92

FIRST NATIONAL BANK

Approaching the ceiling?

While Reserve Bank Governor Chris Stals can be thanked in part for First National Bank's outstanding, margin-driven results, management deserves its share of credit.

The 11,7% increase in interest income and 7,1% increase in interest expenditure represent a slightly smaller margin than that achieved in the previous financial year. Yet earnings grew 15,5% — despite the issue of 11m new shares in March's R550m rights issue, a special tax provision of R5,4m relating to a dispute with the Receiver and extraordinary items totalling R27m.

MD Barry Swart admits margins were good but points out non-interest income advanced a healthy 16,8% to R1,3bn. This is 3,4% of average assets, the highest percentage in at least the past five years.

MARGIN DRIVEN

Year to Sep 30	1991	1992
Net interest inc (Rbn)	1,58	1,95
Other operating inc (Rbn) .	1,12	1,30
Other operating exp (Rbn)	1,79	2,15
Net income (Rm)	385,1	478,9
Earnings (c)	529,3	611,2
Dividends (c)	175	200

And don't suggest that FNB has been too cautious in its bad debt provision, at R347m up 32% on the previous year, without which earnings could have been higher.

"I think we're realistically conservative about bad debts and FNB has the best disclosure in the country," says Swart. "We don't create big general reserves — bad debt provisions are specifically defined. We probably have a better handle on our advances book than other banks."

Advances grew 14,2%, mainly on the back of increased home loans. Since FNB's unsuccesful bid for Allied, it has followed an aggressive home loans marketing policy which is showing results. At the 1991 year-end, FNB's home loans book stood at about R5bn. Swart says it totals just under R7bn, "with an additional R1bn in the pipeline."

FNB still holds the rights funds, which, besides boosting interest earned and curbing interest paid, could be used for the Henry Ansbacher acquisition. This is still under negotiation and Swart says a different fund-

continued →

FOX FM 6/11/92 (58)

ing route could be followed.

Suggestions that Ansbacher might not offer good returns in the short-term elicit a short response. "Do you think we're a bunch of dodos?" But FNB evidently sees the UK bank as a strategic investment.

Apart from the current UK deal and expanding other existing offshore operations, Swart does not foresee further overseas acquisitions this year.

"We don't want to put flags on the world map just for the sake of it," he says. "We will if we can attach dollar signs to the flags, but we believe the home base is where the business is."

Some analysts feel FNB's earnings cycle, along with other big banks, has probably peaked. Interest margins might not be as favourable this year and earnings will have to come primarily from volumes. That, in turn, will depend largely on the economy picking up. If it does, FNB can sacrifice interest margins to stimulate demand.

At R58, the share is off its mid-year peak of R67 but trades on a relatively undemanding p:e of 9,5, compared with Standard's 13,8. That seems to offer fair value, even if the banking sector is close to its ceiling.

Shaun Harris

(2) to ensure—

(a) that competitive parity between undertakings is not unduly distorted by virtue only of the demarcation and allocation of such a site, and

(b) that the extent of the land leased to Richards Bay Bulk Storage (Pty) Ltd at present is not excessive for the purposes of its immediate and foreseeable needs.

(6 November 1992)

BOARD NOTICE

BOARD NOTICE 331 OF 1992

58

FINANCIAL SERVICES BOARD

NOTICE UNDER SECTION 23B OF THE INSURANCE ACT, 1943 (ACT No. 27 OF 1943), OF INTENTION TO DECLARE A SPECIFIC PRACTICE AN IRREGULAR OR UNDESIRABLE PRACTICE FOR INSURERS

Under paragraph (a) of subsection (1) of section 23B of the Insurance Act, 1943 (Act No. 27 of 1943), I, André Swanepoel, Deputy Registrar of Insurance, hereby give notice for general information that I intend, after having complied with the requirements set out in the said section 23B, to publish under the said section 23B a notice whereby the specific practice as defined in the Annexure hereto is declared an irregular or undesirable practice for the insurers referred to therein.

All interested persons are invited to submit representations in writing within twenty-one days of the date of this notice regarding the intended declaration to:

The Registrar of Insurance
Private Bag X238
PRETORIA
0001.

A. SWANEPOEL,
Deputy Registrar of Insurance.

ANNEXURE

1. The specific practice which is declared to be an irregular or undesirable practice for insurers, is any practice, arrangement, scheme or agreement to the extent that it has or may have as a result the granting of cover by an insurer in relation to any credit transaction which is concluded at any time after the expiry of a period of 21 days after the date of publication in the *Gazette* of this Notice—

   (a) against the loss, theft, damage or destruction of property which is the subject-matter of the agreement;

   (b) in the case of the death or disability of the credit receiver concerned; or

(2) om te verseker—

(a) dat mededingingspariteit tussen ondernemings nie uitsluitlik as gevolg van die afbakening en toekenning van sodanige perseel oormatig versteur sal word nie, en

(b) dat die grootte van die grond wat op die oomblik aan Richards Bay Bulk Storage (Edms.) Bpk. verhuur word nie buitensporig is vir sy onmiddellike en voorsienbare behoeftes nie.

(6 November 1992)

RAADSKENNISGEWING

RAADSKENNISGEWING 331 VAN 1992

RAAD OP FINANSIËLE DIENSTE

KENNISGEWING KRAGTENS ARTIKEL 23B VAN DIE VERSEKERINGSWET, 1943 (WET No. 27 VAN 1943), VAN VOORNEME OM 'N BEPAALDE PRAKTYK TOT ONREËLMATIGE OF ONGEWENSTE PRAKTYK VIR VERSEKERAARS TE VERKLAAR

Kragtens paragraaf (a) van artikel 23B (1) van die Versekeringswet, 1943 (Wet No. 27 van 1943), gee ek, André Swanepoel, Adjunk-registrateur van Versekeringswese, hierby vir algemene inligting kennis dat ek voornemens is om, na voldoening aan die vereistes uiteengesit in genoemde artikel 23B, kragtens daardie artikel 'n kennisgewing te publiseer waarby die bepaalde praktyk omskryf in die Aanhangsel hierby tot 'n onreëlmatige of ongewenste praktyk vir die versekeraars daarin vermeld, verklaar word.

Alle belanghebbende persone word uitgenooi om binne een-en-twintig dae vanaf die datum van hierdie kennisgewing skriftelike vertoë aangaande die voorgenome verklaring te rig aan:

Die Registrateur van Versekeringswese
Privaatsak X238
PRETORIA
0001.

A. SWANEPOEL,
Adjunk-registrateur van Versekeringswese.

AANHANGSEL

1. Die bepaalde praktyk wat tot onreëlmatige of ongewenste praktyk vir versekeraars verklaar word, is enige praktyk, reëling, skema of ooreenkoms vir sover dit tot gevolg het of kan hê dat 'n versekeraar dekking verskaf met betrekking tot enige kredietransaksie wat te eniger tyd na verloop van 'n tydperk van 21 dae na die datum van publikasie in die *Staatskoerant* van hierdie Kennisgewing aangegaan word—

   (a) teen die verlies, diefstal, beskadiging of vernietiging van goed wat die onderwerp van die transaksie is;

   (b) in die geval van die dood of ongeskiktheid van die betrokke kredietopnemer; of

(c) against any occurrence referred to in subparagraph (a) and any occurrence referred to in subparagraph (b),

(58)

and—

(i) only the credit grantor obtains the rights of an insured, or he is a co-insured; and

(ii) (whether it is a provision of any agreement between the insurer and the credit grantor or not) the premiums, or any portion thereof, in respect of the said cover are paid by the credit receiver:

Provided that the foregoing provisions of this paragraph shall not be construed as rendering any practice, arrangement, scheme or agreement, or one or more provisions or consequences thereof, which regulates a relationship between an insurer, a credit grantor and a credit receiver in respect of a credit transaction, a specific practice contemplated in the aforegoing provisions merely on the ground that in terms of the practice, arrangement, scheme or agreement, or one or more provisions or consequences thereof—

(aa) the credit receiver is obliged also to give notice to the credit grantor of the happening of any insured occurrence; or

(bb) the credit receiver is obliged to institute a claim against the insurer in co-operation with, or through the agency of, the credit grantor; or

(cc) any claim is paid out by the insurer to the credit grantor concerned to the extent that he may at the time of payment have any interest as credit grantor in the relevant credit transaction, with a view to the utilisation of the payment for the benefit of the credit receiver.

2. In paragraph 1 and in this paragraph "the Act" means the Insurance Act, 1943 (Act No. 27 of 1943), any word or expression to which a meaning has been assigned in the Act, shall bear the meaning so assigned to it, the expressions "credit grantor", "credit receiver" and "credit transaction" shall, respectively, bear the meaning assigned thereto in section 1 of the Usury Act, 1968 (Act No. 73 of 1968), and—

"category of insurers" means insurers registered in terms of the Act to carry on—

(a) short-term insurance business; or

(b) long-term insurance business; or

(c) both short-term and long-term insurance business;

"insurer" means an insurer belonging to a category of insurers, including an insurer of Lloyd's referred to in section 60 of the Act.

(6 November 1992)

(c) teen enige gebeurlikheid bedoel in subparagraaf (a) en enige gebeurlikheid bedoel in subparagraaf (b),

en—

(i) slegs die kredietgewer die regte van 'n versekerde verkry, of hy 'n mede-versekerde is; en

(ii) (of dit 'n bepaling van enige ooreenkoms tussen die versekeraar en die kredietgewer is of nie) die premies, of enige gedeelte daarvan ten opsigte van bedoelde dekking deur die kredietopnemer betaal word:

Met dien verstande dat die voorgaande bepalings van hierdie paragraaf nie uitgelê word nie as sou 'n praktyk, reëling, skema of ooreenkoms, of een of meer bepalings of gevolge daarvan, wat in verband met 'n kredíettransaksie 'n verhouding tussen 'n versekeraar, 'n kredietgewer en 'n kredietopnemer reël, 'n bepaalde praktyk beoog in die voorgaande bepalings uitmaak bloot op grond daarvan dat ingevolge die praktyk, reëling, skema of ooreenkoms, of een of meer bepalings of gevolge daarvan—

(aa) die kredietopnemer verplig is om ook aan die kredietgewer kennis te gee van die plaasvind van enige versekerde gebeurlikheid;

(bb) die kredietopnemer verplig is om 'n eis teen die versekeraar in samewerking met, of deur middel van, die kredietgewer in te stel; of

(cc) 'n eis deur die versekeraar uitbetaal word aan die betrokke kredietgewer vir sover hy ten tyde van die uitbetaling 'n belang as kredietgewer by die betrokke kredíettransaksie het, met die oog op die aanwending van die uitbetaling tot voordeel van die kredietopnemer.

2. In paragraaf 1 en in hierdie paragraaf beteken "die Wet" die Versekeringswet, 1943 (Wet No. 27 van 1943), het enige woord of uitdrukking waaraan 'n betekenis in die Wet geheg word, die betekenis aldus daaraan geheg, het die uitdrukkinge "kredietgewer", "kredietopnemer" en "kredíettransaksie", onderskeidelik, die betekenis daaraan geheg in artikel 1 van die Woekerwet, 1968 (Wet No. 73 van 1968), en beteken—

"kategorie versekeraars" versekeraars wat ingevolge die Wet geregistreer is om—

(a) korttermynversekeringsbesigheid; of

(b) langtermynversekeringsbesigheid; of

(c) beide korttermyn- en langtermynversekeringsbesigheid,

te dryf;

"versekeraar" 'n versekeraar wat tot 'n kategorie versekeraars behoort, met inbegrip van 'n versekeraar van Lloyds bedoel in artikel 60 van die Wet.

(6 November 1992)

FM 6/11/92 (58)

RMB HOLDINGS FM 6/11/92

Substantial listing (58)

Rand Merchant Bank (RMB) CE Paul Harris, suntanned and relaxed about the November 25 listing of RMB Holdings (RMBH) — itself basking in sunny results from RMB — sums up the expanded group's nonchalant attitude towards being quoted.

Considering it is digesting additional assets of about R7,7bn (with a further R1,5bn off-balance sheet) from recent acquisition Momentum Life (*Fox* October 2), RMBH seems in good shape for its listing of 55m ordinary shares in the insurance sector.

No capital is being raised, so the share price will be set on listing Trade may not be heavy at first, but with 13% direct holder Absa (47% is held by directors and management) apparently serious about selling, there should be activity later.

Which makes the listing price more than academic. A *pro forma* estimate of Momentum's 1992 EPS, adjusted to include RMB, is 35c, a notional p:e of 15,7 on Momentum's 550c. If RMBH commands a similar p:e ratio, a share price of R10-R10,50 is indicated on 1992 EPS of 61,7c.

As Momentum will at first contribute almost all RMBH's net income, its price will largely determine RMBH's. RMB reckons a factor of about 1,71 can be used which, on Momentum's 550c, puts RMBH at 940c.

This is close to the 930c forecast by Davis Borkum Hare.

Sponsoring broker Senekal, Mouton & Kitshoff believes the price could hit R10 on the first day's trading. Even if it doesn't, the listing will attract a lot of interest, being one of this year's more substantial.

Since RMBH acquired 76,8% of Momentum, in turn selling 100% of RMB to Momentum, the extended group is widely diversified. With more than three-quarters of its assets in insurance, RMBH has formally made the transition from a bank to the better-rated insurance sector.

Forecasts for financial 1993, based on consolidated five-year *pro forma* statements for RMBH, RMB and Momentum Life, expect net income to grow 17,7% to R40m and EPS by a similar percentage to 72,6c.

If shares are to be found after the listing, a question may be at what level to invest. Conventional market wisdom holds that one should keep at the operating level.

Apart from its life business, Momentum also owns Magnum National Life Assurance and 10% of strongly performing Sechold.

But RMBH also has some interesting subsidiaries, especially 71,4% of Australian Gilt Holdings. Besides the rand hedge element, Harris says this could earn R3m-R4m this financial year, about 10% of net profit. RMBH also has 95% of London & Dominion Trust and smaller investments in Dewar Rand and Hollandia, which should offer good medium-term growth.

However, earnings from these will be offset initially by the cost of servicing the R26m outstanding on the Momentum transaction. The most appropriate method of funding is still being considered, but preference shares are the most likely instrument.

Control is secure, leaving the group in a strong position for paper acquisitions. The listing may not be the end of restructuring. Though the pyramid formation is unpopular, Harris says it is flexible and offers a number of options.

One is a possible separate listing for RMB. Another is to reactivate Magnum Life as a specialist health-care company and drop it alongside other subsidiaries, which are likely to include a separate company for Momentum's life business, leaving Momentum as purely a holding company.

Property interests have already been separated, removing one of the life company's weak spots. *Shaun Harris*

Bearing the Standard

(58)

W/Weekly 6/11-12/11/92

By MONDLI MAKHANYA

SOUTH African business' foray beyond the Limpopo went a step further this week when a local banking group bought the continent's third-biggest banking chain.

Standard Bank Investment Corporatation's (Stanbic) acquisition of Australian banking chain ANZ Grindlay's African arm is the first serious attempt by a local financial institution to gain a foothold beyond our northern borders.

While other banks, such as First National Bank and Investec, have a limited presence in Africa, Stanbic is now involved in at least 11 countries — in four it operates commercial banks.

Although trade with the rest of Africa is not all that great, Stanbic expects a flood of local involvement in sub-Saharan Africa once the political relations between South Africa and Southern African Development Committee countries normalises.

"A lot of these countries are looking to us for cheap imports because of or close proximity to them and local companies are poised to take advantage it," says Stanbic African Banking Group chief executive Manfred Schutte.

According to Schutte, Stanbic is also positioning itself for the business of multinationals setting up African operations offices in Johannesburg.

Even though significant profits will not be made immediately, it would have been difficult for Stanbic to ignore the bargain price for which it picked up the ANZ network. ANZ itself is dispensing of its African operations in order to concentrate on its Asian arm.

For a mere R165-million — just five percent of Stanbic's capital value — the group got 25 branches, with a staff of 1 400. Neither will the group be forking out any of its money as the acquisition will be financed through an ordinary share issue.

The acquisition now pitches Stanbic against former parent Standard Chartered, which has the biggest African network, and Barclays Bank. But Schutte says Stanbic will not take these banks head on in the commercial banking side but will concentrate on financing and exploit its South African base. Only in Zimbabwe are there any commercial banks in the ANZ fold.

FNB gets UK foothold (58) (~~220~~)

FIRST NATIONAL BANK has announced that is has offered to buy the entire shareholding of UK merchant bank Henry Ansbacher for £57,8-million — a 32 percent discount on the £90-million value of the bank's assets.

W/Mail 6/11-12/11/92.

City Lodge likely to enjoy premium

S Times (BUSS) 8/11/92

By CHERILYN IRETON

WHEN City Lodge makes its Diagonal Street entrance on November 18 it will be only the second South African hotel group on the JSE boards.

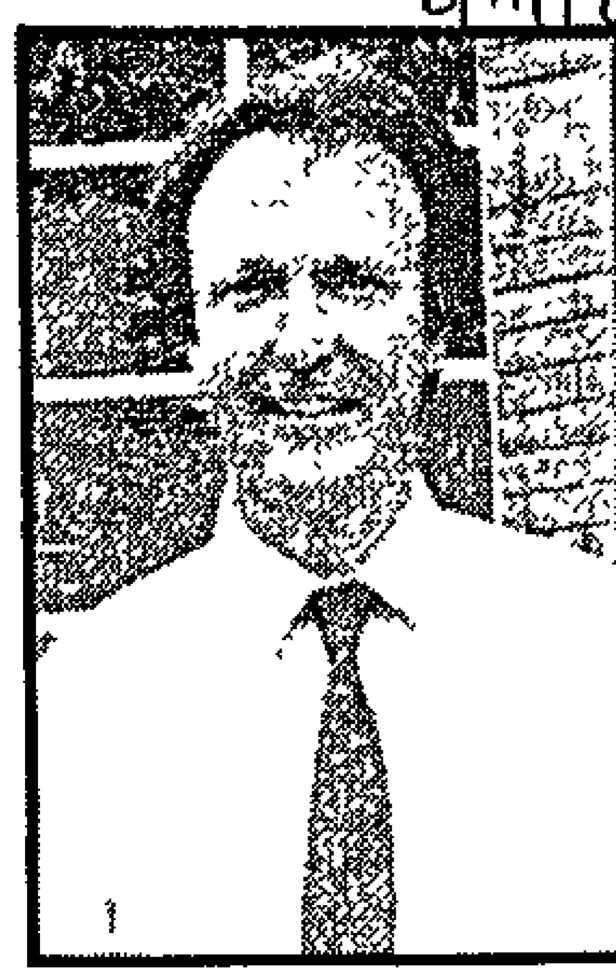
The listing follows the placing by the Mines Pension Funds of R51,5-million worth of shares and debentures in the eight-hotel chain.

The shares, placed at R4,80 each, are expected to trade at a 10% to 15% above the issue price if the market holds its present levels.

Karos

Based on early demand for the shares, some brokers suggest a trading price of about R5,50, which would give a market capitalisation of above R200-million.

City Lodge joins Karos as the only two quoted SA hotel chains. The rest of the JSE's hotel sector are Sun International subsidiaries operating in the homelands.



HANS ENDERLE: In the bag

The listing dilutes the Mines Pension Funds' shareholding to 42,8% from 63%. However, the funds retain joint control with City Lodge founder and managing director Hans Enderle, who keeps his 26,2% stake.

Mr Enderle says institutions have picked up 10,1% of the issued capital and the public 17,2%. Executives and management now hold 3,7%.

Among those to take up shares are Sanlam, Old Mutual, UAL, Syfrets, Norwich Life, Federated Life, Commercial Union, Metal Industries Fund and Iscor Pension Fund.

The convertible debentures, with an 11% coupon, attracted the additional attention of Liberty Life and Rand Merchant Bank Asset Management, says Mr Enderle. The Mines Pension Fund holds 8,6-million of the 13,6-million convertible notes, the institutions have picked up 3,4-million and the public 1,6-million.

These notes, worth R27,5-million at the issue price of R5,50, will convert to ordinary shares — one for one basis — when City Lodge's dividend equals 60,5c a share.

The dividend is expected to be 26c in 1993, yielding 5,4% on the issue price.

The group plans to open three hotels at the start of 1993, boosting growth prospects. These "no-frills projects" — in Sandton, the Victoria and Alfred Waterfront and at Jan Smuts Airport — have been funded by the Mines Pension Funds at an total cost of roughly R125 000 a room.

Mr Enderle says the existing hotels have operated at occupancy levels above 80% for most of 1992. This compares with a trade average of about 50%. The addition of another 460 rooms at the start of the year is expected to enhance City Lodge's profit propects.

Focused

This view is supported by the joint sponsoring brokers for the listing. A Davis, Borkum, Hare & Co report says investors can look to real earnings growth from this niche focused group.

Martin & Co suggests that the listing will give access to a business with good prospects and in a substantial growth phase.

Mr Enderle says City Lodge's 500 staff members have each been given 100 shares. Many have taken up additional scrip, which was offered at the same terms available to the institutions.

(58)

What Joan ... Linda

Absa sells RMBH stake

S Times (Buss) 8/11/92.

(58)

By JULIE WALKER

RMB HOLDINGS will be listed on the JSE later this month without the spectre of a large seller — Absa has already sold its 13% stake.

RMB Holdings was formed in 1985 from the merger of Rand Merchant Bank and Rand Consolidated Investments. It became the holding company of Rand Merchant Bank.

This year, it bought control of Momentum Life, into which was sold Rand Merchant Bank. The intention is to broaden the group into other financial services.

Absa became a shareholder when it took over the Allied, which had bought 13% in the mid-1980s for about 300c a share. Potential conflict of interests arose for Absa with its two wholly-owned merchant banks — Volkskas Merchant Bank and Senbank. The stake in RMB Holdings was known to be for sale at the right price. Absa received 850c a share.

Paul Harris, managing director of Rand Merchant Bank, says the group was always comfortable with Absa as a shareholder.

He says Absa's Bob Aldworth was a valuable member of the RMB board.

Mr Harris says RMB Holdings' management was not involved in the placement of Absa's shareholding.

More than 2-million shares have gone to third-party funds managed by Momentum, stockbrokers have placed a similar amount with institutions and 2-million have been set aside to top up RMB Holdings' share trust scheme.

After so many years of good growth out of the public eye, Mr Harris faces the listing with mixed feelings.

"The time is right because we have reached a level of maturity, our major asset Rand Merchant Bank is effectively listed already through Momentum and we have a spread of shareholders although no member of management is a seller.

"The main advantage a listing brings is the ability to issue paper for acquisitions. In retrospect, we might have been able to do the Momentum deal more cheaply if we could have issued higher-rated shares."

The group does not need to raise money now and will list its 55-million shares on November 25.

RMB Holdings deputy chairman and Rand Merchant Bank chairman GT Ferreira confirms talk that RMB declined an invitation to join Absa when it was formed two years ago.

RMB has built up a distinct identity which wouuld have been in jeopardy in the Absa fold.

Grovewalk's township stake slashes earnings

(58)

BDAY 9/11/92

PETER GALLI

GROVEWALK Holding's commitment to township land and affordable housing affected its profitability negatively for the second year in succession.

The property development company posted a 19% decline in turnover to R39,4m in the 16-month period to end-June from R48,64m in the year to end-February 1991, while operating income before interest plunged 28% to R2,95m (R4,11m).

"However, we are committed to remaining in this market but at a reduced investment level. The sector has had more than its fair share of fly by nights and we have established credibility that is now starting to stand us in good stead," CEO Gerard de Rauville said.

The high interest bill of R5,8m (R6,4m) pushed the group into the red to the tune of R2,86m (R2,28m) which, after an abnormal item of R1,82m (R1,4m) saw pre-tax losses of R4,69m (R4,17m).

Borrowings had been reduced by R8,4m and further progress in the current year combined with expected lower interest rates should ensure a further reduction in interest payable, he said.

Extraordinary items of R2,01m (R3,53m) took the loss for the period to R6,75m (R6,06m) or a loss, after abnormal items, of 35,9c (14,7c) a combined unit. This includes losses attributable to the township land and homes division of R5,19m (R4,95m).

"The extraordinary and abnormal items written off mainly represented the write-down of township land stock, the loss associated with discontinued township housing and provision for future losses which may arise due to political uncertainty," he said.

A successful application for funding from the Joint Services Board and the Durban City Council had enabled the group to provide sites and services to more than 1 100 poor families in the KwaDabeka area, De Rauville said.

Its acquisition of The Palace hotel and timeshare development on Durban's Golden Mile had fallen short of expectations, but the development was set to become profitable in the year ahead.

"Our traditional business of property dealing and development has posted an increased profit of 10% and our service division's profitability is up by 30%. Our Garden Grove retirement complex on Durban's Berea has seen sales of more than 50%," he said.

No dividend was declared for the period under review and Grovewalk intended converting the debenture portion of the combined unit into issued share capital in the current year — subject to the necessary approvals.

The group hoped to show a small surplus in the current year by concentrating on its core business, he said.

MONEY MARKETS by Hilary Gush

Dealers surprised by high rates, low offers

(58)

BIDAY 9/11/92

RATES in the money market are not expected to harden this week, despite sharply higher rates on the weekly three- and six-month Treasury Bill (TB) tenders.

The average rate of 12,36% on the three-month TB was 34 points up on the previous week's rate. The issue of the three-month bill was poorly subscribed with the total received equal to the R200m on offer.

There is usually an oversubscription, sometimes by as much as three times the amount on offer in the weekly TB tender.

Applications for the six-month TB tender saw the Reserve Bank receive R150m in bids for the R50m on offer, at an average rate of 11.16% against the previous week's 11,08%.

Surprised by the hitch in rates and low tender turnout, dealers speculated that the Bank might have approached the Public Investment Commissioners or the Corporation for Public Deposits for help.

Dealers warned that the increase in rates did not indicate a turnaround in sentiment, and believed the trend was still downward, albeit gradual. They labelled the hitch in the rate on three-month paper as an anomaly.

Expectations of a cut in the Bank rate persist, despite lack of action from Reserve Bank Governor Chris Stals. Stals appears to be looking at the broader economic picture and not merely at the inflation rate and money supply growth, before offering the cash-strapped consumer and banking world some respite in the form of an easing of the Bank rate.

Traders, who have long discounted a two percentage point cut in the official interest rate before year-end, have revised their forecasts and expect only a one point reduction before 1993.

Logic behind the delay is that positive real interest rates should be widened so as to generate an incentive to save.

A major correction in the capital market saw rates move up sharply last week. Yields on key long-dated stock shot up to 14,66% on Friday from the previous week-end close of 14,37%. Although traders expect inflation to fall to around 12% by December, they are not convinced that the trend of lower inflation will be sustained.

Traders say Reserve Bank action to reduce inflation is not likely to break the back of rising prices and inflationary expectations. Concern over fiscal policy and government dissaving will keep a check on gilts rates. However, as the JSE is currently not an attractive investment outlet, funds should keep flowing into gilts.

Rates are expected to move sideways for the next few weeks, before bulls creep back on to the floor and yields start coming down slowly.

Unit trust derivatives under review

LINDA ENSOR

CAPE TOWN — Controversial proposals to govern the use of derivatives by the unit trust industry have been circulated to management companies for comment. BIDAY

The suggestions were drawn up by a subcommittee of the Financial Services Board's (FSB) unit trusts advisory committee and chaired by FSB deputy registrar Gad Ariovich. The guidelines have not been formally adopted by the FSB. 9/11/92

The suggested regulations are likely to stimulate intense debate, with some believing that the proposals would overregulate the use of futures and options to such an extent that their potential usefulness in hedging portfolios would be diminished.

It has been proposed that the use of derivatives be limited to a maximum of 20% of the value of a fund with no allowance being given for netting off the difference between long and short positions to reach a 20% exposure.

All future positions would have to be covered by cash or other assets. In addition it has been suggested that there be a correlation between the fund and the index on which the futures positions were taken otherwise the exposure would have to be reduced accordingly. (58)

FSB's Gerry Anderson confirmed that the draft proposals had been released but said they would not be made available to the media at this stage. Association of Unit Trusts chairman Clive Turner said the association's executive committee had seen the proposals but he could not comment on them.

Enabling legislation permitting unit trusts to use derivatives was passed by Parliament last year but its implementation has been delayed pending the formulation of the required guidelines by the FSB.

Some industry sources believed the proposals were archaic and that the industry should be left to police itself in the same way as pension and provident funds.

Southern Life investments GM Carel de Ridder came out in support of a phased but quick introduction of the use of derivatives. He said the proposals had attempted to be too comprehensive and the industry should be allowed to use futures, which did not need much control, with options being introduced later.

He added that the delay in promulgating the guidelines was causing frustration in the industry.

The use of derivatives by the unit trust industry is seen as both a hedging device and as a way to generate returns. They are seen as being useful in reducing a fund's exposure to the market in situations where the trust is unwilling to sell a share it would otherwise have sold if there was not a shortage of scrip.

Bankers' 'impassioned' plea

GRETA STEYN (58)

BANKERS who put in an "impassioned plea" for a cut in interest rates at a meeting at the Reserve Bank last week came away hoping for action by the middle of the month, sources said at the weekend.

The meeting of bank treasurers, which was addressed by Deputy Governor Chris de Swardt, heard that bankers' corporate customers were getting deeper and deeper into the red.

"We made an impassioned plea on behalf of the companies who bank with us," said a banker who attended the meeting. The bankers noted that at a previous meeting it had been indicated that a cut in Bank rate would be possible once inflation fell below 14%. September's inflation rate, released last week, was 13,5%.

However, De Swardt indicated that the Bank was waiting for third-quarter economic statistics, that would not become available before the middle of the month at the soonest, before taking a decision.

Sources said gross domestic product (GDP) figures, the balance of payments (BoP) and government finances were included in the statistics that would be taken into account. Bankers said it was clear the Reserve Bank was especially worried about the BoP and the fiscal policy situation. The Bank saw the weak rand and the huge deficit as factors working against a slight easing in monetary policy.

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Bankers

BDay 9/11/92 (58)

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But the bankers argued, in turn, that the Bank should also take into account that "companies were bleeding"

Although bank margins have benefited from the monetary policy environment — as the cost of funding has fallen faster than lending rates — this has been offset by a surge in bad debt charges and low volumes as credit demand failed to pick up. Expectations of two cuts in Bank rate before the end of the year have now been discarded, but bankers are still geared for a one percentage point fall this month.

The Bank's failure to act after the release of the inflation figures has raised the possibility there will be no move this year. A disappointed capital market has already pushed rates up by almost 100 points as analysts began to predict the end of the bull run in that market

A surprise increase in the Treasury Bill rate on Friday further dampened bullish sentiment. Dealers, however, said that it was not indicative of a new trend in short-term rates

Dealers in the dark on Bank's finrand policy

(58)

BDAY 9/11/92.

HILARY GUSH

FINRAND dealers expect a statement soon from the Reserve Bank on the use of the financial rand as an overseas investment vehicle for local companies.

Traders in the finrand market have been unanimous in their call for Reserve Bank clarity on the issue.

One dealer said: "There is no clarity from the Bank as to whether they're going to allow the finrand to be the vehicle for disinvestment by local companies."

He said the delay in clarification was due to the fact that Reserve Bank governors were divided in their views on the currency. He expected a statement soon by Bank Governor Chris Stals.

Last week finrand deals worth more than R190m were clinched.

Local transport and container group Trencor last week announced its acquisition of a substantial minority shareholding in San Francisco-based container leasing company Textainer Group. The deal is believed to be worth about R100m in finrands, but the form of payment has not yet been disclosed.

Traders say Sappi's offer to buy the balance of the shares in German company Hannover Papier — a deal worth about R90m in finrands — is likely to fan further finrand sales. As the deal will only be finalised in mid-December, its immediate impact on the unit will be reduced.

Despite statements from FNB that it will finance payment for the purchase of British merchant bank Henry Ansbacher through means other than the finrand — possibly through offshore borrowing — news of the deal has had a substantial impact on the market.

Since the beginning of October reports of pending payments have cast a shadow of doubt over the thin and volatile market, fuelling a sell-off of the currency by nervous dealers.

It is understood that the finrand portion of the deal involving the purchase of Del Monte Foods International by local confectionery group Royal is worth in excess of R1,3bn in finrands. Even if the deal is structured so as to spread out finrand sales over a longer period, dealers say the impact on the finrand will be significant.

The unit, which closed at R4,70 against the dollar on Friday, is expected to trade in a range of R4,55 and R4,87 for the next few months, until all impending sell orders have left the market.

COMPANIES

Banks gain where retailers suffer

SHARON WOOD (58)

TIGHT monetary policy has harmed some sectors more than others, with high interest rates taking their toll on retailers while banks have benefited. 6|DAY

Recent financial results showed that banks had achieved inflation-beating earnings growth, while most retail companies had moved backwards in real terms.

Earnings growth of 16% a share by FNB contrasted with a 9% drop in furniture group Ellerine's earnings. Edgar's showed 5% growth in attributable earnings, which, although a decline in real terms, was considered excellent in view of the current economic circumstances. 9/11/92.

Martin & Co analyst Richard Jesse said the banking industry's good performance had primarily been a result of wide interest margins, which reduced the impact of recession-induced bad debts. Thus, banks had managed to perform countercyclically to the downturn.

He said the reason for the banking sector's good performance had been the reason for the retail sector's bad times. "The average retail company is hurt by the huge interest payments it must make when rates are high."

However, Ed Hern Rudolf retail analyst Syd Vianello said the interest burden on retail companies had already started to ease and would become less onerous during the next six months. The cost of debt had fallen dramatically since July, he said.

IGI to establish business in Mozambique

BIDAM 10/11/92

(58) ANDREW KRUMM (280)

LOOKING to Africa for growth, insurer IGI begins trading in Mozambique next week and is seeking other opportunities further north, says Hosken Consolidated Investment group co-ordinator and IGI director Terence Maher.

Besides the Companhia Geral de Segueros de Mozambique (CGSM), IGI recently set up a life office in Zimbabwe to complement its long-standing insurance business there.

The group was seeking opportunities even further north and had investigated Kenya as well as a "more accessible southerly neighbour of Kenya".

"Apart from being overtraded, Kenya is a little too far to service at the moment, and we need a stepping stone to get there."

When pressed on whether IGI had Tanzania in mind as the "stepping stone", Maher declined to comment.

He said CGSM would compete with Mozambican national insurer EMOSE, which had monopolised the market, as well as a Portuguese-backed insurer looking to open in Maputo.

Reserve Bank plans to curb use of finrand

(49) (58) LINDA ENSOR (74)

SOMERSET WEST — The Reserve Bank was considering "natural and non-disruptive" ways of limiting use of the financial rand for off-shore investments, Bank Deputy Governor Jaap Meijer said yesterday.

Various methods of restricting the use of the finrand which would not be too tough on the market were being investigated. The Bank would prefer the finrand to be more stable than it had been since mid-September, Meijer said in an interview at the Stellenbosch University Bureau for Economic Research annual conference.

HILARY GUSH reports dealers responded with enthusiasm to Meijer's comments. They speculated the Bank would either have to impose a limit on the amount of finrands sold each week by an investing company or allow direct purchase from the Bank of the foreign currency needed for the offshore acquisition.

Meijer said the Reserve Bank would prefer companies to finance their overseas acquisitions either with their own shares or with offshore finance. The socio-political uncertainty in SA and the identification of profitable opportunities overseas had fuelled the acquisition activity.

But Standard Bank Investment Corporation executive chairman Conrad Strauss said in an interview it was wrong to regard the spate of foreign acquisitions as a flight of capital. "The world is increasingly becoming a global village and we cannot operate in isolation. We need to take advantage of the windows of trade and technological opportunities opening up."

If SA financial institutions did not establish a presence overseas to cater for the needs of SA customers, foreign competitors would provide this service and set up in SA. Standard Bank's main aim was to consolidate its representation in southern Africa. BDAY 10/11/92

Regarding a cut in Bank rate, Meijer

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Finrand

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said the Reserve Bank was reluctant to surrender too soon to economic pressures as it had persisted so long with great pain and had achieved some success.

It was reluctant to reduce Bank rate without inflation coming down and even after taking into account the exclusion of the impact of VAT on inflation, would have to examine the underlying inflationary trend in the economy.

In his speech at the conference, Meijer said the Bank favoured reduction of the government deficit at whatever cost this might have for other aspects of the economy.

"The supreme and most immediate priority for government in the fiscal policy area undoubtedly is to re-establish confidence in the fiscal authorities' ability to curb their expenditure, increase their revenues and reassert control over the size of their budgetary deficits.

"We are most concerned about the effect the deficit has had in sapping confidence. It has created the impression that even in a transitional phase government is unable to maintain discipline and is unable to keep the Budget under control," Meijer said.

He said it was unlikely there would be any significant improvement in the deficit in the 1993/94 fiscal year, despite the intentions of Finance Minister Derek Keys. This year the deficit would be about 7% of GDP.

The Reserve Bank was concerned about inflationary expectations in the economy being boosted — a rise in taxes in next year's Budget to offset the deficit could add to the cost-push pressure of inflation — but it believed the deficit had to be addressed at all costs.

Meijer said the deficit was a revenue and not an expenditure problem, which reflected the weak state of the economy. Government expenditure was running according to plan but the flow of state revenue had been weak.

In suggesting some guidelines for a fiscal policy to promote economic growth and development, Meijer mooted the idea of negative income tax as an incentive for people to enter the formal sector. The system, which provided income supplements by way of a negative income tax for very low income earners, would also put downward pressure on wage rates.

Meijer suggested that the SITE mechanism could be used for this purpose, admitting, however, that, practically, the system would be difficult to implement.

● See Page 5

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Syndicate directors set to achieve a sizeable profit

Reports by PETER GALLI

THE latest syndication launched by Berns Block is set to make the directors a sizeable profit, while a projected return to investors of 135% over the next five years is being touted.

However, Berns Block director Arnold Berns said the profit was no more than in any other type of property deal.

"We have nothing to hide, which is shown by the fact we have openly disclosed all the facts — something few other industry players are prepared to do," he said.

The syndication industry has generally been guilty of a lack of disclosure, particularly regarding profits, and an attempt is being made to change this.

The syndication, in the company Integrated Investment Holdings (Inhold), is known as Mondeor Village and is situated on the corner of Columbine Avenue and Ormonde Drive in Mondeor, Johannesburg.

The 11 shops in the 2 060m² shopping centre are already let and gross rentals of R929 279 are expected for the year to end-February 1994, excluding recoverable expenses.

The vendor, Ozz Construction, and Berns Block have guaranteed the rental income for the first two years. On September 8 an option was granted by Ozz to Inmark for the acquisition of the property. It must be exercised by February 28.

The sale price was R6,7m. On October 28, Inhold entered into an agreement with Inmark to buy the property for R9,29m. This will be funded by private placement of 9 390 combined units at R1 000 each and also provide R100 000 in working capital.

The difference between the two prices — R2,59m — is profit for Inmark directors. But part of this will be used to pay Inmark's expenses, estimated at R1,38m.

In addition, a 10% equity stake has been taken by Synco, which is held equally by Berns Block and S & G Securities. Preference shares of nominal value have been issued to them, giving them 79% of the votes at general meetings.

"This effectively gives us management control and allows us, as property experts, to take quick decisions affecting the development," Berns said.

In addition, Ozz is in the process of acquiring a portion of the site owned by the Johannesburg City Council.

"However, Inmark's option provides that if, when the option is exercised, the vendor is unable to give title to that part of the property to Inmark, it will be excluded from the option without any reduction in the purchase price," the placing memorandum stated.

That part of the property was developed as a parking area to serve Mondeor Village Shopping Centre and, if Inmark is unable to obtain title to it, "the projections and viability of the centre should not be adversely affected", it said.

Berns said the development was viable without the erf, and commercial buildings were valued on the basis of tenants and rental values, not parking areas.

COMPANIES

New Republic Bank weighed down

BDay 11/11/92.

SHARON WOOD

HIGHER taxes depressed Natal-based New Republic Bank's attributable earnings growth, which rose by 11% to R1,4m in the six months to end-September from R1,3m in the 1991 period.

The bank's tax burden rose to 54% of net income from 42,8% the previous year.

MD Mac Mia said despite difficult economic conditions, the bank had performed well in increasing its net income before taxation by 38%.

The improved profitability of the bank was mainly a result of widening net interest margins, he said.

(58)

Diluted earnings a share rose by 9,6% to 21,7c (19,8c) and the dividend remained unchanged at 7c a share.

The bank increased advances by 8,3% and total assets by 9,1% to R413m in the half year from R379m. Bad debts rose by 7,7% to R2m (R1,9m).

Republic Ratings yesterday awarded the bank an A3 investment rating, indicating a strong capacity to repay short-term deposits.

COMPANIES

Unibank credit income up 76%

(58) ANDREW KRUMM

UNIBANK's interest income jumped 76% to R60,49m for the year ended September from R34,32m in 1991, driven by consumer demand for retail credit facilities, MD Gerrit van der Merwe said.

Earnings rose significantly to 15,34c a share from 9,52c in 1991. Van der Merwe said two factors had boosted demand for credit facilities: the client base had nearly doubled and increased demand for credit had boosted the number of private-label credit cards in issue for existing clients.

The group ended the year with 85 000 cardholders as against 35 000 in 1991.

"We also maintained attractive lending margins in the second area of our business — the financing of moveable assets."

Net interest income leapt 85% to R17,35m (R9,37m), while revenue from other sources rose to R3,3m (R2,3m), pushing operating income to R20,65m (R11,7m) for the period. BDA 7/12/11/92

Although higher operating expenses cut into profit, taxed income was substantially up at R4,66m against R1,7m in 1991.

Van der Merwe forecast that the group's net interest income would rise to more than R20m in 1993.

The group was poised to take advantage of the niche opportunities and spinoff business that could arise out of the rationalisation of main-stream banking.

"Opportunities have arisen in the money, capital and instalment finance markets with the elimination of a number of main-stream players — for example through Absa's formation — and additional facilites might be required," he said.

Sage property trusts report difficult times

BIDAY 12/11/92 58

ANDREW KRUMM

THE SAGE group's two property trusts reported marginal growth in net earnings for the six months to September.

A statement released today by Sage Property Trust Managers showed the CBD Fund's distributable income rose to R18m for the half year, against R17,1m for the same period in 1991. The interim dividend increased to 14,75c a unit from 14,03c.

Sister fund Pioneer Property Trust saw minimal growth in earnings to R19,05m from R19m, and the interim dividend was fixed at 17,1c (17,06c) a unit.

Directors said office space remained in oversupply in some areas after a period of active construction by developers expecting an early and brisk economic recovery.

In greater Johannesburg, commercial property in prime decentralised areas continued to perform satisfactorily, but rentals were under pressure in the city centre.

The retail property sector was having a difficult time, with turnover-based rentals reflecting reduced consumer spending. However, directors said that despite a squeeze on retail margins, demand for space remained firm.

On the other hand, the industrial property sector was suffering, with bankruptcies of tenants adding to a rise in vacancies.

The statement said the CBD Fund had disposed of all its investments in residential property for R11m and bought a decentralised office park in Sandton for R32,4m.

The first phase of an 11-unit development in Benrose had been completed for Pioneer. The fund also acquired an industrial stand in the Benrose area, and bought a 12-unit mini-factory in Midrand.

Rating of insurance industry irrelevant

BDAY 12/11/92

58

ALFRED GOSSNER and ROBERTO GRANDI

DOES the insurance industry really need more watchdogs?

The SA short-term insurance industry seemed to have become the flavour of the month as yet another survey on the current state of affairs was released to the media recently.

This time a debt rating agency (Republic Ratings) put together what it defines as an informal evaluation of short-term insurers, ranking them by their assumed ability to pay claims — in other words, their chances of future default.

At the bottom line there is a warning to the public to be more careful about where it places its business.

We, who represent the SA subsidiaries of four major international insurance groups, do not agree with these views, which might cause considerable confusion and anxiety among the public.

We maintain that the so-called informal rating does not supply a relevant indicator of claims-paying ability.

The rating is largely based on solvency margins — it takes into account the relation of net premiums to shareholder funds.

However, net premium is not a useful measure of risk exposure, nor do shareholder funds adequately describe the means available to cover claims.

The size of claims reserves of insurers and reinsurers and the security of the insurance programmes are of relevance. Only once claims reserves are exhausted may shareholder funds play a role.

However, in judging the level of the latter, one should be aware that international groups, apart from meeting statutory requirements, do not simply pile up capital in certain countries. Rather, they allocate their group capital reserves worldwide in order to optimise their returns.

Beyond the informal rating, the real issue is whether policy holders need the services of a private watchdog in addition to the control provided by the public regulatory authority.

In SA regulation of the insurance industry is up to international standards. The Insurance Act disciplines the sector and contains provisions for the Financial Services Board (FSB) and the Registrar of Insurance — entrusted with the task of ensuring that insurance companies are at all times able to meet their obligations towards policy holders.

The FSB and in particular the Registrar are seen by the industry to be performing their watchdog function highly effectively. They receive detailed quarterly information from all insurance companies, which goes beyond the information available to any private rating agency. They would certainly react if there were any doubts about individual companies' abilities to pay claims.

Against this background it remains unclear, to say the least, what added value could be provided by any private rating agency.

In this context, it is worthwhile to take a look at the international experience with regard to private insurance rating.

In the US, the only major insurance market where rating of insurance companies is popular, there have been a number of insolvencies of insurers in recent years. Conversely, in Japan — the second largest insurance market in the world — and in the large European insurance markets where rating is basically unknown, hardly any insurance insolvencies have occurred.

One can only conclude that if a central public regulatory authority is in place and performs its function adequately, as is the case in SA, there does not seem to be any need for self-appointed assessors. (By the way, who is going to assess them?) If the public authority fails, no private entity is likely to be in a position to guarantee anything.

Our views on the subject are in line with those of the SA Insurance Association, which has recommended to its members not to participate in formal ratings. This is not because insurers have anything to hide but because there is no added value for policy holders.

☐ **Gossner is Allianz Insurance MD and Grandi is Standard General MD. ACA Insurers chairman Gilbert Bouveret and General Accident MD Clive Dean also contributed to the article.**

REVIEW

Property unit trust legislation streamlined

BI DAY 13/11/97

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THE Income Tax Act discouraged the exchange of fixed property or shares for units in property trusts and should be amended to allow for level playing fields, JH Isaacs Group executive chairman and immediate past president of the Association of Property Unit Trust Management Companies Les Weil said yesterday.

Addressing the Financial Services Board conference on unit trusts, Weil said since the establishment of the board, progress had been made towards streamlining the industry. Among the most important improvements was the drafting of amendment procedures and legislation enabling property unit trusts to buy properties by issuing shares directly to property sellers.

Libvest sells its Stanbic shares

ANDREW KRUMM (58)

LIBERTY Investors (Libvest) sold its shareholding in the Standard Bank Investment Corporation for R70m as part of a tidying up operation, and declared a non-recurring dividend of 30c a share. BDAY 13/11/92

Liberty Life chairman Donald Gordon said the Stanbic shareholding was not fundamental to Libvest's long-term investment strategy.

Libvest would, however, continue to have a significant indirect interest in Stanbic.

He added that the sale — which realised a surplus of R57,7m for Libvest — was part of a tidying up operation, aimed at making Libvest's interests straightforward.

The 1-million shares were sold into the open market and not in-house.

Libvest's only shareholding now is a 50% equity interest in LibLife Controlling Corporation, and the R70m shortly to be sent off to shareholders.

"The directors of Libvest considered it desirable to rationalise and focus Libvest's position as a 50% shareholder in Liblife Controlling," said Gordon.

However, Libvest would continue to have a vast indirect interest in Stanbic through the Liberty Life Group's 40% stake in Stanbic.

LIFE ASSURANCE FM 13/11/92

New lease

(58)

Abolition of the sixth schedule of the Income Tax Act, now considered a certainty, will have a far-reaching impact on the types of products offered by life assurers. Those affected include children, HIV sufferers and life assurance intermediaries.

The major impact will be to make all policies sold in future standard for as long as they endure with a minimum of five years. In the past decade, to be standard and enjoy tax benefits, policies had to endure for 10 years and contain a proportion of life cover. Now, with five-year policies purely designed to harness the investment expertise of life offices, the single-premium business will get a

FM 13/11/92 (58)

shot in the arm.

It's certain the marketing departments of all major life offices are drafting new policies for two groups which stand to benefit.

In the case of an HIV sufferer the assurer could not exclude deaths arising from HIV conditions because of the life cover proviso. The only choice an assurer had was to refuse such a person a policy or suggest a nonstandard policy. When the schedule is abolished, a potential Aids victim will be able to take out a savings policy without the detrimental tax implications.

Children are protected because it removes the incentive for infanticide. This, in turn, eliminates the need to restrict the amounts of life cover that may be carried in policies in their names. Until two years ago the limit was R500. It is now R10 000 for a child up to age six and R30 000 for a child aged six to 14. It may now be possible to design policies that adequately provide for a child's education and other needs to adulthood by using a savings instrument with no life cover.

One group to lose could be the life brokers. In their efforts to circumvent the schedule, life assurers introduced policies that effectively divided the flow of investment — some to the life pool and the rest to savings. Brokers therefore had two sets of commission for the price of one sale. They may be less enthusiastic than the life offices about the pending demise of the schedule. ■

Bank indicators at 17-month low

BDay 13/11/92

(58)

DUMA GQUBULE

THE Reserve Bank's composite index of leading business cycle indicators plunged to a 17-month low in July after a tentative upward move in January and February, latest figures show.

The decline suggested that an economic upturn could be many months away, economists said yesterday.

The index is a series of 23 economic indicators whose turning points precede those of the business cycle. Its lower turning points lead an upturn by an average period of four months, the bank says.

Bank economist Burg van der Walt said the index had been falling for a number of months, which confirmed that the business cycle was still in a recessionary mode.

There was no indication of an upturn in the economy, he said.

Econometrix economist Tony Twine said an upturn was at least six to seven months away. The economy was still hostage to non-economic developments, particularly the political situation and the drought.

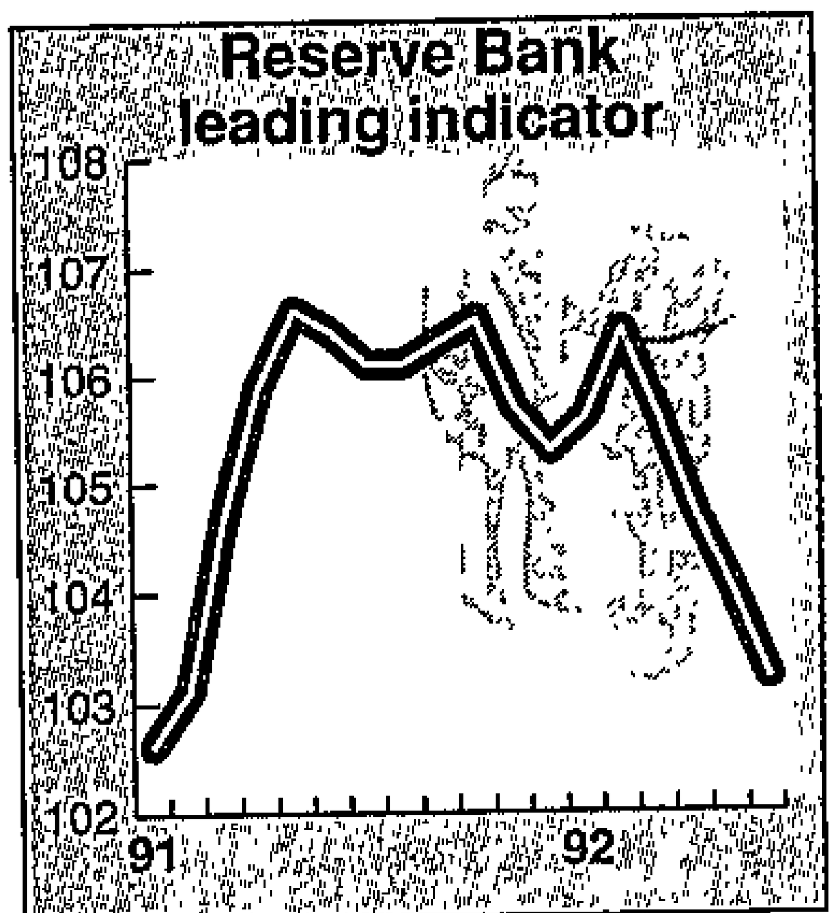
Tangible progress on the political front would result in an upturn in mid-1993, he said.

The index fluctuated upwards last year as a number of signals — falling interest rates and rising share prices, foreign exchange reserves and exports — raised a false alarm of an imminent economic recovery.

But the upturn failed to materialise as the worsening drought and, later, the political impasse — both non-economic factors which are not included in the index — resulted in an accelerated downturn.

The bank's index of 11 coincident indicators have been in freefall over the past three years — peaking at 126,1 in January 1990 and reaching a low of 104,6 in June.

The index of 11 lagging indicators, which confirm past changes in economic activity, has fallen from 122 at the beginning of 1990 to 104,3 in May.



Graphic LEE EMERTON Source RESERVE BANK

GROVEWALK HOLDINGS FM 13/11/92

(58)

Walking a tightrope

Low-cost housing and timeshare have again proved how fickle they can be in investment terms, with Durban-based listed property

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group Grovewalk Holdings having burned its fingers in these areas.

In its preliminary profit announcement for the 16 months to June 30, released this week, Grovewalk attributes losses — for the second year running — of nearly R5,2m to its commitment to township land and affordable housing. At its February year-end, Grovewalk had chalked up a R4,9m loss for the same reason.

CEO Gerard de Rauville says: "The acquisition of The Palace hotel and timeshare development on Durban's Golden Mile has also fallen short of expectations."

But it's not all doom and gloom.

De Rauville says: "We now have the people and controls in place to turn The Palace into a profit centre in the year ahead."

Meanwhile, Grovewalk has a declared R6,7m loss (1991: R6m), in spite of its traditional business, property dealing and development, having posted a 10% profit increase and the profitability of its service division having risen by 30%.

De Rauville is quick to point out that the past two years' losses follow 12 years of successful trading. Regarding the low-cost housing market, he says: "We are still committed to remaining in this market, though at a reduced level of investment.

"This sector has had more than its fair share of 'fly-by-nights' and where even the major institutions now fear to tread, we have established a level of credibility that is now beginning to stand us in good stead.

"A successful application for funding from the Joint Services Board and Durban City Council has enabled the group to provide sites and services to more than 1 100 poor families in KwaDabeka."

He adds: "Development of the Garden Grove retirement complex on Durban's Berea is proceeding in line with our expectations. With phase one due for completion only next February, more than half of the available units are already accounted for.

"All told, we believe we have turned the corner and will show a small surplus in the year ahead," says De Rauville, who also announced an R8,4m reduction in borrowings "in line with stated objectives." ■

HOUSE PRICES FM 13/11/92

Third-quarter shocker

58

Absa's quarterly national house price survey released last week shows that the average price of a medium-sized house has fallen in nominal terms for the first time since the mid-Eighties.

Because of the deepening recession, prices of large houses throughout SA have been declining for some time. But this is the first time since the severe recession of 1984/1985 that declining prices have been reflected for medium-sized houses.

For the optimists perpetually talking of an imminent rally in house prices, the news might come as a bit of a shock. But could they really have expected different news from a market caught, like all others, in the grip of the bear?

At R133 000, the average medium-sized house (176 m²) has fallen 1,5% from the second to the third quarter. Larger homes (265 m²), at R177 000, are 4,4% down. The average price of a small house — about 110 m² and priced at R105 000 — has not moved.

Absa senior economist Christo Luus says that by annualising the figures — taking the percentage change from the second to the third quarter and multiplying by four — "you can pick up the turning points and get a better picture of the latest trends.

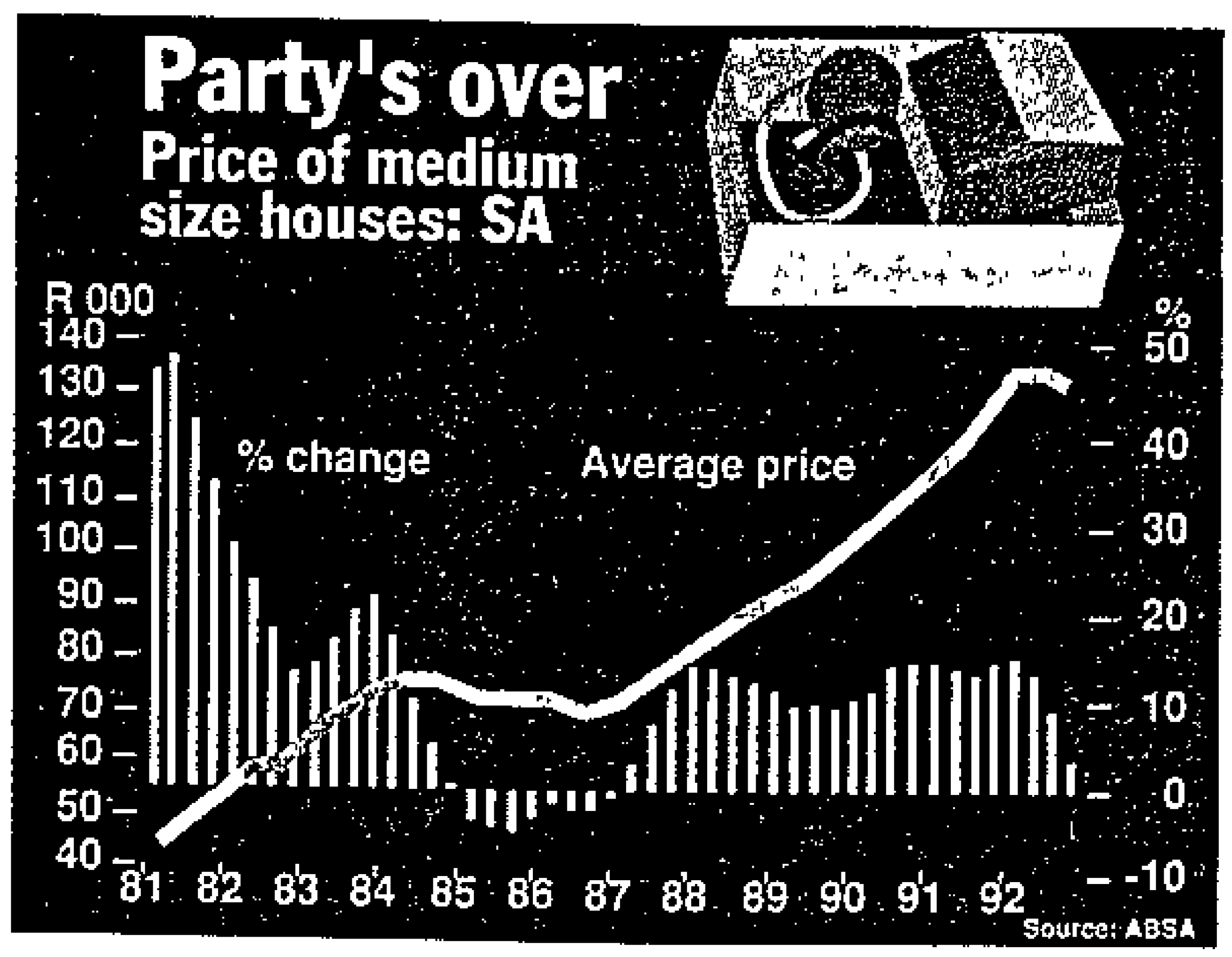
"By looking at this rate, we see that, for the first time, small homes have not moved at all in nominal terms; prices have dropped by 6% for medium-sized homes and have fallen by 17,6% in the case of the average large-sized home. These are important figures, though the year-on-year picture may seem more optimistic, showing small homes keeping up in nominal terms with a 9,7% increase and medium-sized homes increasing by 3%. As can be expected, prices of large homes, even in year-on-year terms, have suffered the most, declining 3%."

The annualised rate gives an indication of where house prices are headed. Luus thinks there could be a further decline in the real price of medium-sized houses during the fourth quarter of 1992, bringing the average real decline to 8,5% this year. That is a nominal rise of 6% subtracted from an inflation rate of 14,5%. In nominal terms, he believes, the average price of a medium-sized house will fall again from R133 000 to around R130 000 in the fourth quarter.

"If you look at the mid-1984/mid-1986 recession, where house prices fell in real terms by 18% in two successive years, prices in this recession — since it began at the start of 1989 — have held up pretty well with increases of 11% to 12% a year. It is only now, in the third quarter of 1992, that we have seen a substantial decline in real terms. In the most luxurious segment of the housing market, the fall this quarter alone, in real terms, is as much as 16%; for medium-sized homes 13,8%; and small homes 11%."

Is Luus surprised? "Not really, but I thought prices would have fallen some time ago, confirming what many people are feeling — that sellers are unable to sell and where sales are taking place, they're being concluded at lower prices."

Property economists Neville Berkowitz and Erwin Rode believe SA will experience negative real growth in house prices for another 18 months at least. Rode limits his prognosis to "a levelling off" in prices because of the varying house price figures countrywide.



Berkowitz feels it's going to take another 12 months to get an interim government in place in SA and another six months to a year to see whether it's working. Therefore, he believes, at least 18 months will lapse before political and economic confidence starts to improve. It seems that confidence, or the lack of it, is largely responsible for the variation in house price figures countrywide.

Says Rode: "According to Absa's figures, Johannesburg house prices suffered the most (small 0%; medium -2,8%; large -2,5%); whereas the West Rand (0%; 5%; 5,5%), which is more conservative, actually experienced a sharp jump. The East Rand (0%; -0,5%; -0,8%) is merely moving sideways.

"The more conservative Vaal Triangle (0%; 7,6%; -8,9%) also pulled up, despite its economic problems resulting from the collapse of the steel industry. Pretoria's (0%; -0,4%; -4,2%) embattled economy got the better of its house prices.

"The Durban/Pinetown area (0%; 3,5%; -6,1%) has been growing strongly for the past two years and still shows no sign of slackening; unlike the rest of Natal (0%; -7,7%; -7,6%), which, because of the violence, has experienced the sharpest drop in SA. It is worth noting that the eastern Cape (0%; -2,8%; -4,9%) has started to decline after a spate of strong growth."

Rode believes buyers should not rush to acquire new homes: "We've had a reasonable nominal growth in house prices up to the second quarter of 1992. That has now been reversed in some sectors because of the sharp decline in the economy and the market is not going to recover quickly."

Political turbulence

With turnover at the deeds office 30% down and the profitability of major estate agents such as Aida showing a substantial decline, what concerns Berkowitz is the optimistic forecasts still being given by various players in the residential market. "The net effect is that they have made sellers sit on the fence and bide their time in the hope of higher prices."

Berkowitz admits, however, that were it not for the political turbulence, substantial house price increases would be possible. This may still surface once stability is achieved.

Typical of the residential bulls is Martin Charney, of Martin Charney Estates. He says that because the participation bond rate is at its lowest (15,94%) in four years, this is an indication of the depth to which the mortgage bond rate can fall. One institution, he notes, is already offering mortgage bonds at 16%. "Therefore, house prices must start going up."

Charney also believes Clinton will push the US economy into a much more active and fully employed phase, dragging itself and the world out of the post-Cold War depression.

He adds that the replacement value of houses is high and SA can expect improved immigration because the European economies are in a worse predicament. "I've seen a pick-up in activity in the past two months. We have genuine sellers who are moving for normal reasons — not all are emigrating — and bonds are being granted. We're up in turnover and unit terms."

Does anyone want to lay a small bet on who is right? ■

GROVEWALK HOLDINGS FM 13/11/92

Walking a tightrope

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continue

INTEREST RATES FM 13/11/92

High pressure (58)

Interest rates are an emotive issue — particularly in an economy with a combination of high inflation and low growth. Reserve Bank Governor Chris Stals's policy is aimed at stabilising prices. But it can be argued that what monetary policy actually influences is growth in nominal GDP — that is, changes in output as well as prices.

By keeping real interest rates (nominal rates stripped of the inflation effect) high, he holds down growth in nominal GDP. By allowing real rates to fall or become negative, he can stimulate this growth. But outside his control are:

☐ The proportion of growth which represents real value added in the economy; and

☐ The proportion which simply reflects rising prices.

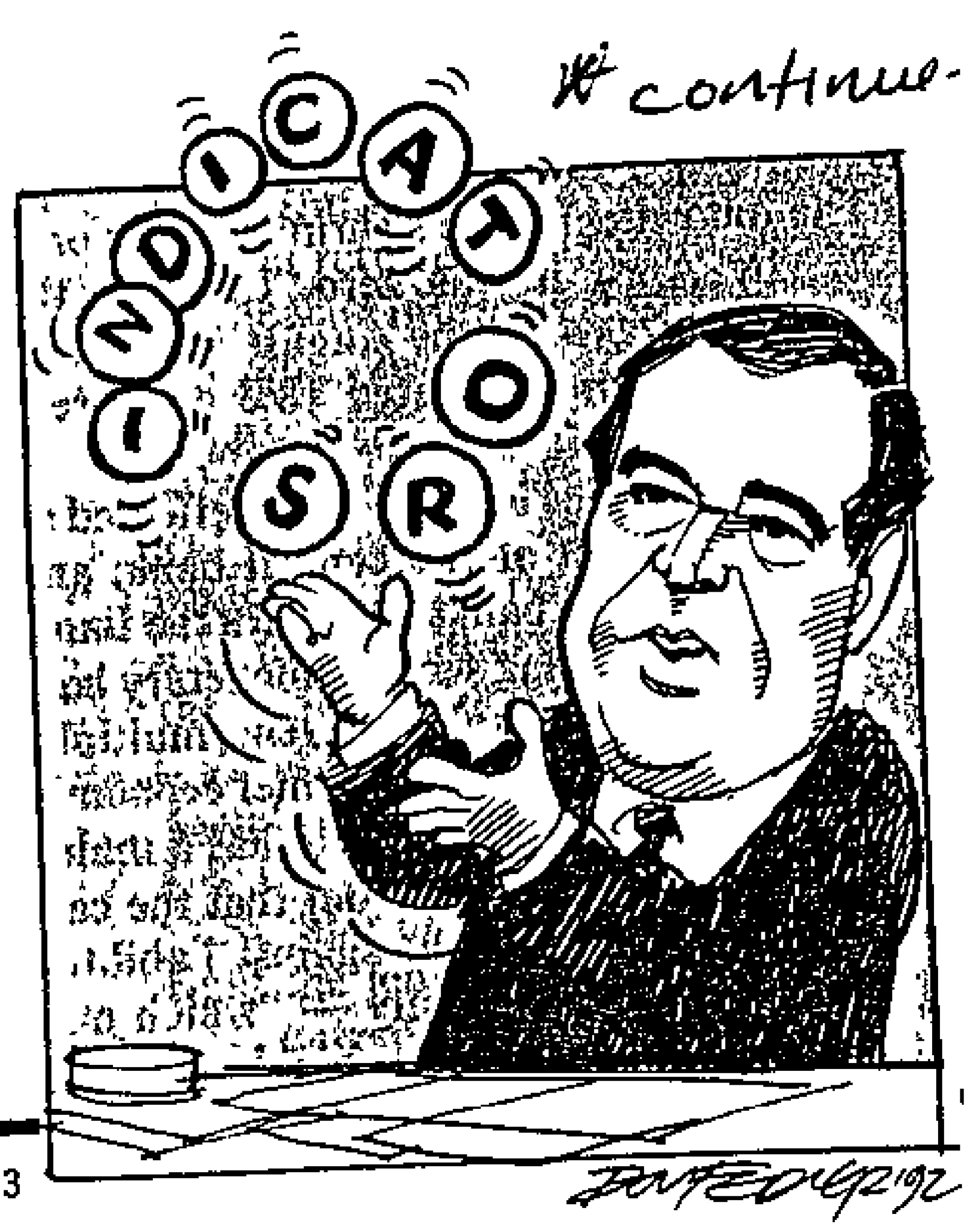
Central bankers know that high, and rising, inflation destabilises financial markets and inefficiently allocates resources. So, if the rate at which prices rise accelerates, responsible monetary authorities act to contain it.

Stals has done two things:

☐ Through open market operations, he has reduced liquidity (boosted by exchange controls and, this fiscal year, by a Budget deficit now expected to top 7% of GDP); and

☐ He has kept the Bank rate — at which the central bank accommodates the banking system — higher than inflation. It is now 15%.

He will not relax monetary policy but, as inflation falls, there is room for lower nominal rates. A number of inflation-related variables have improved. Consumer inflation is falling (though still high, at over 13%) and producer price inflation is in single digits (though rising back towards 10%). Growth in money supply has remained within the target range of 7%-10% for most of the year.



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And the recession, which started in March 1989, is assuming frightening proportions. So is the time right for lower interest rates? Or are contradictory signals coming from other areas of the economy?

The rand, for instance, has recently slipped against the dollar. But the recent drop below US33c (or over R3 to US$1) on Monday, from nearly US36c early in September reflects a shift in the relative strength of the US currency and the D-mark. The dollar rose from less than DM1,4 to DM1,6 in that period.

Stals' policy is to keep the unit stable in real terms against a trade-weighted basket of currencies. This means that a rise/fall in the rand value of the dollar (with a weighting of more than 50%) must be countered by a fall/rise against the cross-currencies. So the rand rose from about DM0,51 to DM0,53.

Erosion in the rand is clearer if we go back to square one: May 18, when the relationship between the dollar and the D-mark were about Monday's levels. The rand was worth DM0,5634, above Monday's DM0,5304.

"The extent of the fall," says First National Bank assistant treasurer Rob Wade, "is not out of line with the central bank's currency management policy."

So the falling rand is not a sign that interest rates must remain unchanged.

One sign that lower rates would be appropriate, says UCT professor Brian Kantor, is the rate of growth in total notes in issue. The 12-month growth rate fell to 6,8% earlier this year. Though the deceleration is now showing signs of bottoming, the 12-month rate was below 10% in September. This indicates little inflationary potential, and only moderate prospects for economic recovery.

But this does not mean throwing caution to the winds. Relaxation of monetary policy will have to be carefully managed. The inflationary potential can be seen in the narrow monetary measure M0. Its 12-month growth was over 22% in January 1990. It fell to 0,3% in September 1991 and then became negative, hitting a low of -4,5% this February.

The following month's shrinkage was only 2,7%; by April it was zero. In May, the growth rate was 4,3%, by August 16,6%, and in September an estimated 18% or more.

M0 consists of:

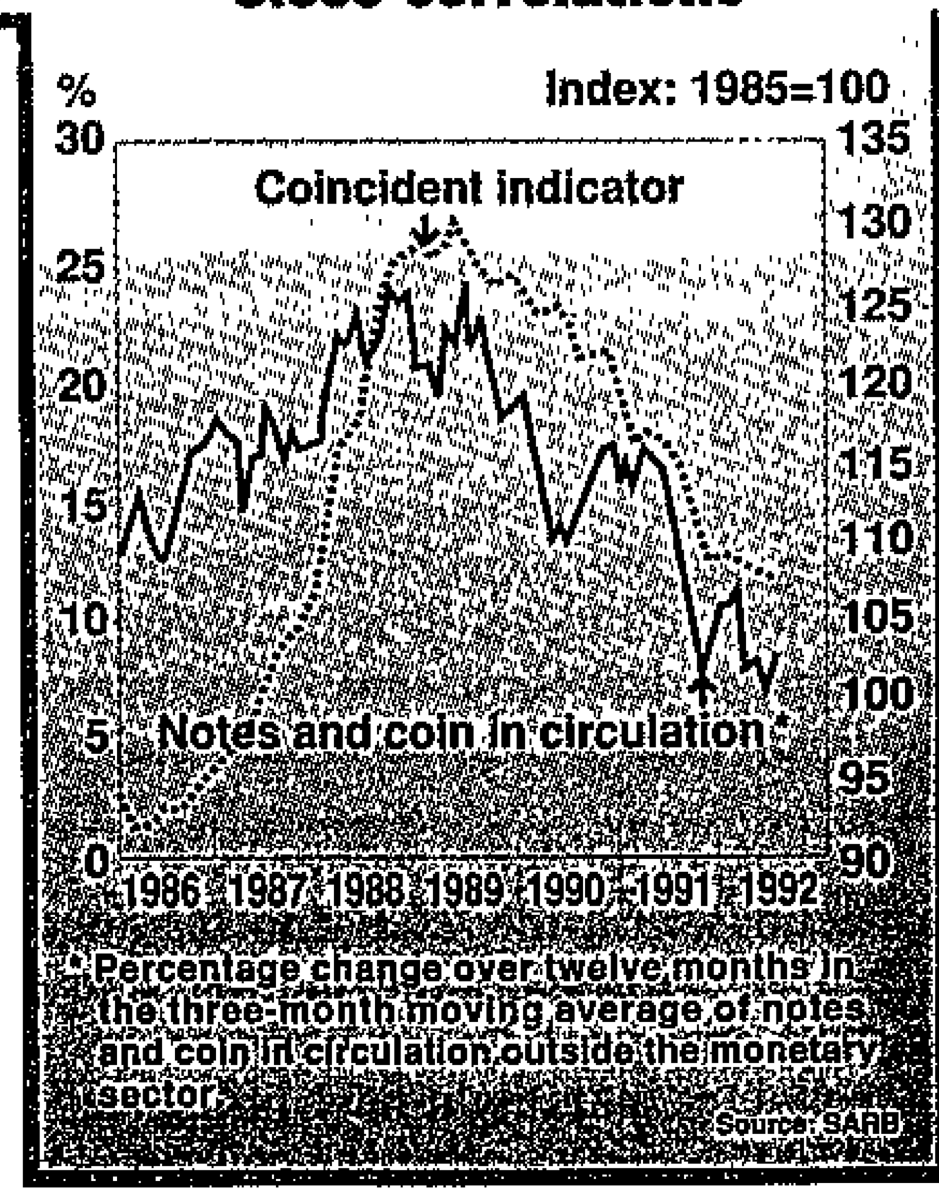
☐ Notes and coins in circulation reflected on the balance sheet of the central bank; and

☐ Deposits which banks keep with the Bank.

This is the banking sector's monetary base — in other words, banks can lend multiples of it to clients. So, says Absa chief economist Hans Falkena: "Any rise in M0 has a multiplier effect." But he points out that the cash reserves banks must hold against liabilities rose from 4% to 5% in July — "which may neutralise part of the cash build-up."

Pointing up (58)

Close correlations



*Percentage change over twelve months in the three-month moving average of notes and coin in circulation outside the monetary sector

Source: SARB

The relative importance of various monetary measures is as controversial as interest rate policy. The value of notes and coins in circulation has correlated closely with changes in GDP since early 1989. Coinciding indicators then showed a downturn in the economy (see graph), closely following a decline in growth of notes and coins towards the end of 1988. It is now pointing up.

A continuation in the upward trend will mean only that demand for cash is reviving and monetary policy is allowing the economy to expand. It cannot guarantee a real rise in output. Whether the growth is real or nominal depends on whether the country can overcome the obstacles to cost-effective production and distribution.

But it seems likely that Stals will soon make a further cut in the Bank rate. The above arguments support his policy of reducing it in line with inflation. As that is expected to fall to 12%-12,5% by year-end, he has at least a percentage point with which to play. ■

SHORT-TERM INSURANCE FM 13/11/92

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The Presidential mystery

Problems have surfaced in the affairs of President Insurance, a short-term company with a chequered history. President's CEO and major shareholder, Willie Smit, is resigning to enable an executive with a broader base of insurance expertise to take over.

This follows an application against the company in the Rand Supreme Court where an order was granted prohibiting the publication of the court order and the papers in terms of which the application was brought.

The events flow from a clash with the Financial Services Board, which is unhappy about President's management.

President is the second problem to emerge in the short-term insurance industry within weeks. Scherre, a large managing agency for Lloyd's, is running off its book.

President's case is difficult to unravel because of the Court's prohibition of publication of its proceedings. Until recently, a member of the Rentmeester group, President had a small book of about R30m in premium income and three years ago fell foul of the authorities because of its inadequate solvency ratios.

Attempts to find economies of scale through a merger failed and, eventually, President ran off its book under the supervision of the Financial Services Board (FSB). But it still had a substantial amount of business which had flowed from the Multilateral Motor Vehicles Accident Fund (MMF), where it had secured a business quota totally out of proportion to its ranking in the industry. This made President potentially interesting as an acquisition to other insurers.

In the event, it was not an insurer but the Profsure broking firm, headed by Smit, which bought the President licence from Rentmeester via a third party. Smit told the *FM* then that he specialised in professional practice insurance and that the transformation of Profsure to President and the transfer of Profsure policies to President had the financial backing of banks and his clientele.

At the time, Robert Shaw, who has many insurance interests and represents Hannover Re in this country, became a consultant to the reborn company. Shaw says he terminated his consultancy position in August but will not explain why.

The clash between the new President and the FSB has puzzling overtones. It is clear that the board brought an application but, in terms of the court order, no-one will confirm this. President appears to have the required solvency ratio and looks profitable.

Smit declines to talk about the court proceedings. Discussing other affairs of the company, he says:

☐ Since June, it has made a profit of more than R1,5m;

☐ New shareholders have been introduced, diluting his holdings and R5,3m of new capital has been injected;

☐ He is resigning as CEO and an experienced insurer has been selected as a successor, subject to approval by the FSB.

So why the fuss? Still without discussing the court order, Smit says: "It's personal. The board does not think I'm suitable for the position."

That is an oblique reference to Smit's connections with the CCB and his appearance as a witness at the inquest into the death of academic David Webster.

One factor that might have influenced the board to proceed through the court was that the shareholdings in President could have infringed the Insurance Act.

There seems to be some resentment because, when the licence was taken over, the board was presented with what seemed a *fait accompli*. Some sources have hinted they don't like Smit's free-wheeling management style.

Smit agrees: "I'm a damn good broker but probably the wrong person to run an insurance company."

Had the board remained unhappy about President and had Smit proved intractable, it could have proceeded under Section 4 *ter* of the Insurance Act, a path to the withdrawal of the insurance licence. But this is cumbersome; it could be contested for years in the courts and, ultimately, needs the blessing of the Minister of Finance. Another problem is that virtually all of the business underwritten by President comes from Smit's Profsure and could be moved at his will.

What happens next is in the hands of the lawyers. President has made it clear it will resist any attempt to wind it up; *prima facie*, there seems no reason to do so.

Meanwhile, Richard Barkhuizen, ex-chairman of Scherre Underwriting Managers of Bedfordview, says he will "make a little money" from a large building project he is handling in the southern Cape. He is on bail of R100 000 while his organisation is being investigated in connection with charges of fraud and corruption.

Barkhuizen tells the *FM* that figures mentioned of around R18m are nonsense: "I doubt if there was R100 000 unaccounted for in a six-year period." Scherre was one of the largest SA firms of management underwriters placing business through Lloyd's. It was noted for its flamboyant style, reflected in the décor of its Bedfordview offices.

Barkhuizen says that, sadly, the doors have now been closed after the publicity attached to the court case and 200 employees have lost their jobs. Another 40 people have been retained to run off the books and claims processed through Lloyd's are being met as usual. ■

INTEREST RATES FM 13/11/92

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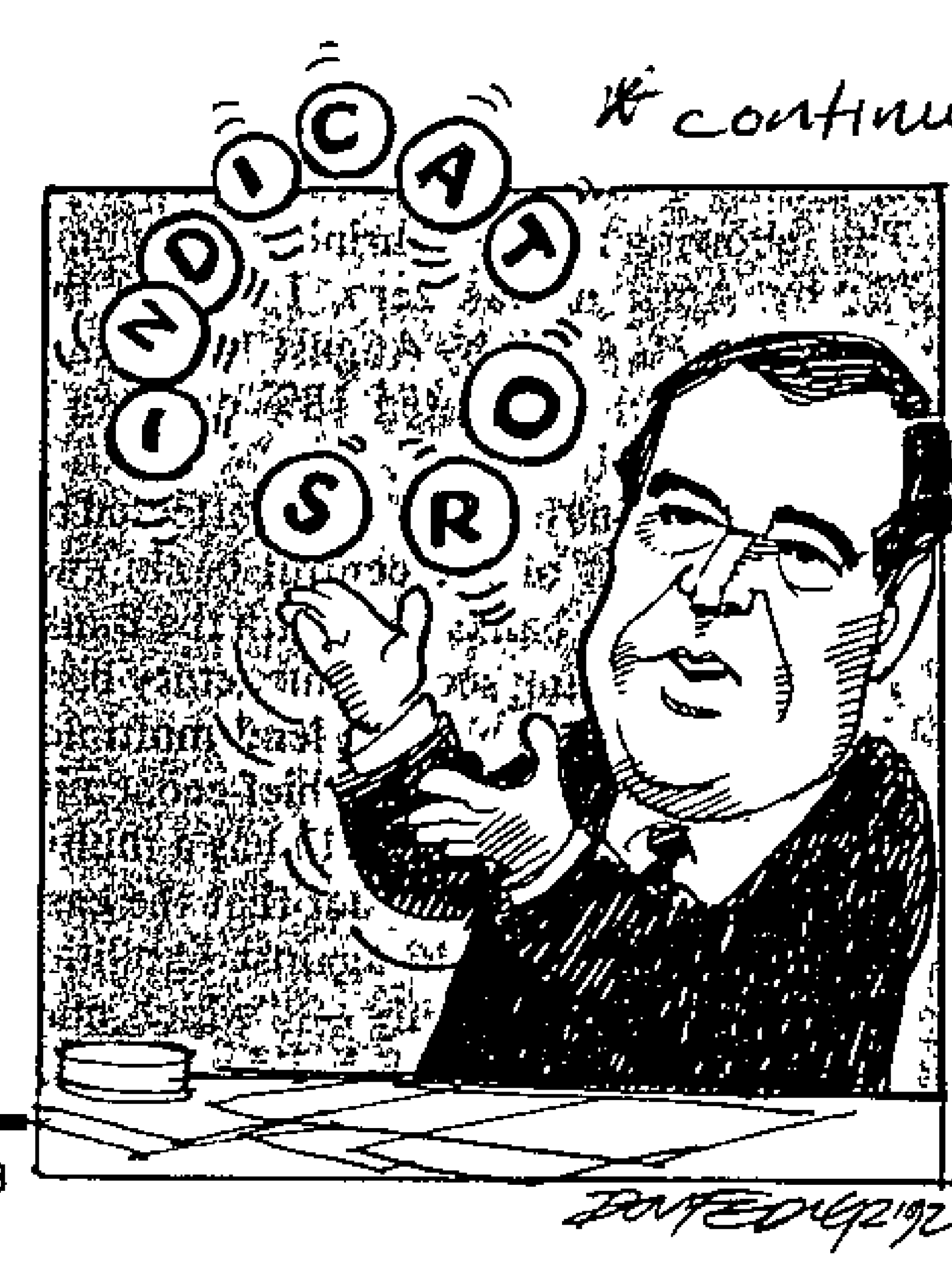


BUSINESS: *A focus on your money*

Insurance — your money or your life

W/Mail 13/11- 19/11/92 58

Life insurance doesn't mean what it did. Do we really need the extra investments on offer from the giant life assurance industry? **GAYE DAVIS** *reports*

TIMES have changed in the life insurance industry since the Man from the Pru arrived on the doorstep of a grieving widow, doffed his fedora and offered her the fruits of her late spouse's regular premium payments. And it's not just that men don't wear hats anymore.

Life insurance policyholders were once worth more dead than alive, and that was about the extent of the deal: a big payout if you died before the date the actuaries calculated you were likely to kick the bucket.

These days, the metaphorical shelves are groaning with a range of carefully packaged alternatives — and policies linked to investments, which offer living benefits rather than an after-death bonsella, are top of the heap.

"Pure endowment" polices do not even offer any element of life cover.

"In the early years, the emphasis was mainly on after-death benefits," says Jacques de Villiers, marketing actuary at Sanlam. "There's been a shift to living assurance, where the client can benefit while he or she is still alive — as with an endowment policy, for example, or a policy carrying benefits in the event of the client getting a dread disease, or becoming disabled."

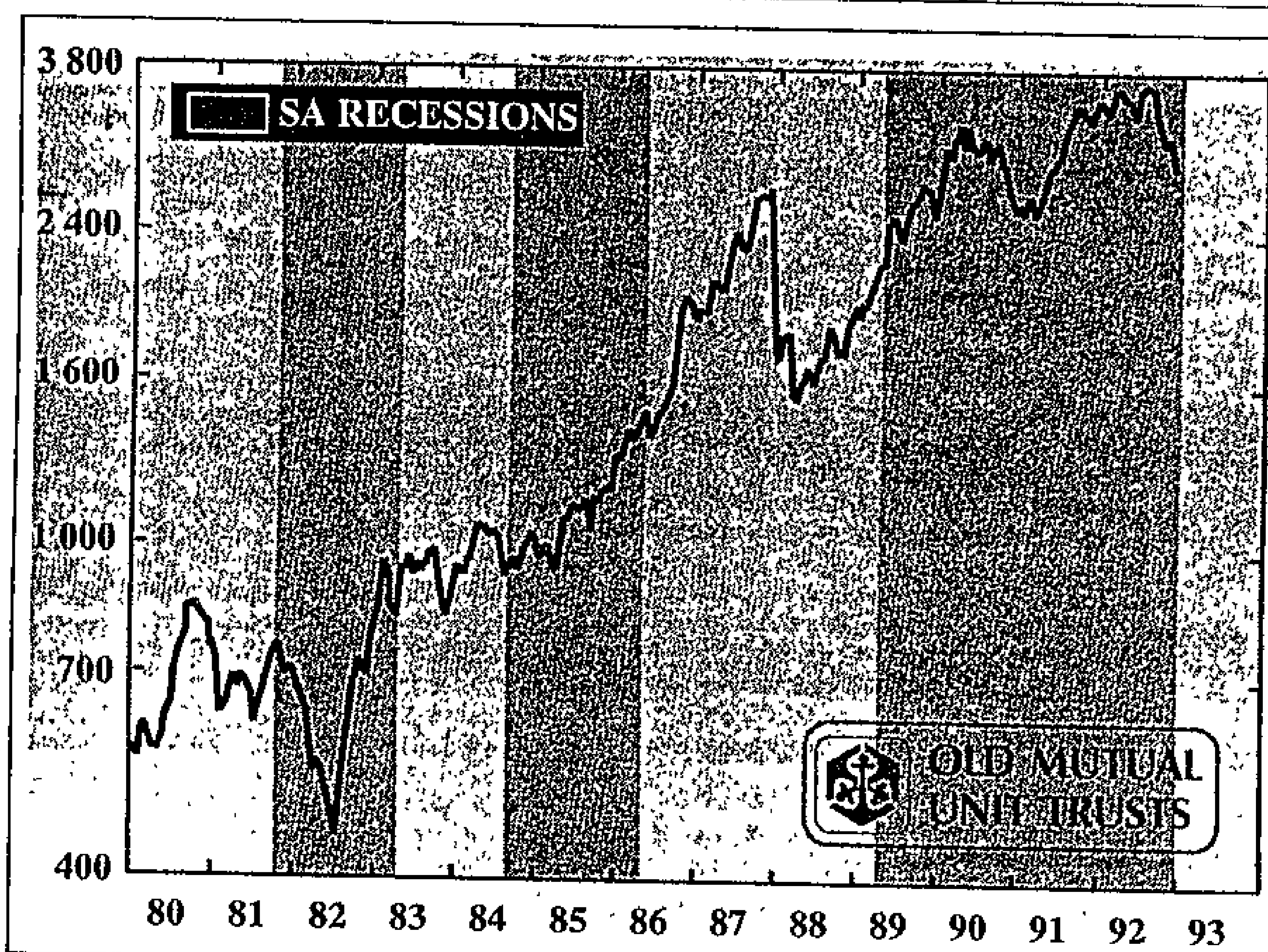
According to De Villiers, the market has adapted itself to the fact that the average man or woman today has more needs by offering combination products.

Given the plethora of investment options available, is life insurance still the way to go? Why fork out as much as 15 percent of your income over 20 or 30 years if you're not going to be there to enjoy the pay-off?

"People must still ask themselves: 'If I die, become disabled or ill with a dread disease, what then?'", says De Villiers. "They may recover physically, but without life insurance, they may not recover financially."

Says Dave Johnson, assistant general manager of life marketing at Southern Life: "It depends on an individual's circumstances. If you've a spouse, children or elderly parents needing your financial support, you've got to ask who'll take care of them when you die.

"The amount of money required will run into hundreds of thousands of rands — work out the loss of 30 years' worth of salary as a lump sum and you'll get an idea of how much will be needed. It's just not possible to accumulate this and leave it in a savings account. By paying a regular, small premium, you're assured of a huge payout in the event of your death, disablement or serious illness."



Is it the right time to get into shares or to stay out? The graph shows the stockmarket has been strong during the present, long recession, and because of scrip shortage has moved up during recession in the past. Old Mutual senior portfolio manager Adrian Allardice predicts any downturn will be temporary and that continuing inflation will prop up share prices. However, he thinks that if the recovery is delayed prices could fall 10 to 15 percent.

Granted, life insurance proper — the actual insurance portion of what is often sold as life insurance — may be a good option. But should people go for what is actually a long-term investment? Many employees already have ordinary life and disability insurance, in the form of "group live cover" the cheapest form of life insurance because whole groups sign up at a time.

Long-term investments are certainly attractive for the insurance companies in locking people in to regular payments over a long time. But why not invest for shorter periods, in say unit trusts, taking advantage of the flexibility to move one's money around to get the best return?

According to Peter Atkinson, marketing director of IGI Life, uncertain times invariably lead to people hedging their bets by investing for shorter, rather than longer, periods.

"The downside is that people will often end up doing nothing at all. If things turn out well, they'll find they've done the wrong thing. If things turn out badly, they'll find they've still done the wrong thing.

"Things are difficult to predict, but everyone should be making provision for some form of protection for their family in the event of a mishap."

In a broader context, the country needs people to make long-term investments, says Atkinson. "If everyone takes the short-term option, it's not going to help steady the market or stabilise the economy."

A major factor influencing the shift to investment-linked products rather than basic pay-out if you die policies has been inflation, says Atkinson. "We're fighting for a piece of a person's income against what they might spend on their day-to-day needs, which is why we've concentrated on keeping premium ranges very, very low, from between R25 and R30 a month — and we're doing a lot of package products.

"Many of these don't just cover the individual policyholder but also allow for coverage of his wife and children — so that he doesn't have to go and buy second and third policies. The key is to try and get a package which gives comprehensive cover in all situations."

Philip Geary, Protea Life's national marketing manager, points out that with life insurance, a specific amount will be paid out in the event of the policyholder's death, disablement or severe illness — thus covering any immediate needs that otherwise might not be as quickly met if one depended on alternative investment vehicles.

It could be argued that unit trusts, in which your money buys a selection of shares, offer a good alternative to life insurance with an investment portion tacked on. The investment portion of you monthly payment goes into the stock exchange anyway. Unlike those life insurance products, unit trusts can be cashed in at any time.

Geary attacks this very flexibility.

"The biggest argument in favour of life insurance is that it's a disciplined form of savings," Geary says. "The average life of a unit trust is three to five years. People might say this is going to be their vehicle for their retirement needs, but then they hit a financial crisis and withdraw their unit trusts. With life insurance, there's less chance of people terminating and cancelling."

However, the industry has seen more policy lapses and terminations recently than in years, says Geary. "It's a very competitive, dynamic market. Companies have to perform to increase their market-share. Other financial institutions have woken up: the unit trust market is getting stronger and banks are coming out with innovative policies.

"In an inflationary environment, people will always look for investments that will outperform inflation. It is tougher out there, but the industry in general is expanding at a satisfactory rate."

What if you think the stock market — via endowments, or other life insurance products, or unit trusts — is not a good bet now?

The simple answer is that you can up your monthly bond repayments to pay off more capital, or even pay in lump sums now and then. The savings on the amount you pay the financial institutions which advanced your bond are substantial. An extra few hundred rand can even shorten the bond period by a few years.

Tedelex switches off after 23 years on JSE

S/Times (B 455) 15/11/92.

A DEBACLE a decade has plagued Tedelex since its 1969 listing.

The latest — the worst trading conditions ever for the maker, trader, importer and exporter of electrical appliances — has led to its delisting.

Managing director Jack Cohen, who has been with the group for 31 years, says it was badly hurt in 1970 by the Government's restrictions on hire-purchase agreements and credit facilities.

Better known are the disastrous foreign-exchange losses that plagued many Gencor companies in the early 1980s. On the advice of its bankers, Tedelex failed to cover foreign loans and lost R109-million in 18 months.

This necessitated a total recapitalisation of the company, control of which Gencor had bought from founder Benny Slome at R11 a share in 1983. The terms of the rights offer were 350 shares for 100 at 260c.

Tedelex members are being offered 200c a share by Malbak, which became the industrial consumer arm of Gencor in 1986. Tedelex was trading at 120c before the terms of the take-out were made known. Malbak already has 96% of the company.

Mr Cohen says this year's trading is undoubtedly the worst ever. Tedelex's business has come under two-pronged pressure.

One is the four-year recession and its damaging effect on discretionary spending. Results for the year to August 1992 showed an operating loss of R19-million from an 18% slide in turnover to R422-million.

JACK COHEN: HP blows

The other is a wave of imports — illegal and grey.

Illegal imports are brought in under false declarations and no duty is paid. It is akin to going through the green channel in Customs hoping not to get caught.

Grey imports are legal and usually involve job-lot purchases by importers neither equipped nor prepared to service the stock.

Agency importers such as Tedelex have tended to turn their backs on people who come for repairs to branded merchandise not brought in through their channels.

Mr Cohen says these imports tend to set the expectations among shoppers of what the price of electrical goods should be, often below Tedelex's landed cost.

"How often do you hear people returning from overseas with something they bought for $200 that costs R1 200 here? The same happens with these imports. But convert the dollars to rands and add in up to 140% import duty and it becomes clear that it is not Tedelex that makes all the money," says Mr Cohen.

He acknowledges the efforts of Trade and Industry Minister Derek Keys — formerly of Malbak and Gencor — in trying to tighten up customs, which is often understaffed and undertrained. There is no point in cutting Government spending by reducing the number of such public servants when millions of rands in duties escape the fiscus because of inefficiency.

The end of the listing is by no means the end of the road for Tedelex. Mr Cohen says the hardest part about the current downsizing operation is retrenching staff members.

"Many have been here all their working lives. We have grown up together, seen their children through university and on into life. It is difficult to say good-bye.

"At the same time we recognise that this is a tough industry in a worse economy, and to survive, there has to be sacrifice," says Mr Cohen.

Employees have been cut from the top down.

Mr Cohen believes there will always be a market for consumer electronics.

Non-core businesses have been disposed of and others moved into Tedelex's premises in Booysens, Johannesburg.

Mr Cohen says the lack of any sign of an economic upturn at this time of the year bodes ill. There was a slight uptick in October, but it could have been due merely to people having had enough of the recession and spending money regardless of the consequences.

The only thing that will get the economy moving is a change of political heart, says Mr Cohen.

Tedelex says farewell to the JSE on December 11, but might return if ever its prospects brighten.

It was born with foresight — Benny Slome called it Television & Electrical Distributors in 1945 — 30 years before SA was allowed to watch television.

Saambou on mend and expects to pay

(BUSS) S/Times 15/11/92. (58)

SAAMBOU, the banking group whose share price has halved in a year to 62c, was restored to profitability in the six months to September after losing R73-million in the same time last year.

Operating profit trebled to R35-million before provisions for bad debts which had to be doubled to R20-million. Advances grew by only 9% to R3,7-billion in an effort to raise profitability.

Rationalisation costs of R6-million, tax and outside shareholders reduced attributable profit to R2,5-million, or 6,8c a share, before extraordinary items.

Managing director Johan Myburgh says Saambou continued to focus on salaried individuals.

Its Dinkum Save and Profit Grow products did well. Launched in March, Dinkum Save was responsible for a 58% rise in Saambou's total savings portfolio in the eight months to October.

Saambou's operating expenses climbed only 6% in 12 months. It contracted its computerisation management to software specialist SPL in an effort to contain costs.

Although no dividend was declared at the interim, Mr Myburgh expects a resumption by the yearend.

New Kleinfontein on a two-tier track

S/Times (BUSS) 15/11/92. (58)

DIAGONAL STREET by Julie Walker

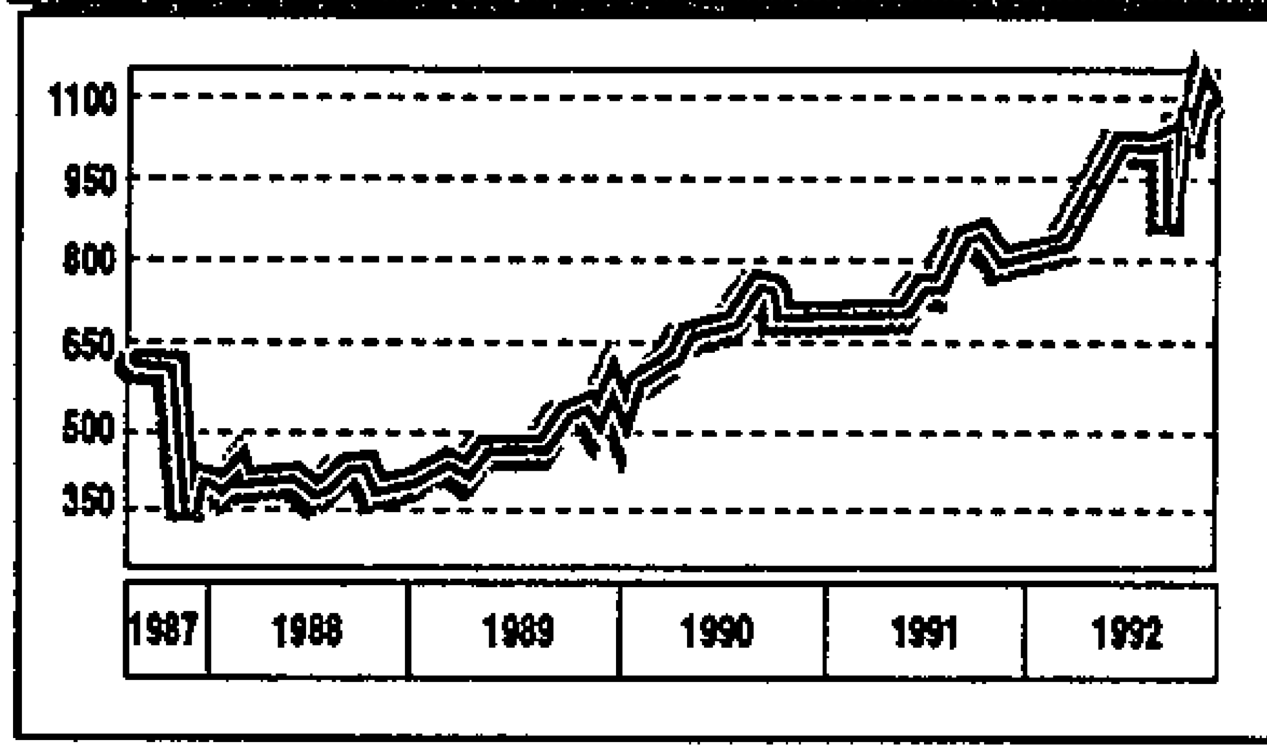
NEW Kleinfontein Properties managing director Grant Fischer asked financial institutions for their opinion about property loan-stock companies before converting New Klein into one.

Their single and biggest objection was the fee structure employed by most — 0,5% of the market capitalisation irrespective of performance.

Mr Fischer heeded the objection and with co-director Niki Vontas introduced a two-tier structure based on performance. Each month, management will be entitled to a twelfth of 0,2% of the monthend market capitalisation.

A bonus of 0,3% a year becomes payable if New Klein's total unit return exceeds an index return. It is a weighted combination of the total returns on the JSE actuaries property trust and property loan-stock sector indices at June 30 each year.

NEW KLEINFONTEIN PROPERTIES



New Klein, which will change its name to NK Properties, has been listed for almost a century. It changed its identity from mining to property development and from November 30 becomes a property loan-stock company.

Each share is effectively exchanged for two linked units comprising a 605c debenture (issued at a premium of 14c) and a 1c share.

In converting to a loan stock New Klein sold all its non-income-producing assets to holding company AFC Investments, for cash. It has acquired eight high-quality decentralised office blocks built since 1980 in areas such as Parktown, Randburg, Bedfordview, Halfway House, and Mouille Point.

They cost R101,6-million, settled by the issue of 13,4-million units and R18,4-million cash. Replacement value is R136-million.

New Klein ceases to be a subsidiary of AFC Investments, which retains 18%. The marketability of its units should improve.

Rental renewals are guaranteed for all but 4% of the portfolio in 1993 and 14% in 1994. Thereafter, expiry dates are staggered.

Mr Fischer describes the renewal factor as a potential yield sweetener.

A growth rate of more than 11,5% a year is expected from the portfolio, on which the initial yield will be 10,6%.

Mr Fischer does not believe the yield is too fine, saying: "You just cannot buy prime properties to yield more than that. There is no advantage in buying inferior properties on a higher initial yield because the growth potential is lessened. We have chosen the longer-term view".

The portfolio will be actively managed. The tenant profile is a mixture of corporates, financials, national companies and professional firms, no single sector bearing too much exposure.

The advantage of a property loan stock is that all the income earned by NK Properties on its portfolio is not taxed in the company, but is passed directly to unitholders. Even if the unitholder is paying the top marginal rate of tax he or she should score better than through company dividends paid out of taxed income.

By virtue of its past, NK Props has a London listing. Mr Fischer says the possibility of delisting in London has been considered often because of the costs of the dual listing.

Now the London quotation is regarded as an asset because it is a vehicle through which foreign acquisitions can be made. Rules of the property loan-stock sector allow the issue of units in consideration for the purchase of property. This can also be done in London.

The intention is to develop in SA initially, but this rand-hedge potential offers a further yield sweetener in view of a generally depreciating domestic currency.

The loan stock's launch has been timed ahead of the expected improvement in the real-estate market.

NK Props carries many recommendations for investors seeking stability, a high yield and growth prospects.

Bankers walk out on Sechold

S|Times(Buss) 15|11|92.

58

By JULIE WALKER

NDH BANK'S principal staff members walked out of their new Rosebank premises in Johannesburg this week after major shareholder Sechold rejected a backed bid by management for its 75% stake in NDH.

NDH is a respected and profitable trader. NDH management holds the 25% not in Sechold hands.

Managers are said to be unhappy about the way Sechold rewarded them in the light of good profits from NDH.

Sechold chief executive Arthur Kelly says the board rejected the bid for NDH. Certain management and staff members from NDH indicated their intention to leave the bank and pursue their own interests.

NDH directors Bill Scotcher (also on the Sechold board) and Dave Barber confirm Mr Kelly's statement.

Another director, five dealers and an accountant are part of the mutiny.

Sechold has appointed Craig Clucas and Michiel Kotze joint managing directors of NDH. Mr Kelly expects NDH to continue to achieve satisfactory profits under new management.

The bid was backed by an undisclosed third party — most market sources suggest NBS Holdings. But NBS general manager, finance, Paul Leafwright denies the talk.

He confirms that since the failed bid, NBS has been talking to Mr Scotcher and company, but any decision on their engagement will need to be taken by the NBS board.

It remains to be seen how NBS directors would enjoy appointing a team of dealers used to earning R500 000 or more a year — more than they could realistically hope to earn as directors.

Stals gives hope

CUTS in interest rates before the end of the year cannot be ruled out, says Reserve Bank Governor Chris Stals.

"Key economic indicators such as inflation, gold and foreign-exchange reserves, and money-supply growth are moving in the right direction. But I cannot say when we will announce a further cut," says Dr Stals.

Economists expected a drop in the Bank rate after last month's fall in the consumer price index to below 14%, but the Reserve Bank failed to follow through. (58)

The growing deficit between Government revenues and budgeted expenditure is cause for concern, says Dr Stals, but it is uncertain if this is of a temporary or permanent nature. S/Times (BUSS) 15/11/92.

"If it is temporary, then it is not a serious problem. The best solution is for the Government to reduce spending and the Minister of Finance is committed to dealing with this problem."

Overnight accommodation to the banking sector has fallen from R5-billion three weeks ago to R3-billion as money-market rates continue to anticipate further cuts in bank rate.

"There are a lot of positive indicators pointing to further drops in interest rates," says Dr Stals.

Banks cut bond and prime rates

(58)

SHARON WOOD

SA's major banks reacted swiftly to the cut in Bank rate by cutting prime overdraft rates by one percentage point to 17,25% and home loan rates by half a percentage point to 16,75%.

FNB was the first to reduce its prime overdraft rate to a level last seen in 1988 and Standard Bank the first to drop its mortgage rate. Absa, Nedcor, NBS and Boland Bank followed shortly afterwards. The lower mortgage rates are effective from December 1.

Mortgage rates have declined four times this year and are now 3,25 percentage points off the 20% at the beginning of the year. Home owners will now pay R2,50 a month less on every R1 000 of a 20-year bond than they did at the beginning of the year, R2,60 less on a 25-year bond and R2,65 less on a 30-year bond.

Board of Executors Merchant Bank also announced it would reduce its home loan rate immediately from 16% to 15,5%. MD Mike Thomson said BoE home loans were the cheapest in SA but were granted only on properties worth R500 000 or more.

Analysts said the move would slightly reduce the banking sector's previously wide interest margins, but this had been expected for a few months. Banks could reduce the effect on margins by cutting deposit rates sooner than lending rates.

But at the time of the Bank rate cut Reserve Bank Governor Chris Stals had specifically warned banks against doing this.

There was little hope of another Bank rate cut this year and a further decline was not expected before February, analysts said. Banks with large mortgage exposures would still have narrower interest rate margins because of the 0,5 percentage point differential between overdrafts and mortgages.

NBS and Saambou would be hardest hit by the cut because DI900 Reserve Bank returns showed 69% of its assets were in home loans. Absa, and Nedcor followed with mortgages constituting 36% of assets, Standard with 19% and FNB with 17%.

However, analysts warned that other factors should be taken into account when determining the cost to the banks of the rate cuts, such as the nature of the banks' funding books and the size of their free funding cheque and current accounts compared with total advances.

Ed Hern, Rudolph banking analyst Alan McConnochie said none of the banks would be badly hurt because they had been expecting the rate cut and had made their books shorter, ensuring they were not locked into long-term funding.

Ansbacher shareholders accept FNB offer

BIDAY 16/11/92.

Business Day Reporter

FNB has announced that the offer to Henry Ansbacher Holdings' shareholders was 92,3% accepted by Thursday's end of trade.

This made the offer unconditional.

FNB said the total purchase price of £57,8m (equivalent to about R413m) would be settled in cash and the issue of 3,4-million new FNB shares. The shares had been placed with certain investors at 5 500c a share.

Merchant bank Ansbacher's interests include Ansbacher International Trust Group, with assets of more than £2,3bn, a corporate finance department and banking and treasury departments. Its asset trading company trades in less developed countries' debt markets on clients' behalf.

At end-September, Ansbacher had shareholders' funds of £84,7m and inner reserves of £5,1m.

FNB said the acquisition would have no material effect on its 1993 earnings.

It said its strategy was to establish foreign banking operations in suitable locations to support its southern African customers dealing in those areas.

COMPANIES

Focus on Perm's home loans

SHARON WOOD (58)

THE Perm's home loan book and Nedcor Bank's planned purchase of computers are expected to come under the spotlight when the group's 1992 results are released today.

Concern about these two issues has driven the group's share price down from a peak of R19 in March this year to R14,40 in recent weeks. Despite this, banking analysts expect the group's earnings to rise by at least 13% and some say the share will be rerated by the market after the release of the results. BDAY 16/11/92

Nedcor is expected to detail its plans for changing computer systems and to announce how it will deal with the Perm's black home loan book. There has been speculation that the Perm's home loans will either be handed over to Bob Tucker's Community Bank, or a separate division created for them within the group.

Davis Borkhum bank analyst Graham Baillie expects earnings growth of 13%. He does not expect any surprises in the results and says the Perm's bad debt experience will be similar to the year before.

He says the share will probably be rerated and move higher to between R17 and R17,50. The share last touched R17,50 in June.

Perceptions that Nedcor's computer system change will become a debacle are unwarranted and will instead make the group more competitive, he adds.

Baillie expects the group to make an announcement about restructuring the Perm book and believes the market will respond positively to it.

Another bank analyst is less optimistic about the Perm's performance during 1992, and says the results will show it has had a "shocking" year.

This will not be confined to its bad-debt experience, because the analyst says there will be a big increase in the Perm's tax rate. The bank had a once-off tax benefit last year for selling gilts and this probably will not be repeated this year.

He expects earnings to increase by between 13% and 15% because of good performances by UAL, Nedfin and Nedbank.

Ombudsman reports

LINDA ENSOR

CAPE TOWN — Disputed disability claims featured prominently among the complaints handled by the life assurance ombudsman last year.

Of the 441 complaints handled (345 in 1990), 49 were disability claims, 43 were claims repudiated by life assurers on the grounds of alleged non-disclosure and 39 related to lapsed policies. B|Day

A total of 31 cases of misleading, unethical or negligent conduct by intermediaries was reported, leading the ombudsman — former Appeal Court Judge G P C Kotze — to praise the role of broking and intermediary disciplinary bodies for their efficient supervision of members.

Of the complaints against intermediaries, 14 were resolved in favour of complainants. 16/11/92

Of the 332 cases finalised, partial or complete relief was recommended in 58% (190) of cases.

Saambou climbs back out of the red

B/DAY 16/11/92 (58).

PETER GALLI

THE corrective action taken by Saambou Holdings since 1991 has paid off, with the group reporting a R2,5m attributable profit in the six months to end-September compared with a R72,7m loss in the same period last year.

This translates into earnings of 6,8c a share before abnormal items (1,97c) and 2c a share after abnormal items (a loss of 65,05c).

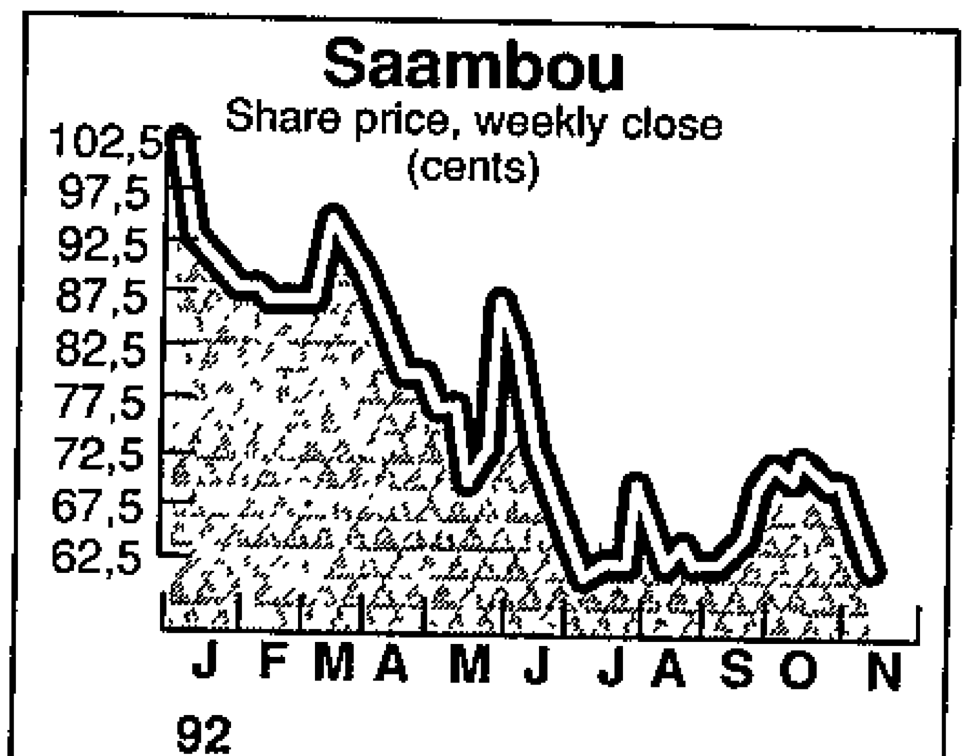
MD Johan Myburgh said the group was expected to show a further improvement for the remainder of the year.

"However, the board did not consider it prudent to pay an interim dividend, but it should be possible to resume payments at the end of this year provided there is no extraordinary weakening of the economy in the next six months," he said.

Operating profit before provisions more than trebled to R34,7m (R11,7m), while provisions for losses on advances increased to R19,8m (R8,2m), giving a net operating profit of R14,9m (R3,5m).

Myburgh said the effect of the corrective actions instituted since 1991 had resulted in better management of margins and a "purification of assets".

"The effect of these actions, as well as the conversion of fixed property into assets with higher yields, after a R68,8m write-down of property-related and other investments in 1991, is clearly reflected in the trebling of operating profit before provisions," he said.



Graphic LEE EMERTON Source I-NET

After abnormal items of R6m (R74,9m) for rationalisation costs, taxation of R5,2m (R900 000) and outside shareholders' interest of R1,2m (R400 000), net profit attributable to ordinary shareholders was R2,5m.

"These rationalisation costs from our most recent streamlining process are unlikely to be exceeded in the remainder of the year," he said.

"Dinkum Save, which was launched in March this year, was responsible for a 58% rise in our total savings portfolio in the eight months to October.

"This has resulted in funds from individuals as a percentage of total funds rising to 32,9% in the year to September and it remains our stated aim to boost this figure beyond 42%," he said.

A marginal increase in operating expenses of 6,5% since September 1991 had also been attained.

Saambou soars back into profit

CT 16/11/92

(58)

From PETER GALLI

JOHANNESBURG. — The corrective action taken by Saambou Holdings since 1991 has paid off, with the group reporting a R2,5m attributable profit in the six months to end-September compared with a R72,7m loss in the same period last year.

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A marginal increase in operating expenses of 6,5% since September 1991 was reported.

Development Bank helping to build a new SA

ANDRE LA GRANGE

THE Development Bank of Southern Africa is a unique organisation poised at the core of SA's future economic development.

CE André la Grange said the bank was a strange institution, as it was not a bank at all but a multilateral development institution.

It invests in institutions and infrastructure in underdeveloped areas to ensure the empowerment of disadvantaged communities and to create an enabling environment for entrepreneurs disadvantaged by past patterns of growth in SA.

This includes financial investment and technical assistance, and neither takes place without consultation with the community involved. While the bank was a large organisation, La Grange said: "We try and be small in the way we do things."

Assistance

Its four main products include loan finance for development projects and programmes, technical assistance and advice, policy and strategy intervention and infirmation analysis on development features of the region.

"We have to be efficient and have high standards, living up to both local and international prescriptions, and this award is an opportunity to test this," La Grange said.

For some years, the bank had considered entering for the Non-Listed Company Award. BDM

It firmly believed that although it was part of the public sector it was fully accountable. "We believe in transparency and accountability principles, and this competition would take this a step further." 17/11/92

The bank, which was established in 1983, disburses about R1bn each year on investment projects and programmes. By the end of June, a total of R5,827bn had been approved for disbursement on 1 270 loans.

In the past five years, it has also become more involved in technical assistance and advice, structural adjustment programmes, policy intervention and facilitating the participation in a democratic development process of extra-parliamentary and community groups.

Many other organisations as well as international development agencies are making use of the bank's technical skills and its background work on policy. It provides as a service a policy framework for development.

The bank's annual report has become widely read as a source of development information and for its insights into broader issues in the region. Its proposals on regionalism, export processing zones and land reform have been used as study documents for high-level political debate.

It places a great emphasis on its financial statements, which La Grange said were pitched against a development bank norm internationally.

"We focus on the development milieu, and use it as an information base for mobilising funds," he said.

When it began operations, there was initially some criticism that the bank was yet another parastatal institution.

Credible

58

However, over the years it has proven to a be credible institution and has been accepted as such by the public and private sector, the major political parties and foreign agencies.

La Grange said the bank was well placed to operate under a new government.

He said the bank had been involved in affirmative action for a long time. In addition, it worked with most of the political parties and participated in most of the forums.

The bank's decision to finance a project was based on whether the project fitted into the development policy of SA, and there had to be more economic benefits than costs. There had to be community participation, and the development project had to contribute to the socio-economic improvement of communities.

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d the edge

establishing value-added products and restricting the product price increase to 8,5% for an 18-month period.

Despite reluctance to retrench, Stone and Allied's profit levels are close to normal for the first 10 months of this year.

It has reached the finals of the SA Non-Listed Company Award for six of the seven years that it has been running, which, Rowland says, indicates a consistency in management activity, planning and innovation.

He believes Stone and Allied is in line for the award because the company has displayed a great deal of flexibility while gold mining industries were going into liquidation and its competitors reported losses.

Nedcor surprises market with boost from Perm

58

B/DAY 17/11/92

SHARON WOOD

A GOOD performance by the Perm saw Nedcor Group surprise the market yesterday when it announced a 16% rise in earnings to 215c from 185c a share during the financial year ended September 1992

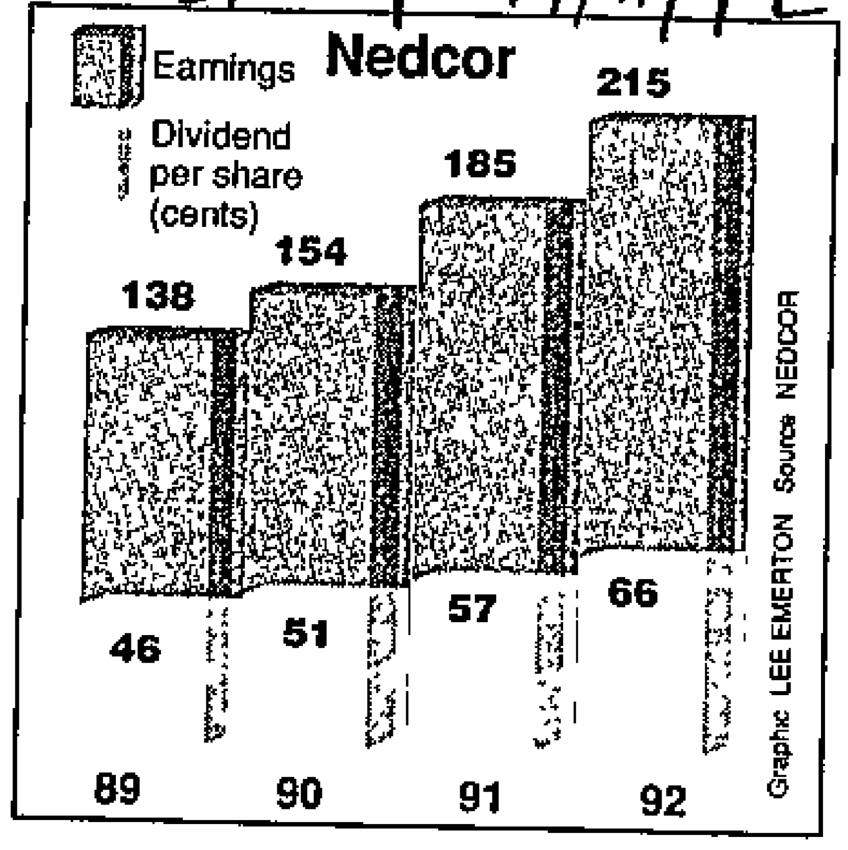
Market analysts were concerned that the Perm would depress the group's performance again, but instead it reported an 8% increase in its contribution to Nedcor's net income.

MD Richard Laubscher said the group had held back on the Perm's bond growth, which edged up by 4% during the period. Arrears on mortgages had declined by 14%. The Perm's township exposure was R2,4bn, or 23% of its lending, and 87% of these bonds were up to date.

Nedcor Group's net interest margins grew by 19% during 1992 to R1,6bn from R1,4bn. Margins had been much higher than budgeted for since September, but he did not expect a continuation of the trend if Bank rate was reduced again.

Net income after tax rose by 19% to R408m from R344m and the group announced a 16% rise in dividends to 66c (57c)a share.

Bad debt provisions rose by only 2% to R238m from R233m, but CE



Chris Liebenberg said there had been an 18% increase in core business provisions.

Nedcor's growth in advances halved during 1992 to 13% from the previous year's 26%. General loans and overdrafts took over from home loans as the group's main area of business, contributing 41% and 38% respectively to total advances.

Liebenberg said lending volumes had increased satisfactorily, although increased competition for high quality lending business had resulted in the need to reprice, especially on the home loan portfolio.

Nedbank and Nedfin attracted quality home loans, instalment finance and several major corporate loans during the year and as a result increased their contribution to the group's net income by 19% and 24% respectively.

Finansbank and the Cape of Good Hope Bank bettered their combined contribution by 57%, UAL Merchant Bank by 21% and Syfrets by 10%.

Expenses increased by 17% to R1,7bn (R1,5bn), but Liebenberg said expense growth was declining despite major expenditure on branch refurbishing, information technology and rationalisation costs.

Market analysts have been concerned about Nedcor's current computer system changeover, saying that the group will have to spend vast amounts of money on the system and that it is well behind the technology levels of its main competitors.

Laubscher said the computer network would be complete by the first quarter of next year and the group would spend R50m to R80m on the system during the next three years.

The group was well-capitalised with a risk adjusted capital-to-asset ratio of 8,23% — just above the 1995 required ratio of 8%.

Laubscher said Nedcor had set 10% as a short-term internal target and could increase its secondary tier capital in the near future.

Boardprop's income drops

BD 17/11/92. LINDA ENSOR (58)

CAPE TOWN — Property investment company Boardprop's results for the year to end-September suffered from the depressed state of the property market with pre-tax income slipping 12,4% to R106 000 (R121 000).

Boardprop is a listed variable loan stock property company with a portfolio of R110m managed by the Board of Executors (BoE).

Property income of R8,8m (R9,2m) and investment income of R1,9m (R2,9m) declined, producing a total income before debenture interest of R10,6m (R12m). The net profit was boosted by a lower tax rate. A total distribution of 53,816c (61,205c) a unit, consisting of interest and dividend income, was declared for the year.

BoE chairman Bill McAdam said there was an improvement in difficult trading conditions in the second half and a further improvement was expected.

Of the total letable area of 55 692m² in the portfolio of 18 properties, 7,1% was vacant at year-end. BoE financial director James McGregor said there had been no change to the portfolio, which consists of A-grade office space and one shopping centre, which was fully let.

Rand Rentals 'has the edge' with finance and leasing

BDM 17/11/92

SINCE spotting a gap in the financing market, Rand Rentals has made its mark as a new force in SA finance and leasing.

Chairman Peter Shaw says innovative but conservative concepts have given it an edge in the market.

The company, which was started by Shaw in 1987, showed net profit of R1,5m in the 15 months to end-June 1991 and R2,3m in the 12 months to June 1992.

Shaw says it will show more than R3m profit in the present year and he will be disappointed if the company shows less than R4m profit next year. The company's total assets will be approaching R100m by the end of the year.

Rand Rentals offers some unique services, which include off-balance sheet operating rental facilities, financing agreements, property transactions, international partnerships, administrative facilities and a self-funding facility.

Although its core business is the rental product, it is developing the insurance side of the business. Shaw says this is promising because it shows the company can enter new areas with its rental base.

Another opportunity being explored is property financing, a market it hopes to enter within the next six months.

The company's clients are major corporate businesses from a variety of industries.


PETER SHAW

Since 1987, it has gradually acquired more qualified people, many of whom are experienced bankers and insurance people.

Shaw says that Rand Rentals ~~market~~ has been affected by the recessionary conditions as people are not buying as many assets as before. But its product is suited to various economic conditions, and a decline in the purchase of new assets is offset by its involvement in refinancing existing assets.

He believes that Rand Rentals offers a unique and personalised service to clients, a service he says is not offered by traditional financiers.

"The bankers have for years taken a somewhat cavalier attitude to customers. But banking is really a service industry based on what customers want rather than products devised by the bank and offered willy nilly to clients," he says.

When asked whether the company would list, Shaw says a point will probably be reached when it will have to do one of three things: get closer to a major financial institution, go public, or recapitalise privately.

Rand Rentals is developing a UK connection, where it sees the opportunity to do similar transactions to those it is involved in locally.

But Shaw says the major thrust of future development will be developing the insurance side of the business, which in turn will assist with the development of further innovations on the financing side.

Afgen to be launched today

781DA7 17/11/92 (58)

ANDREW KRUMM

SA's first black-controlled, short-term general insurer, African General Insurance Company (Afgen), is to be launched today.

Commentators said Afgen's timing and profile was right. It was ideally suited to tap into a growing black market for housing and personal lines of insurance, and had the backing of SA Eagle and Aegis.

The insurer's formal launch follows months of uncertainty over what stake various interested parties to the deal would be allocated. The deal, arranged by the black-owned Foundation for African Business and Consumer Services (Fabcos), was finalised on November 3.

The agreement apportions 49% of existing shares to Aegis and SA Eagle for an undisclosed sum, while Fabcos and Future Bank jointly control 51%. However, SA Eagle MD Peter Martin said Afgen's entire issued share capital was worth "just under" R4m.

The vehicle chosen for Afgen is that of the former Business and Personal Insurance company which was acquired by Fabcos in September.

Newly appointed Afgen MD Khehla Mthembu, who is also an office-bearer in Fabcos and former MD of Afsure, declined to comment on the company's prospects. He said he did not want to pre-empt today's news briefing.

BUSINESS DAY, Tuesday, November 17 1992

Timelife makes its mark in the big league

BIDM 17/11/92

TIMELIFE Insurance, one of SA's youngest life assurance companies, has successfully made its mark on an industry dominated by a few multibillion-rand conglomerates in the space of only four years.

MD Bill Haslam says its record as the fastest growing life assurance office has been built on "a passionate dedication to excellence in customer service".

Timelife commenced operations in 1988 as a registered life assurer with one member of staff. It started with R5m capital provided by its then parent Time Holdings, and the first licence to operate a life insurance company to be issued in 23 years.

The first product offered was a basic-term assurance policy for the lower-income housing market.

In 1989 it decided to enter the upper A income market through a network of independent brokers equipped with a portfolio of customised products.

Topped

After a burst of new business, premium income topped R4,5m and total assets grew to R12,9m.

In 1990, premium income rose by 134% to R10,4m and total assets grew to R17m. In 1991, premium income rose to R17,7m and total assets doubled to R34m.

MD Bill Haslam says these figures may seem small compared with those quoted by the "mega-companies", but Timelife has established itself as an important player in the selected niche markets in which it operates.

He says 1992 was a watershed year, as Time Holdings relinquished its majority holding. Timelife's financial base was strengthened through the entry of new stakeholder Concor Holdings.

The restructuring has given a boost to Haslam's aim "to grow Timelife into a major independent financial services group".

He says Timelife is "a good way along that road, providing customers with a range of products and services, some of which cannot be found in traditional fare offered by life assurers".

"We have always tried to provide these services through diversification, adaptability and contracting specialist knowledge where necessary."

Management of investment portfolios is subcontracted to external portfolio managers — the Board of Executors and Security Portfolio Managers.

Property diversification, which is part of Timelife's diversification strategy, is administered through subsidiary Timelife Property Investments.

In 1991, Timelife went into property syndication. After looking at Masterbond, it made a wise — and at the time unpopular — decision not to become involved. Instead, it decided to syndicate property in competition with Masterbond. Syndication of its first property, the Darras shopping centre in Kensington, was fully subscribed within six weeks.

The second, McCarthy House in Wierda Valley, (58) was a repeat success, Haslam says, and the third project is being marketed.

In the process of developing its syndication arm, Timelife has come up with a new investment product which combines syndication with a 10-year endowment policy.

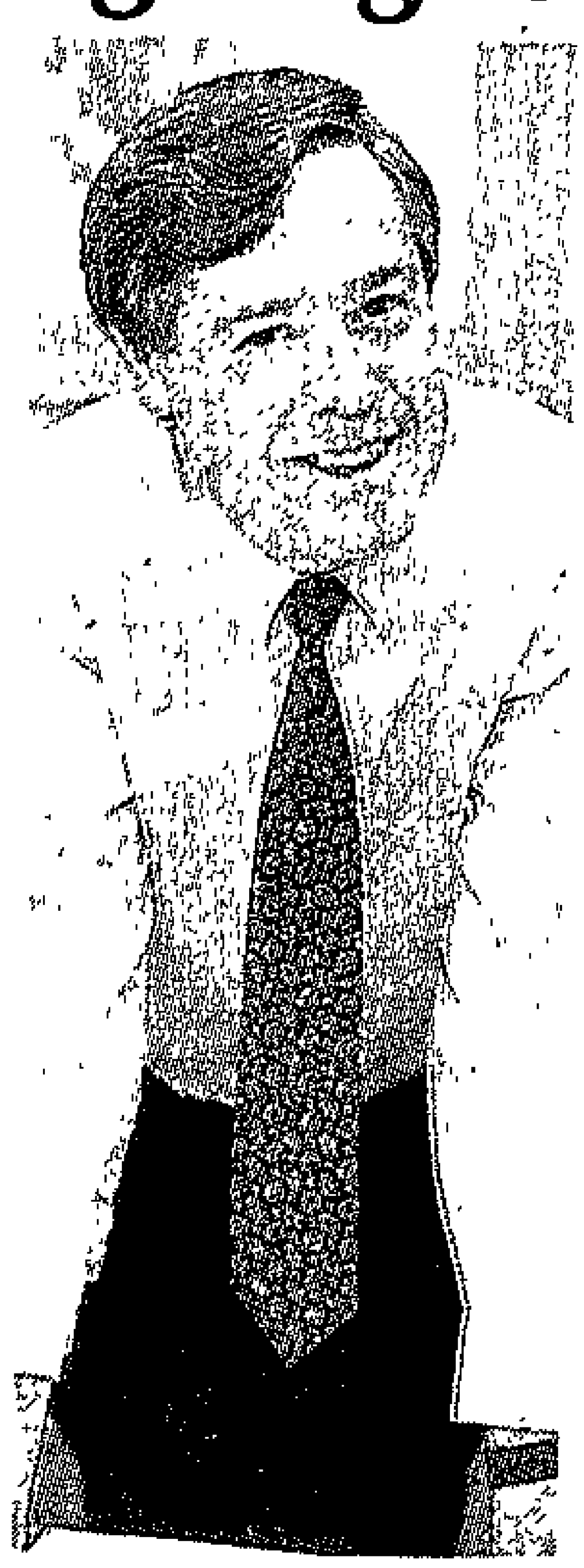
The group's second operating subsidiary, Timelife Assured Advances, finances borrow-back facilities offered with minimum life cover endowments.

Different

Has am says Timelife has le rned that in the service i ıdustry, big does not necesarily mean best.

Ti· elife has to be different and do things other companies are not doing, and the group's success has been based on "being responsive to the needs of our customers, product excellence, and a flat management style where employees are given maximum decision-making powers".

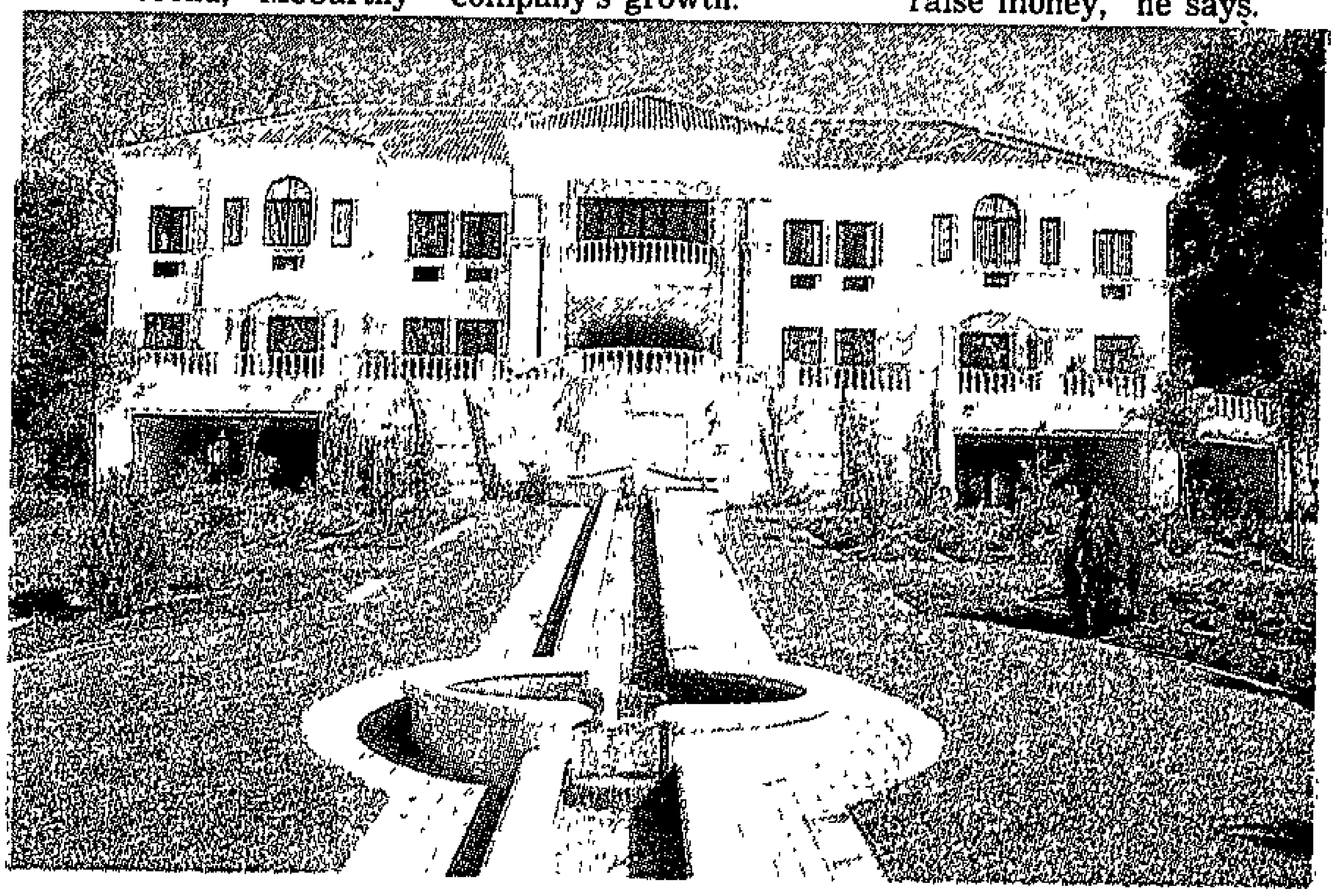
He says the policy of marketing all of its products through a network of independent brokers, located mainly in the PWV, has also played a key role in the company's growth.



BILL HASLAM

Haslam has publicly hinted at a listing for Timelife within a few years.

"In this business, people want to know that you will be around a few years down the line. And a listing certainly makes it easier to raise money," he says.



McCarthy House in Wierda Valley.

PROPERTY

New trust deed expected to 'level the playing fields'

BDay 18/11/92 (58)

PETER GALLI

THE "playing fields" for property unit trusts and property loan stock companies will be levelled by year-end, enabling the trusts to issue units for acquisition in the same way loan stock companies do, says Frankel, Max Pollak, Vinderine property analyst John Rayner.

"This change will be incorporated in a new standardised trust deed, and will enable property unit trusts to compete with other purchasers without delays caused by a three-month rights issue exercise," he says.

The delays had often resulted in excellent opportunities being lost and would reduce the need for frequent rights issues, which are normally done at a discount to market price.

These issues also distort distribution growth patterns, particularly when the cash raised is not invested immediately and interest rates are higher than property yields.

A different type of property ownership has also evolved, and this technical change will need to be incorporated into the Unit Trust Control Act.

This is scheduled to be presented to Parliament during the 1993 session and "will enable property unit trusts to invest in undivided shares in property, sectional title units and leasehold property without having to obtain special prior permission", Rayner says.

Institutional investors are the major players in the property unit trusts and property loan stock markets, and their exposure has grown to 90,4% from 89,7% to the detriment of the private investor, whose stake has fallen to 9,6% from 10,3%.

The combined capitalisation of the property trust sector and the property loan stock sector is R6,2bn.

The institutional market is also finding it increasingly difficult to locate well-tenanted investment grade properties at an acceptable yield for their portfolios.

"As a result, we expect demand for both property trusts and property loan stock companies to be underpinned by continued allocation of at least 10% — R3bn to R3,5bn — of the institution's net annual cash flow to direct and indirect property," he says.

In addition, the privatisation of state pension funds, such as Transnet, will add increased demand for private investment grade properties.

The dilemma of listed property vehicles is that they are influenced by two distinct markets: the physical market and the equity market.

The listed property vehicles did not react positively to the 1% cut in the prime lending rate on April 1 and have only recently started to display a positive reaction to the additional 1% cut on July 6.

Interest rates are expected to fall further over the next 18 months and a re-rating of both sectors towards the 10% historical level is expected. "This would imply a total nominal return of more than 20% for both sectors over this period," he says.

Dairy Mall up for sale

PETER GALLI

SUBSTANTIAL interest has been shown in Pretoria's R18m Dairy Mall shopping centre, which will be sold by auction on November 26 unless it is sold by private treaty before then.

Auctioneer Hugh Denny of Pam Golding Properties says the agency is talking to four prospective buyers, one of whom already has an 80% bond in place from a major financial institution.

"However, many buyers prefer to wait for the auction to see if they can get the property at a better price. We are hoping for about R18m, but any offers will be submitted," he says.

The centre has a projected net annual rental of more than R3m and is strategically positioned close to the M1 and the Pretoria main railway station.

"The 2,17ha complex includes eight buildings in good condition, covering 14 403m², and a vacant area zoned for a service station, which has rights for a further 2 000m².

"There is vast potential for further development or redevelopment, and sectional title plans have been drawn up," he says.

A detailed proposal from an oil company for the service station is also on offer, which allows for a 25-year lease and a substantial interest-free loan to the developer.

'Claim back transfer fees'

ANDREW KRUMM

CONFUSION at some Receiver of Revenue offices has led to certain property purchasers paying too much tax, says Howard Bilbrough, a partner in legal firm Cliffe Dekker and Todd. (58)

Bilbrough said unwary buyers who paid transfer duty on any property purchased between September 1991 and March 1992 should claim it back.

The problem arose when the Finance Department announced in August 1991 that both transfer duty and VAT (at reduced rates) would be levied on property sales during the VAT transition period from October 1991 to March 1992.

But when the VAT Act was amended in November 1991 — retrospective to the end of September — transfer duty legislation remained unchanged, and the public uninformed.

Bilbrough said the unchanged legislation meant that where the Receiver levied VAT, it could not claim transfer duty.

"Unfortunately certain local revenue offices failed to grasp this fact, which was set out in an unpublicised internal directive," he said. BDay 18/11/92

As a result, a number of local offices had overtaxed property buyers who were unaware of the "concessionary atmosphere" during the VAT transition period, he said.

"If you paid transfer duty on any sale concluded between the end of September 1991 and March this year, you should not have done so, and can claim it back," Bilbrough said.

Buying under a shareblock scheme 'a tremendous risk'

B|DPM 18|11|92.

58

PETER GALLI

PEOPLE buying property under shareblock schemes put themselves at tremendous risk, as it is possible they could either lose their investment or find themselves unable to sell it at a later date, says Moss-Morris partner Selwyn Cohen.

In addition, the Shareblocks Control Act did not adequately protect them against dishonest developers, he said.

"No one seems to have considered the difficulty that will arise in later years in selling some shareblocks.

"Many of these schemes are initially structured with the company having large amounts owing on bonds or loan accounts to the developers, payable over a period of many years," he says.

A buyer thus has initially to find in cash the difference between the total amount payable by him and the portion of the debts that he will pay over the period of the debt, since a single bond or loan account is held over the property.

"The trouble is that over the years those debts will be reduced or discharged entirely, the value of the property will hopefully have increased and prospective buyers will have to find large amounts of cash," Cohen says.

The problem arises as to where this will come from, as financial institutions generally do not lend money on the security of shareblocks, he says.

Furthermore, the liabilities of the shareblock company and even the failure of a buyer's co-shareholders to pay their contributions to the shareblock company, can prejudice his investment.

Sectional title ownership did not hold the same dangers. Once the property was transferred to the buyer, he had indisputable title.

"The Shareblocks Control Act professes to provide protection but to be effective it requires the parties in control to be honest.

"There is no point in passing legislation to give protection against honest people and, if legislation is to protect against dishonest people it has to be effective. The Act does not achieve this," Cohen says.

But the SA Property Owners Association (Sapoa) says there are certain benefits in shareblock schemes, and it recommends they continue, for several reasons.

A shareblock may be sold giving the buyer the rights to use vacant land, and to erect improvements on the land, which is advantageous for the seller.

In the sectional title system, the developer must own the land, whereas a share block company may both own or lease the land.

A sectional title scheme must also fall within the area of jurisdiction of a local authority, whereas a shareblock need not.

"Town planning restrictions regarding shareblock schemes are less strict than those for sectional title. They are implemented more quickly and the plans do not have to be approved by the surveyor general," says Sapoa executive director Brian Kirchmann.

Shareblock schemes are also more flexible and form nearly 90% of all timeshare developments. In addition, tax advantages sometimes make them more feasible than sectional title schemes, he says.

"Lastly, there is a provision for conversion from shareblock to sectional title, and the purchaser is free to do this," he says.

However, Cohen says in terms of the Act at least 30% of the members have to be in favour before the register can be opened.

Boycotts slow housing projects

PETER GALLI

BOND boycotts, coupled with increasing unemployment and continued violence, have resulted in a radical decline in the number of bonds granted and homes built in the affordable housing market in the past year.

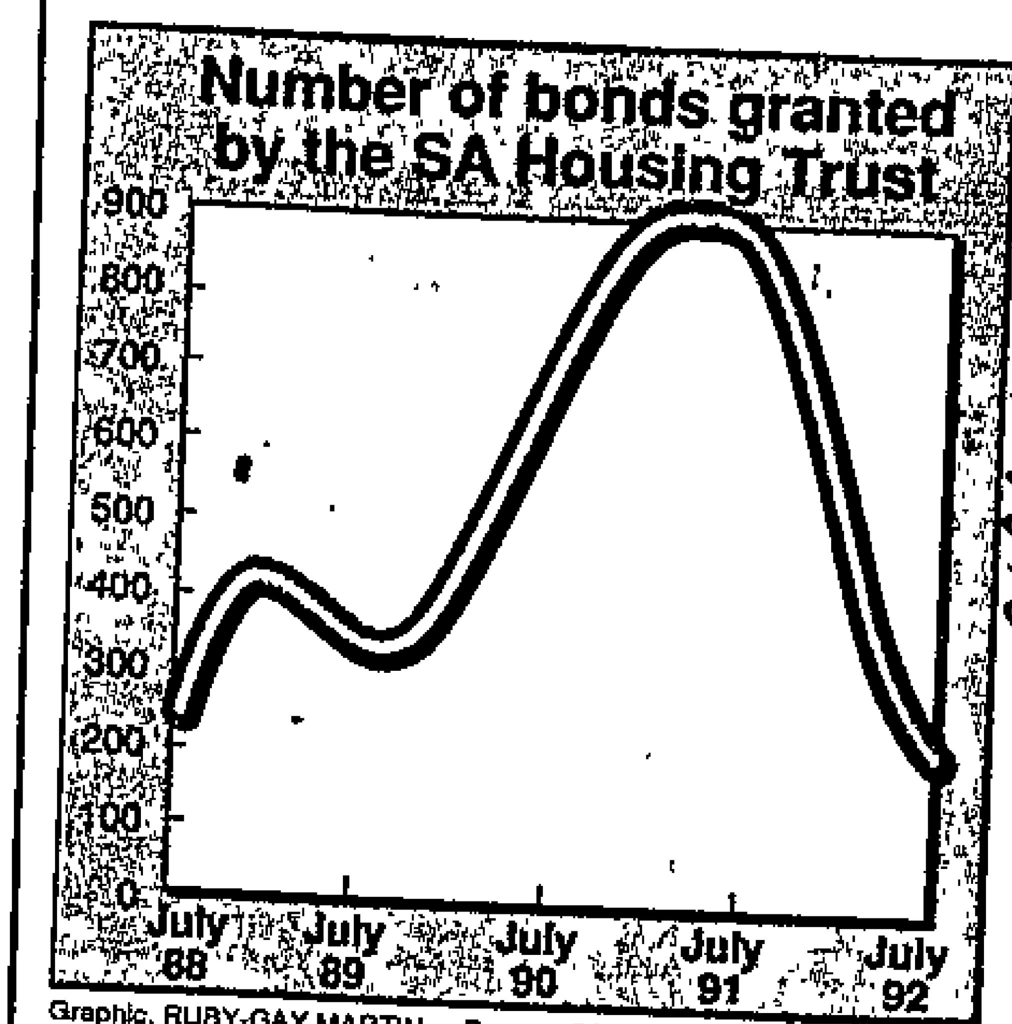
In the latest SA Housing Trust annual report released yesterday, MD Wallie Conradie said the housing backlog stood at 1,4-million units, and only about 15 000 houses had been developed in the starter, or incremental, sector (35m² to 50m²) in the year.

"About 9 500 were delivered through our involvement — 21% down from 12 000 in 1991 — which represents 63% of the national output to this market segment. I believe this environment will remain restrictive in the short to medium term."

There had also been an increase in the number of people defaulting on their home loans, mainly because of rising unemployment and an increase in formal boycotts against all financial institutions in certain areas.

Private sector lending in this market had dwindled to a trickle, while repossessions had increased.

The trust was involved in home loan finance through its wholly owned subsidiary Khayalethu Home Loans. It had granted 6 500 new bonds by the year-end,



Graphic: RUBY-GAY MARTIN Source: SA HOUSING TRUST

BDay 18/11/92

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Housing

BDay 18/11/92

☐ From Page 1

2 000 down on last year.

Of the 23 000 stands available for sale, only 6 400 were sold in the financial year.

"This restrictive environment is expected to continue throughout 1993 . . . and will probably prevent us from granting more bonds in our traditional market — the R25 000 to R35 000 range — from current low levels," he said.

The trust had also begun acquiring land for development in traditional "white" areas. The first of these investments was in Midrand.

"The trust is talking to the stokvel associations about exploring areas of mutual growth and opportunity, but this will probably take some time.

"Any interaction would, however, have to provide a sound investment return," said Conradie.

Business Day Reporter

THE Association of Corporate Treasurers of Southern Africa (Actsa) was well positioned to ensure SA's financial system worked efficiently, outgoing chairman and Amalgamated Retail financial director Bruce Sinclair said in Johannesburg yesterday.

"During the year several key objectives were met. A treasury management course was established at Unisa. We ... have been in the forefront of new ideas, such as why companies should be allowed to buy their own shares," he said. 010M 18/11/92.

The new Actsa chairman is Genmin treasury GM Marius Ferraira.

(58)

Stringent controls help Santam soar

BIDAY 18/11/92. (58)

LINDA ENSOR

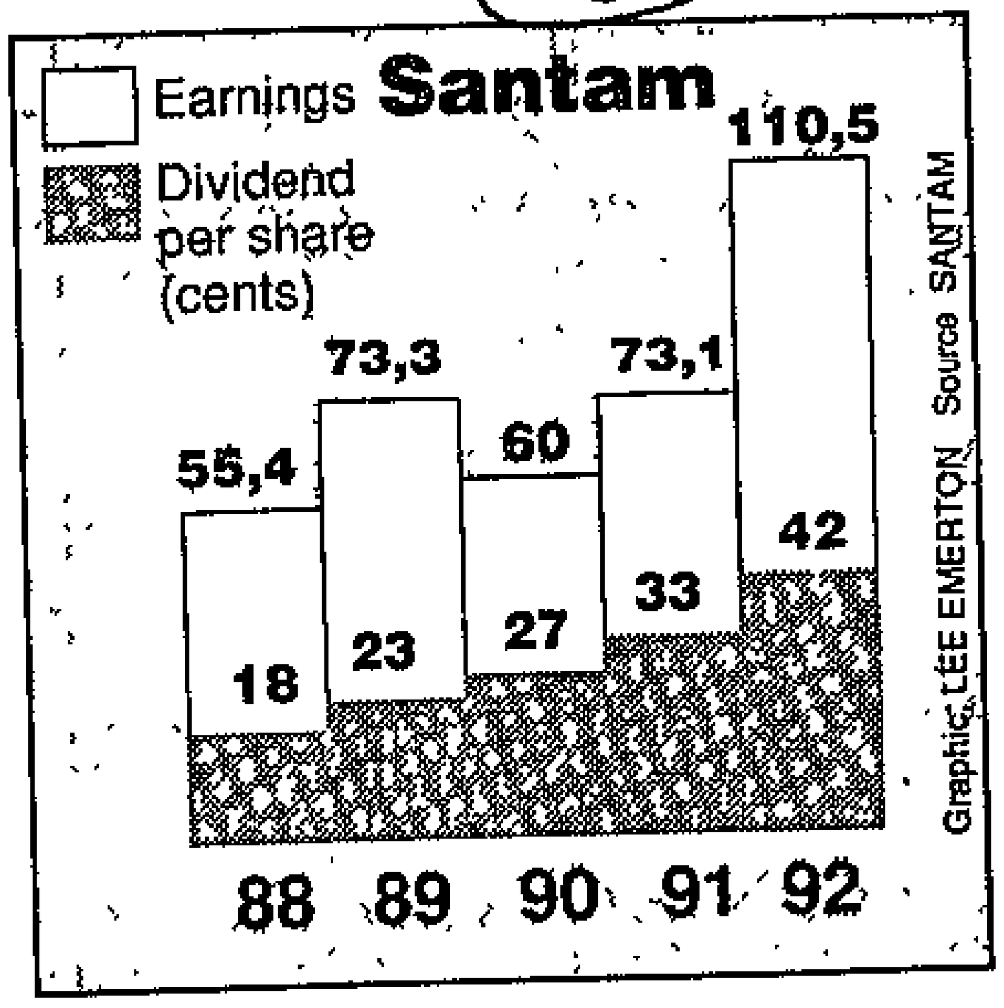
CAPE TOWN — A sound underwriting performance, coupled with strong investment returns, enabled short-term insurer Santam to post a 55% increase in earnings a share in the year to end-September.

From earnings of 110,5c (71,3c) a share a total dividend of 42c (33c) was declared.

Pre-tax underwriting profit soared 316% off a low base to R51,6m (R12,4m), which MD Jurie Geldenhuys said reflected the absence of large-scale natural disasters and stringent underwriting practices. Net claims rose at a slower rate of 9,2% to R711m (R651m) than the 11,5% increase in gross premium income to R1,2bn (R1bn) and the 11% rise in net premium to R1bn (R933m).

Geldenhuys said crime-related claims had not accelerated to the same extent as previously. There had been an improvement on the motor account and on personal lines business. Santam had been vigilant in insisting on security requirements for property and people.

Premiums on personal lines insurance increased by about 6% during the year and Geldenhuys did not believe a further increase would be necessary in the next few months. However, there was a need to increase rates on the industrial account.



The industrial account, which represented 20% of the total business and included aviation, marine, fire and miscellaneous accident insurance, did not fare very well as rates continued to be very soft. While some categories showed a loss, the overall industrial account showed a slight profit.

Improved cash flow from successful underwriting helped boost investment income which increased 18,8% to R90,9m

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Santam

BIDAY 18/11/92 (58)

☐ From Page 1

(R76,5m). Also, interest rates remained high for longer than expected. Total pretax profit climbed 61% to R143m (R89m) and after-tax profit was up by 56% to R79,4m (R50,9m). Despite the recession and the stagnant insurance market, the number of policyholders rose by 2,25%.

The satisfactory outcome brought a strengthening of Santam's solvency margin to 54,6% (43,1%) and of its financial base (total shareholders' interest plus technical reserves as a percentage of net premium income) to 103,4%.

Geldenhuys said these results provided Santam with an excellent base for growth. They also enabled Santam to build up, a year ahead of schedule, its contingency reserve to the full 10% (R101m) of premium income as recommended by the Melamet commission.

The market value of Santam's assets at year-end stood at R1,2bn — an increase of 25,6% over the previous R931,9m. Total shareholders' interest shot up by 40,6% to R566m (R402,6m) and insurance funds improved by 5% to R505,3m (R480,4m) while the insurer's net asset value rose to 787c (565c).

On the year ahead, Geldenhuys said: "We are aiming at positive growth although with interest rates down and the share market looking a little uncertain, we may not achieve the same rate of growth in investment income and assets."

Move to free billions for borrowers

GRETA STEYN (58)

IN A move that could free up billions of rands for borrowers, the Reserve Bank was expected to reduce banks' cash and liquid asset requirements, bankers said yesterday. BDAY 18/11/92

The Reserve Bank confirmed it was reviewing the system of compelling banks to keep cash and liquid assets against liabilities or deposits, but declined to confirm a reduction. Bank Governor Chris Stals said yesterday he would discuss changes to the financial system, including cash and liquid asset holdings, at a bankers' meeting on Friday.

"We are working at improving the financial structure and markets and making policy more efficient," he said.

Bankers said a discussion paper being circulated suggested a reduction in the cash requirement from 4% of liabilities to 1%. There was also a suggestion that liquid asset holdings be reduced to 12% from 20%. A banker said this would free banks' asset structures and encourage more efficient credit and securities markets.

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Borrowers

BDAY 18/11/92

(58) ☐ From Page 1

Bank Deputy Governor Chris de Swardt said the cash reserve requirement was a monetary policy instrument and would be moved from the Deposit-Taking Institutions Act to the Reserve Bank Act. He said changes to the system were not intended to ease money market conditions and that the amount of cash banks had to hold would not necessarily be reduced.

The cash held against liabilities would depend on a definition of liabilities, which was still up for discussion. However, bankers said even if a broad definition of liabilities were used, their activities would be less restricted if the suggestions were implemented. The removal of constraints on assets could enable a more aggressive move into home loans or any other area.

Also up for discussion on Friday was the simplification of the Bank's system of putting cash into the banking system. The changes proposed would provide a boost for the capital market, as gilts would no longer be exchanged for cash at punitively high interest rates, a banker said.

Inflation on a downward trend

Banks set to follow suit as Stals cuts rate

BDAY 18/11/92.

(58)

HILARY GUSH

THE Reserve Bank yesterday signalled a one percentage point cut in interest rates by announcing a one-point drop in its Bank rate to 14%, effective today.

The Bank rate — the rate at which the Bank finances the banking system — had stood at 15% since the last one-point reduction in June. The drop represents the fourth reduction in the official interest rate since March last year.

Reserve Bank Governor Chris Stals associated the cut with the more stable financial situation in general and to expectations that inflation would decline further in the near future.

He expected commercial banks to follow suit by announcing a cut in prime and other lending rates. However, he warned: "Deposit-taking institutions are ... requested to exercise caution in the further reduction in their deposit rates, and to maintain a sound and competitive margin between their deposit and lending rates."

Detailing the further progress made towards greater financial stability, Stals said year-on-year growth in the broad money supply had remained below 10% in July, August and September; producer inflation had kept below 10%, while consumer inflation had moved steadily downwards in the past few months; and growth in the level of bank credit extended to the private sector had fluctuated "on a relatively stable basis" around the 10% mark.

He said the latest GDP figures showed continued weakening of real economic activity in the third quarter — pointing to a further decline in inflation.

Stals warned that the deterioration in the balance of payments, the growing Budget deficit and the continued rise in average salaries and wages — above the inflation rate — could not be ignored in deciding on monetary policy.

"SA will have to tackle these economic problems in deadly earnest before the country can embark again on a path of sustainable and durable economic growth at a higher rate, with financial stability."

Standard Bank senior GM Dennis Matfield said the market had anticipated the cut and proposed a cut in home loan rates.

FNB MD Barry Swart said there was "no doubt that banks will follow suit by dropping prime, and give consideration to a cut in home loan rates".

Stals's move had been well timed and the Governor had been "absolutely consistent" in carrying out monetary policy, Swart said.

Nedbank MD Richard Laubscher said it was likely that the prime rate would fall in the wake of the Bank rate cut. "The exact timing of the cut in prime will be finalised tomorrow." He said the drop was appropriate as money supply was "well under control" and lower consumer inflation pointed to an easing in the prime rate.

Drop in bond rates bound to follow, but pensioners may feel investment pinch

Cash in your pocket as banks ease up

58 ARG 18/11/92

TOM HOOD, Business Editor

BANKS are expected to announce today a 1 percent cut in rates charged for overdrafts, credit card balances and other loans, saving borrowers just over R1 billion a month in repayments.

The move will being relief to the over borrowed but tears to the many pensioners and others living off their savings as interest paid on deposits will come down as well.

The cut, sparked by the Reserve Bank reducing the rate it charges banks from 15 to 14 percent, will help businessmen who are paying millions of rands a year in interest on unsold stocks.

Another cut in rates could be on the cards early next year which could help to pull the economy out of depression.

Mr Dave Mohr, Old Mutual's chief economist, said the Reserve Bank has been under increasing pressure to reduce rates despite the insistance of the governor, Dr Chris Stals, on maintaining a strict monetary policy in an effort to cut double-digit inflation which has plagued the country for years.

The chance of a further cut could be accelerated if the government followed the option to increase revenue through a hike in the value added tax rate.

While Mr Mohr welcomed the latest cut he warned not to expect any immediate reaction but said it would help to "bottom out" the present economy.

The lower bank rate could lead to lower mortgage rates for as well.

Banks and building societies have money literally coming out of their ears through lack of customers and are already fighting a home loan rates war.

They have reduced rates of 17,25 percent by as much as 1 percent in competition to take over the home loans of Eskom, the Post Office and other large institutions.

Cheaper loans at 16,25 percent mean a saving of R118 a month on a bond of R150 000 over 25 years.

The Reserve Bank action came last night after reports of a disastrous third-quarter economic performance and will be seen in some quarters as a move to further stimulate the economy.

Dr Stals warned banks to exercise caution in reducing deposit rates and to maintain a sound and competitive margin between deposit and lending rates.

He said the Reserve Bank had recently received many complaints from savers, particularly elderly people who depended on interest income.

They found it increasingly difficult to come out on the present relatively low deposit rates which in some cases were even lower than the rate of inflation.

Santam notches record under-writing profit

(58) CT 18/11/92

By AUDREY D'ANGELO
Business Editor

SHORT-TERM insurer Santam achieved a record pre-tax underwriting profit of R52m in the year to September, compared with R12m last year.

Total pre-tax profit soared to R143m (R89m). The profit after tax and provisions — including building up the contingency reserve to 10% of net premium income — was R79m (R51m), giving earnings per share of 110,5c (71,3c).

The final dividend is 25c (19c), making a total pay-out for the year of 42c (33c) a share.

Gross premium income was R1 155m (R1 037m). Net premium income was R1 036m (R933m).

Net claims also rose, to R711m (R651m). Pointing out that they had risen at a slower rate than premium income a spokesman said: "The improved cash flow from successful underwriting helped boost investment income which at R91m was 18,8% up on the 1991 level of R77m."

He said that in view of these good results Santam took the decision to build up its contingency reserve to R101m a year ahead of target.

MD Jurie Geldenhuys said that apart from an increase in the amount of premiums, Santam was also able to report an increase of 2,25% in the number of policyholders on its books.

"This is particularly significant when it is recognised that there has been no growth in the economy and the insurance market is virtually stagnant."

But, he pointed out, "one of the main reasons for the improved results was the absence of claims due to natural disasters.

"We cannot be complacent about this. Natural disasters have been a worldwide feature in the past couple of years and we must expect them in SA as well."

Geldenhuys said that, apart from these operating results, Santam's balance sheet had shown a significant further strengthening.

Total assets are now worth R1 171m (R932m). Shareholders funds are R566m (R403m). Insurance funds are R505m (R480m). Net asset value per share has risen to 787c (565c).

Geldenhuys said that a few years ago, as part of its strategic planning, Santam had set itself two targets for 1993. These were a solvency margin of at least 50% and increasing its financial base by at least 100%.

These had both been achieved a year ahead of time.

"We are aiming at positive growth in the year ahead, although with interest rates down and the share market looking a little uncertain we may not achieve the same rate of growth in investment income and assets as achieved this past year."

Banks' cash, liquid asset requirements under review

CT 18/11/92 (58)

Business Editor

JOHANNESBURG. — In a move that could free up billions of rands for borrowers, the Reserve Bank was expected to reduce banks' cash and liquid asset requirements, bankers said yesterday.

The Reserve Bank confirmed it was reviewing the system of compelling banks to keep cash and liquid assets against liabilities or deposits, but declined to confirm a reduction. Bank Governor Chris Stals said yesterday he would discuss changes to the financial system, including cash and liquid asset holdings, at a bankers' meeting on Friday.

"We are working at improving the financial structure and markets and making policy more efficient," he said.

Bankers said a discussion paper being circulated suggested a reduction in the cash requirement from 4% of liabilities to 1%. There was also a suggestion that liquid asset holdings be reduced to 12% from 20%. A banker said this would free banks' asset structures and encourage more efficient credit and securities markets.

Bank Deputy Governor Chris de Swardt said the cash reserve requirement was a monetary policy instrument and would be moved from the Deposit-Taking Institutions Act to the Reserve Bank Act. He said changes to the system were not intended to ease money market conditions and that the amount of cash banks had to hold would not necessarily be reduced.

The cash held against liabilities would depend on a definition of liabilities, which was still up for discussion. However, bankers said even if a broad definition of liabilities were used, their activities would be less restricted if the suggestions were implemented. The removal of constraints on assets could enable a more aggressive move into home loans or any other area.

Also up for discussion on Friday was the simplification of the Bank's system of putting cash into the banking system. The changes proposed would provide a boost for the capital market, as gilts would no longer be exchanged for cash at punitively high interest rates, a banker said.

Bank rate down to 14%

(58) CT 18/11/92

By AUDREY D'ANGELO
Business Editor

THE bank rate will be cut today from 15% to 14%, which should result in a 1% cut in short-term lending rates, giving further help to hard-pressed consumers and bringing down business costs.

But there is unlikely to be any further drop in mortgage lending rates, as banks and building societies had already brought their standard home loan rate down to 17,25% from September 1 in expectation of a 1% drop in the bank rate.

Announcing the cut last night Reserve Bank governor Dr Chris Stals appealed to deposit-taking institutions not to cut their deposit rates too steeply, which would cause hardship to elderly investors.

Dr Stals said the cut should "lend support to similar reductions in certain market interest rates, and in particular to the prime and other lending rates of deposit-taking institutions".

"Deposit-taking institutions are, at the same time, requested to exercise caution in the further reduction of their deposit rates, and to maintain a sound and competitive margin between their deposit and lending rates," Dr Stals said.

Yesterday's announcement follows an appeal to the Reserve Bank from bankers, who said their corporate customers were getting deeper into the red.

Dr Stals said he had decided to cut the bank rate "against the background of the more stable financial situation in general and the expectation that the rate of inflation will decline further in the near future".

UN hits at Buthelezi

CT 18/11/92

From SIMON BARBER

NEW YORK. — United Nations secretary-general Dr Boutros Boutros-Ghali told the General Assembly yesterday that he is losing patience with IFP leader Chief Mangosuthu Buthelezi.

In a report to the Assembly timed to coincide with the start of its annual debate on apartheid, Dr Boutros-Ghali said he was "particularly concerned" by Chief Buthelezi's "rejection" of the September 26 agreement between President F W de Klerk and ANC president Mr Nelson Mandela.

"I have emphasised to all concerned the need ... to remove any remaining obstacles that might impede the resumption of negotiations."

Diplomatic sources said the secretary-general had written to Chief Buthelezi but had received no reply and had also not been able to raise him by telephone.

While Dr Boutros-Ghali was encouraged by the De Klerk-Mandela pact, he stressed that "great perils persist, not least in the volatility of the political atmosphere and the tendency to resort to political violence".

He indicated he had little interest in expanding the size or scope of the UN Observer Mission (UNOMSA).

The 44 observers at the end of October had been "well received" by the National Peace Accord structures, with which they were working "effectively".

However, UNOMSA's mandate could be contentious. A draft resolution prepared by the ANC and frontline states wants the General Assembly to endorse the possibility of spliting the observers from the NPA, turning them into independent monitors.

This is unlikely to go through as the Assembly's Special Committee on Apartheid opposes it.

● If the government and the ANC believe their Record of Understanding is good for South Africa, they should put it to a multi-party conference of review, Chief Buthelezi reiterated in an address to Canada's official opposition Liberal Party caucus in Ottawa on Monday. — Sapa

COMPANIES

Sasfin focuses on regional ties

SHARON WOOD 58

TRADE and equipment financing company Sasfin was focusing increasing attention on the development of its activities in southern and central Africa, chairman Martin Glatt said in the group's 1992 annual report. B/DAY

"While business in most African countries is fraught with difficulties, the group has extensive experience in Malawi, where it has a subsidiary, and in certain other southern and central African countries," he said. 19/11/92

Although it was not group policy to actively seek venture capital investments, Glatt said Sasfin would consider opportunities to acquire minority stakes in client companies with exciting upside potential, provided the risk capital involved was not significant in relation to the group's equity.

"Because of continuing political violence and labour unrest, the drought and the poor state of the world economy, an economic upturn in SA is not yet on the horizon," Glatt said.

During 1992 the increase in already substantial bad debt provisions had adversely affected net taxed earnings of the group.

However, low income tax rates applicable to overseas subsidiaries and allowances on export activities continued to contribute to a low group tax rate, he said.

The group continued to develop its business of providing a comprehensive range of financial facilities and services to a diverse base of commercial and industrial clients.

No hard and fast rules on the final cut

BDAY 19/11/92 58

EDWARD OSBORN

GRETA Steyn concludes that "while the deficit is no reason to further delay a cut in the Bank rate, it is undoubtedly a reason why the next cut should be the last or close to the last" (Business Day, November 10).

By her reasoning, Tuesday's announcement would represent this final cut. But this presupposes that the upswing is near to starting and when it does the combined pressure of government expenditure, unless severely constrained, and capital investment expenditure will be strongly demand inflationary. This is the reason for Reserve Bank Governor Stals sticking with the same song of resistance.

But it also presumes that the antidote to fiscal excess is monetary restraint or, alternatively, we cannot have both lax fiscal behaviour and easy monetary policy at the same time.

Neither proposition is a truism or preordained verity; witness the US today. The situation in SA next year could conceivably justify the latter combination should there be continuing lack of consumer demand and investment confidence. On the other hand it might not. The point is it cannot be assumed to be an iron rule at this juncture.

However, there is the compelling argument to restore fiscal balance through a combination of expenditure constraint and enhanced revenues because of the Gadarene slide into the public debt trap that actually started about 1989. Any cock-eyed notion of clawing our way out of the present recession through fiscal means must be firmly resisted. The economic effects, although unpredictable, would be ephemeral, and there would be an acceleration down the slope.

The fiscal problem is essentially one of severe structural imbalance, exacerbated for the moment by the collapse of revenues because of the recession. And, furthermore, it is one that needs to be resolved on the revenue side, notwithstanding all the nice supply side arguments. Despite any Herculean attempts on the part of Minister Keys to reduce expenditures, it would be naive to expect anything other than a steady rise in expenditure levels as we go into our New World.

But it would also be disastrous for this country if the monetary authorities are going to see their role as attempting to negate fiscal imbalance through tight monetary policy on a permanent basis. For one thing it is vainglory, and for another it will be inimical to growth.

In a country where the wage rate has chronically outstripped production prices (395% as against 312% in manufacturing since 1980) and has not been compensated for by any improvement in productivity, the return on capital is attenuated. Rates of interest have to be low and credit readily available to induce productive borrowing — and especially low in a climate of low confidence.

And what's more, investment activity will only take place for reasons of perceived market opportunity. In many cases these can be of consumption in nature, and the present odium attached to consumption is just bad economics.

The recession, broadly speaking, has had two streams of causality, the external and the internal. The external, through a combination of reduced commodity prices and real effective exchange rates, has forced rationalisation and retrenchment. The internal, affected initially by the externally induced retrenchments and the sharp decline in investment activity because of poor business confidence, has also gone through rationalisation and retrenchment. And the process has fed upon itself.

Part of the problem for the mainly internally oriented manufacturing sector has been the financial stress on it. Surely in a constrained situation of reduced turnovers and financial burden there has to be only one way out for survival and that is through employment shedding.

One of the saddest indicators of the recession's depth has been the growth of the money supply restricted to about 9%. This is indicative of the fact that borrowing has not been related to productive investment, but simply for survival, in many cases using established facilities to cover interest due. Talk to anyone toiling in the banking vineyard.

Frankly, like Oliver, I see every reason to keep asking for more in present circumstances. Obviously, not in order to provide monetary stimulus to the economy which it would not, but rather for the alleviation of financial distress and stopping any further job shedding due to this factor.

☐ **Osborn is Nedbank chief economist.**

REVIEW

Kirchmann slows expansion

PETER GALLI 58

THE depressed economy has forced property loan stock company Kirchmann-Hurry Properties to temper its aggressive expansion policy and adopt a more cautious approach.

In the annual report released yesterday, chairman Michael Kirchmann said the group felt this had been a prudent move, given the difficult and unpredictable past year in the property industry.

"As a result of the failure of some of our tenants to pay their rent, we had to write off a larger number of debts than originally expected. Local authority costs continue to increase at a rate above inflation and appeals to them have been largely unsuccessful," he said.

The group had been unable to recover all of these increases from tenants and, although it had achieved a reduction in assesment rates in one case, this was offset by a rise in sewerage and refuse tariffs.

It was also unlikely that rentals would rise in the short term as desperate landlords — particularly in the CBD — were offering attractive incentives to prospective tenants.

Its new properties, Sandton Place and Howick Gardens, had been integrated into the portfolio and were "performing well". The Colony development on the old Hyde Park hotel site was scheduled for completion next June.

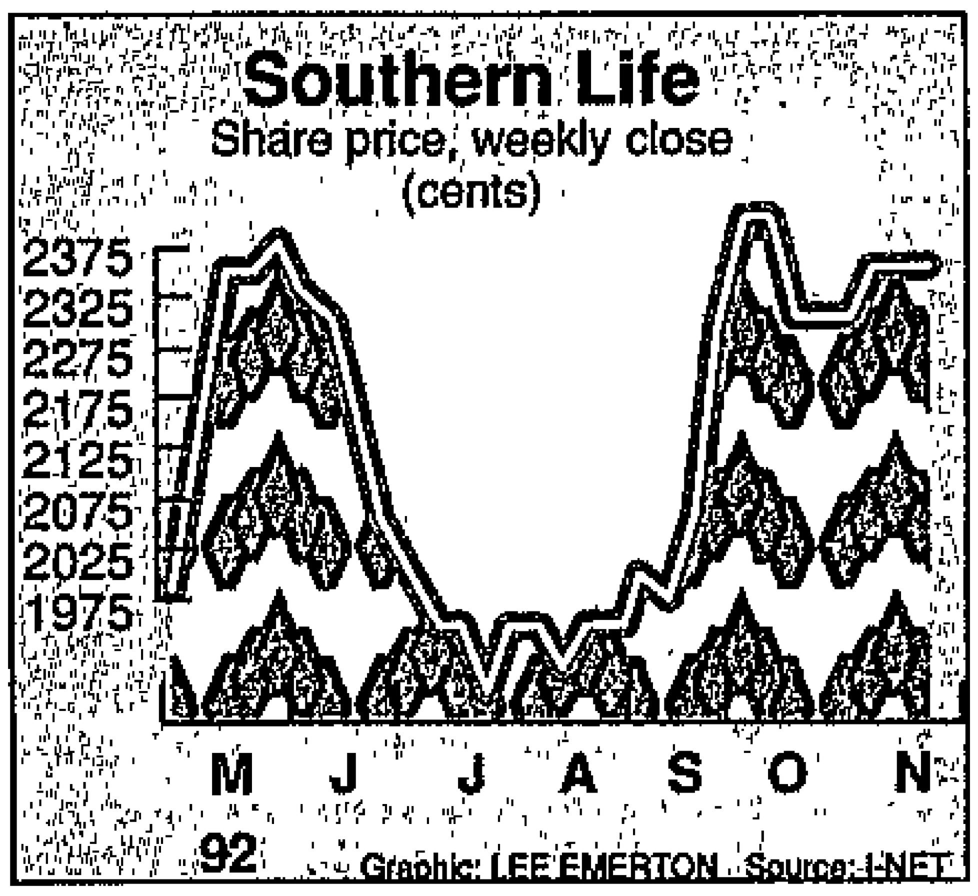
In the year to end-September earnings rose marginally to 55,96c a combined unit from 54,03c the previous year. The share was untraded yesterday at its ruling price of 475c, slightly off its September 4 low of 470c.

Southern Life earnings up

B/DAY 19/11/92 (58)

LINDA ENSOR

CAPE TOWN — Southern Life experienced a strong inflow of premium income in the six months to end-September and increased its earnings a share by 18,5% to 48c (40,5c) in circumstances described by MD Jan Calitz as extremely tough.



An interim dividend of 32c (27c) was declared.

Net premium income rose 20,3% to R1,15bn (R953m), but net investment income fell 2,3% to R530,9m (R542,6m) as a result of lower interest rates and minimal dividends from share investments in the depressed stock market. This resulted in a 12,2% rise in total, pre-tax income to R1,7bn (R1,5bn).

Total assets increased by 6,3% to R17,5bn (R16,4bn).

New business generated rose 39% over the previous period to R511m, of which single premium business claimed R299m and new recurring business R212m.

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Southern Life...

B/DAY 19/11/92 (58)

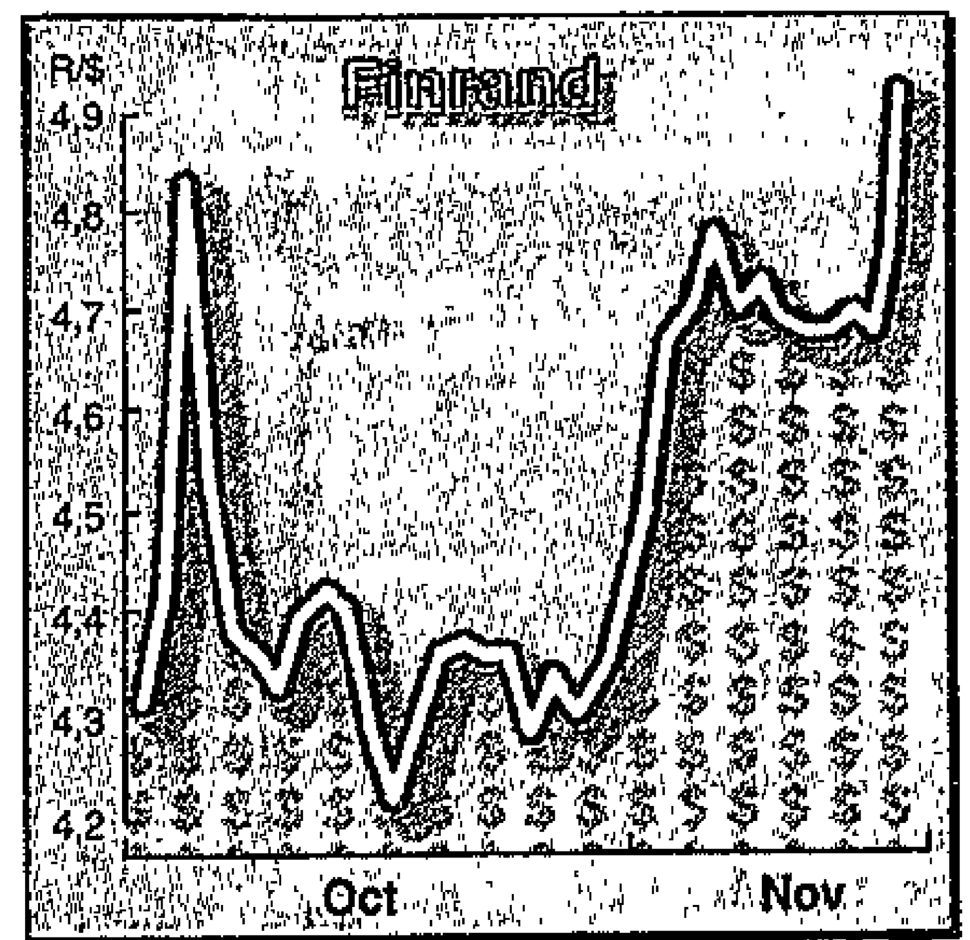
☐ From Page 1

Southern's medical market had shown significant growth through its wholly owned subsidiary Affiliated Medical Administrators, its acquisition during the period of a 50% stake in Medicor and of 10 hospitals, and through the medical policies sold individually.

Calitz said the market had been difficult as economic growth had been negative and there had been a significant strain on disposable income, and a disincentive to save. A tight control was maintained over expenses, which were under budget for the first six months.

A close watch was being kept on the development of the HIV epidemic and Southern's AIDS reserves totalled about R200m at the end of March 1992.

Calitz said earnings and the final dividend should show growth in the next six months, although the recession, the depressed JSE, violence and pressure on disposable income levels would present a major challenge.



Graphic: RUBY-GAY MARTIN Source I-NET

58

Finrand reels as Bank cuts rate

GRETA STEYN and HILARY GUSH

THE one-point cut in Bank rate to 14% and rumours of new developments on the Royal acquisition of Del Monte sent the finrand reeling yesterday.

The foreign investment unit shed more than 3% to hit a low of R4,95 before clawing back to a close of R4,9260. Dealers said the cut in Bank rate had an effect on the finrand rather than the commercial rand, but that the sharp weakening in the unit could not be justified solely by the Reserve Bank's move on interest rates.

A dealer said the market's anticipation of the finrand implications of the Royal/Del Monte deal was a major factor depressing the currency. There was speculation Royal would have a year to settle the finrand portion of the deal of about R1,5bn, implying continued pressure on the currency for that period. There was also talk of the Bank keeping the trade out of the interbank market to help smooth movements in the currency, but this could not be confirmed. BDM 19/11/92.

The Bank is, however, considering making recommendations to Finance Minister Derek Keys on a new policy for SA investment overseas.

Another dealer said large sell orders had emanated from Europe and the pressure had been aggravated by a local bank's aggressive selling. Political factors were playing a role. "Judge Goldstone's revelations are not doing the currency any good." However, the finrand is still off its record low of R5,12 reached at the height of the

☐ To Page 2

Finrand BDM 19/11/92. (58)

☐ From Page 1

Royal/Del Monte pressure. The market believes the currency will find good support at the R5,00 level and that it has the potential to strengthen to R4,82.

Money market rates also came off sharply on news of the Bank rate cut but gilt yields defied market sentiment and moved up 20 points.

In the money market, call rates dropped one percentage point — from around 12,5% to 11,5% — matching the Bank rate cut.

The rate on the three-month liquid BA was also lower, trading in a 11,8%-12,2% range from a previous 12,3%-12,5% band.

Bankers — to a degree — heeded Reserve Bank Governor Chris Stals's plea not to cut deposit rates. They said in line with Stals's request, retail deposit rates would not be reduced by a full percentage point, but rather by 0,5 percentage points.

Dealers said as the market was liquid — with the shortage falling to R1,611bn on Tuesday — deposit-taking institutions could afford to drop the call rate by such a wide margin. However, they expected calls to move up towards 12,25% as month-end neared and the shortage rose.

Although month-end was traditionally tight, interest payments on government stock — due on the November 30 — would offset a very tight month-end, they said.

The fall in call rates is not expected to be sustained as the shortage is predicted to be significantly higher by December, when spending on credit rockets ahead of the Christmas season.

Immediate response to the Bank rate cut in the gilts market was mildly bullish with rates on key long-dated stock coming off 10 points. Sentiment soon turned around and yields moved up 20 points.

The yield on the bellwether E168 traded in a 14,52% - 14,75% range before finishing at 14,72%. The yield on government's R150 bond ended the session at 14,68% after hitting an intra-day high of 14,72% from an overnight 14,57%.

● Comment: Page 8

BA rate hits four-year low after bank rate cut

(58) ARG 19/11/92

Business Staff

ALTHOUGH the markets appeared to be blasé about the Bank Rate cut, dealers in the short-term market are surprised at the substantial drop in the three-month Bankers' Acceptances (BA) rate from 12,5 percent to 11,9 percent — its lowest level for more than four years.

The drop in the BA rate is an interesting development which could have a bigger impact on the economy than the Bank Rate cut.

Most corporate clients do not pay prime rate on their loans, but the much lower BA rate. Therefore a reduction in the BA rate has a bigger impact on their profits than a cut in prime rate.

Dealers could not pinpoint exact reasons for the decline. One suggested the Reserve Bank might be trying to reinforce the impact of the lower Bank Rate on the economy by adding money to the market.

Another possibility was that it could be linked to the proposed move by the Reserve Bank to reduce the amount of cash banks hold from four percent of liabilities to one percent.

Dr Chris Stals, Governor of the Reserve Bank, is to discuss the matter later this week.

The response of the Johannesburg Stock Exchange to the drop in Bank Rate was muted.

The industrial index gained only 13 points, or 0,3 percent, to close at 4091. However, the drop in the BA rate might spark more interest today.

While the BA rate was dropping, rates in the capital market were rising. The Eskom E168 stock moved up from 14,6 percent to 14,7 percent.

Dealers said this reflected fears that the crisis in government finances could lead to sharply higher long-term interest rates next year.

But the most disappointing of all the responses to the Bank Rate cut was the half percentage point drop in the mortgage rate instead of the expected one percent.

Bankers say the previous mortgage rate reduction had anticipated the latest Bank Rate cut. It does mean that people with mortgages will not gain as much as they and business would have liked.

Small businessmen and private borrowers are also expected to gain little relief from the lower prime rate.

Figures issued by the Reserve Bank show that the predominant overdraft rate on current accounts tends to be extremely sticky, even when prime drops.

Bankers defend these high rates, claiming they have to build a great deal of insurance against bad debts into them. "We're not in business to lose money, but to make money," a banker said yesterday.

An unusual aspect of the Bank Rate reduction announcement was a call by Dr Stals to banks to be careful about cutting further their deposit rates.

Dr Stals said he had received many complaints about how these rates were often below the inflation rate.

However, bankers said last night that current competition for deposits was likely to prevent deposit rates from falling further — especially if a hardening of long-term rates was about to happen.

US bank gives Transnet R100m loan guarantee

BDAY 19/11/92 58

PETER DELMAR

TRANSNET has secured a loan guarantee for almost R100m from the Export-Import Bank (Eximbank) in what has been hailed as a breakthrough in normalising financial relations with the US.

The R92,3m guarantee is for the purchase by SAA of a Boeing 747-400.

It is expected to be followed by other similar guarantees in the near future.

SA's access to the US government-controlled Eximbank was only officially reinstated in February this year after US president George Bush signalled that sufficient progress had been made in dismantling apartheid and that the Evans Amendment prohibiting Eximbank involvement in SA was revoked.

A US embassy spokesman said the guarantee was the second to be granted for exports to SA.

Recently a small loan was guaranteed for the supply of mining equipment to an SA company.

However, it was the first involving an SA parastatal and by far the largest.

Several other smaller applications were already "in the pipeline", the spokesman said.

The granting of access to Eximbank for exports to SA made these exports much more attractive, he said.

The aircraft — the Kempton Park — is capable of flying non-stop between New York and SA.

The guarantee is for 85% of the cost of the aircraft (excluding its four engines).

The Kempton Park, which is already in SA, is equipped with Rolls Royce engines which were financed separately by an export credit agency of the British government.

The 10-year loan was financed by Hill Samuel Bank Ltd of London.

Southern Life lifts interim div 18,5%

SOUTHERN Life has lifted its interim dividend for the six months to September by 18,5% to 32c a share.

(58) CT 19/11/92

Group premium income rose by 20% to R1 147m. But investment income of R531m was affected by lower interest rates and minimal growth in dividends. Total income rose to R1 678m (R1 496m).

New business rose by 39% to R511m. Single premium business accounted for R299m and new recurring business R212m.

Announcing that disclosed earnings had risen by 18,5% to 49c a share, MD Jan Calitz said the company had continued its practice of setting the interim dividend and earnings figures at 50% of the totals of the previous financial year.

Total assets increased by R1bn year on year. But this has declined to R17 469m since the year-end, reflecting the fall in share prices over the past six months.

Calitz said yesterday future performance in the share market "depends very much on what happens with the drought, economic growth and political developments."

COMPANIES

Reichmans lifts dividends

EDWARD WEST

IMPORT/export trade finance group Reichmans' net income increased marginally in the six months to end-September 1992, but preference dividend payouts more than doubled to R6,25m from R2,91m, today's published results show.

The Investec subsidiary's operating income fell to R6,83m from R8,02m, but lower tax at R196 000 compared with R1,47m in 1991 boosted net income to R6,63m compared with R6,55m at the same time last year. BIDAY 20/11/92

Dividends in respect of the group's listed preference dividends increased to R3,4m from R1,7m while the unlisted preference dividend payouts increased to R2,84m from R1,21m at the same time last year.

Shareholders' funds climbed to R106,48 from R767,51m. Long-term liabilities werelower at R4,26m from R5,3m. Current liabilities fell to R214,61m from R266,6m. The cash balance was R44,68m compared with R46,03m in 1991. 2882

Directors reported that the preference dividend in respect of the listed shares covered a six-month period. 58

MD Robert Jacobson said the recession had made the trading environment "inhospitable" and had resulted in the import volumes of the group's clients falling by 25% in the past six months. The group had been more careful in issuing business credit and bad debts were under control and on target, he added. 79

Reichmans became a subsidiary of Investec in August 1991, entitling shareholders to convert ordinary shares into an equal number of 13,5% cumulative redeemable preference shares. The listing of its ordinary shares was terminated in the same month. Preference shares were listed soon after.

Investec proves to be 'a good bet'

BDay 20/11/92 (58)

SHARON WOOD

INVESTEC's good management, increasingly diversified income sources and good risk control should result in earnings growth of 26% a share during 1992, Ed Hern, Rudolph banking analyst Alan McConnochie said in a report on the bank.

"Investec has proved itself to be a growth stock and placing a bet on this management to continue their performance does not require a leap of faith as it did a few years ago," he added.

Investec directors have forecast an increase in earnings a share of 22% for the year to March 1993 after the share swop with Fedsure.

But McConnochie said the effects of dilution were worst at the interim stage and the bank still showed 25,3% growth in earnings a share.

McConnochie said Investec's divisional income was well spread with 38% in banking, 19% in Metboard, 29% in merchant banking, 4% in Fedsure and 10% in Reichmans.

He said Investec deserved to have a price earnings (PE) ratio of 11 relative to the rest of the banking sector based on a share price of R22,50.

Its PE currently stands at 13,4, while Standard Bank Investment Corporation's PE is 13,6.

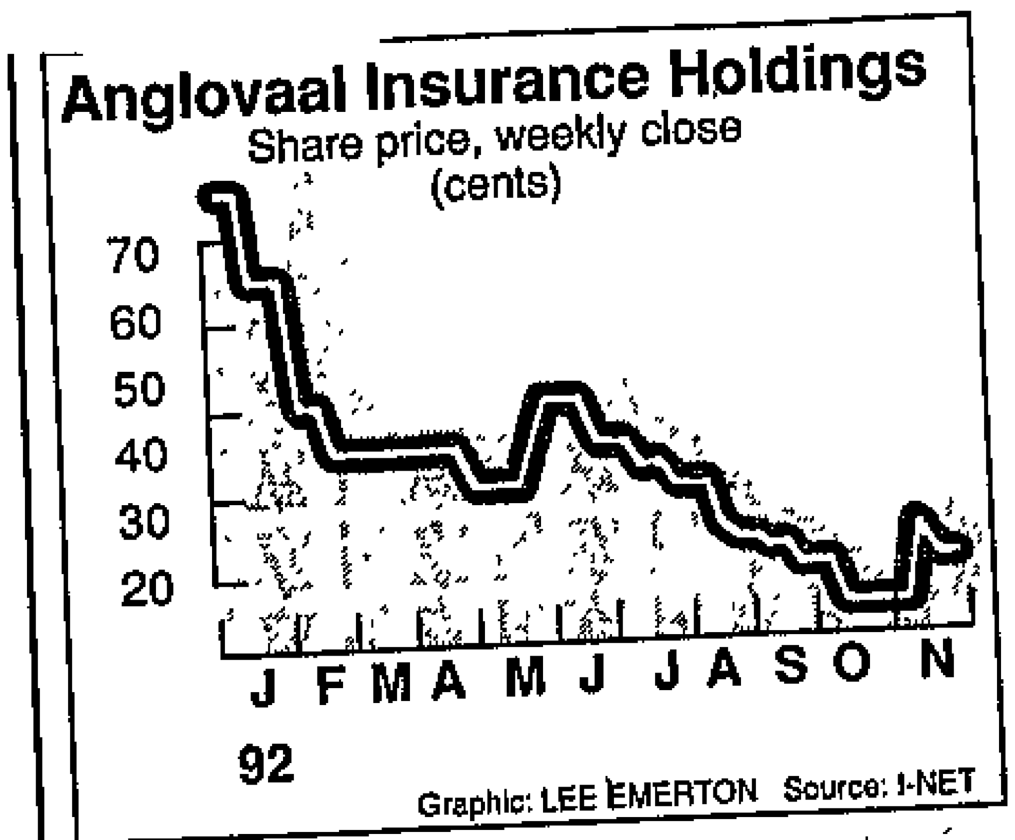
He expected Investec to reach a PE of 11 within a year and a PE of 9 within 18 months.

The shares were at most 10% overpriced on a relative basis, McConnochie said, and they could now be bought by investors not unduly worried about the levels of the equity market.

He added that those investors who were more cautious should buy Investec at R20,00, based on a view that bank shares would fall 10% with the rest of the market.

McConnochie said other factors in favour of the group were the improvement of the level of disclosure, the low tax rate and the fact that Investec did not take big positions in the market.

Investec Bank shares closed at R23,25 yesterday, 75c higher than a month ago when the share traded at R22,50.



AA Life loss puts Avins, AVF into red

ANDREW KRUMM (58)

A R98,6m loss by AA Life pushed both holding company Anglovaal Insurance Holdings (Avins) and ultimate holding company the AVF group into the red for the year to June.

The AA Life loss resulted from a R132m transfer to the company's life fund.

Avins reported a R93,7m attributable loss for the year, while the AVF group posted an R80,4m (R16,91m) consolidated deficit, off net premium income of R302,96m (R220m). Neither group declared a dividend. BDAY 20/11/92.

Avins directors said yesterday that in light of new information on financial and actuarial controls, AA Life had adopted a more conservative approach to transfers to the life fund during 1992.

"In keeping with this conservative approach, a provision has been made for non-recurring items of R90,5m, most of which refers to previous years."

The R90,5m provision was made up of a R42,1m provision for prior year policyholder liabilities, R14,5m for the policyholders' life fund, a R27,2m provision for unrealised benefits and R6m for investment write-downs.

No similar write-offs or reversals were expected in future, directors said. AA Life's management team had also changed substantially.

In February AA Life took up a rights offer of R26m, but required additional capital to fund its operations.

These funds came from Anglovaal and Absa Merchant Bank, which subscribed for R35m zero-coupon redeemable preferential shares on October 30 to ensure proper capitalisation.

Fellow Avins subsidiary Crusader Life

☐ To Page 2

AA Life BDAY 20/11/92. (58)

☐ From Page 1

performed satisfactorily to June with net premium income up 38%, while Pegasus, Avins' UK-based assurance arm, was budgeting for its first profit. Pegasus's financial year ends in December.

Meanwhile, Board of Executors, the fourth operating company linked to the AVF stable, reported a 4% improvement in earnings for the year to September.

BoE's growth was restrained by its property division, which was subsequently restructured, but was expected to improve its contribution to company earnings in 1993.

On group prospects in the year ahead, Avins' directors said: "Trading prospects for AA Life have improved but it could still take some time for the company to achieve acceptable levels of profitability."

SAAMBOU FM 20/11/92

Dividends in sight (58)

The return to profitability will no doubt be seen as vindication of the extensive restructuring and refocusing implemented by MD Johan Myburgh and his new management team which took over nearly two years ago.

FM 20/11/92 (58)

But apart from speculative quick pickings on the first attributable profit since 1990 — the share price gained 8c to 70c overnight on the interim results — investors should probably wait for year-end to see if Saambou is indeed on the road to full recovery.

The R2,5m attributable profit is really the result of finally laying to rest skeletons exhumed two years ago. Abnormal items on revaluing properties for resale and reclassifying investments to market value, which cost R68,8m and pushed earnings to losses of R74,9m a year ago and R75,1m at year-end, are now through the accounts.

All that remains is R6m rationalisation costs, likely to be repeated in the second half, which frees operating profit to make its way down the income statement. That trebled to R34,7m, thanks largely to Saambou getting back to its core banking business and moving funds out of low-yielding property holdings.

Advances, up 9% to R3,7bn, and the 66% increase in insurance funds to R30m continue the trend set at year-end. Myburgh says that, provided there is no extraordinary weakening of the economy in the next six months (and Saambou has had its fair share of extraordinary events), results should improve further, making dividend payments possible in calendar 1993. *Shaun Harris*

party being wooed most actively is NBS, and an announcement may be forthcoming soon.

Attempts by the *FM* to talk to NBS MD John Gafney were blocked on every occasion. Gafney was said to be "busy in a board meeting" until late on publication night when Gafney confirmed all the essentials of this story. Interestingly, Scotcher was reported to be in Durban at the same time — in the NBS head office. *David Gleason and Marylou Greig*

NEDCOR

Cause for celebration

FM 20|11|92 (58)

Nedcor shareholders have two reasons to celebrate. First is relief that earlier concerns about the Perm's home loan book and expenditure on computer technology appear less alarming than speculation suggested.

Nedcor Bank CE Richard Laubscher says arrears on Perm home loans have declined by 14%, while 87% of bonds in its R2,4bn exposure to low-income, mainly township, housing (about 23% of the book) are up to date. After a static contribution to net income in the 1991 year, the Perm raised its contribution by 8% to R70m of the R408m net income in the 1992 year.

Fears about Nedcor introducing a new computer network seem largely unfounded. Laubscher says the system, which should be operational early next year, is expected to absorb between R50m and R80m over the next three years. That's not going to break the bank, and Nedcor's expenses in the past financial year increased by a modest 17%, compared to 22% in 1991. That can also be compared, for example, to FNB's recently reported 20% increase in operating expenditure.

Part of the problem seems to have been a misconception that the new technology would not match that of competitors. But management explains that money has been spent on the network in reverse, so to speak, concentrating first on ATMs and then on the mainframe.

Second cause for celebration is the 16% increase in dividend. Shareholders will no doubt accept this without question, but there is more to it than Nedcor rewarding patient investors.

In 1991, when EPS advanced 20%, the dividend was lifted by 12%. Last year's 16% increase comes on a 16% advance in EPS, with cover remaining at 3,2.

Nedcor is quite adequately capitalised to make this sort of payout, which will amount to R127m cash. The previous year's dividend scrip offer (not being repeated this year) added R98m to shareholders' funds.

Nedcor's Liebenberg . . . *due for rerating?*

GROWING

Year to Sep 30	1991	1992
Net interest inc (Rbn) . ..	1,37	1,62
Other operating inc (Rbn) .	0,90	1,06
Expenses (Rbn)	1,45	1,69
Net taxed income (Rm) .	344	408
Earnings (c)	185	215
Dividends (c)	57	66

But CE Chris Liebenberg makes no secret that Nedcor would like to increase its secondary capital, up only 1,5% to R267m, possibly through a rights issue. Problem is the share price, which has drifted down, apparently for no fundamental reasons, from its March high of R19 to a low of R13,75 in September.

The confident dividend increase could help to improve the share's rating, which lags behind FNB and SBIC. With this payout, as well as latest results, which pushed the price up 60c to R15 less than a day after being released, Nedcor's share could be rerated.

Some analysts believe the share could gain R2-R2,50 before the end of the month, despite the generally depressed market and the perception that, with interest margins likely to come under pressure from cuts in the interest rate, the banking sector's good run may have peaked.

That in turn would make a rights issue more attractive. Liebenberg says his group will focus on improving nonmargin income in the coming year, and on improving expenses-to-income ratios. Certainly Nedcor, along with other banking groups, is not likely to get as much benefit from margin-driving income as it did in the past year. Liebenberg says growth will have to come from market share, which means it's unlikely to be as strong as in 1992.

On its present rating, the share is fair value, and the price seems to have appreciation potential. Institutions generally seem to go for the big three banks, but with Nedcor's adroit PR this week the share could even be an attractive short-term investment.

Shaun Harris

FM 20/11/92 (58)

CRUSADER LIFE FM 20/11/92

Larger capital base

(58)

Activities: *Life assurer.*
Control: *Anglovaal Insurance Holdings 60%.*
Chairman: *A R Rowand; MD: R Rowand.*
Capital structure: *30,2m ords. Market capitalisation: R70,9m.*
Share market: *Price: 235c. Yields: 8,5% on dividend; 10,2% on earnings; p:e ratio, 9,8; cover, 1,2. 12-month high, 270c; low, 190c. Trading volume last quarter, 421 000 shares.*

Year to June 30	'88	'89	†'91	92
Total Assets (Rm)	85,1	97,6	135,9	279,3
Net premium inc (Rm) .	41,5	57,0	118,6	160,7
Investment inc (Rm) ..	9,2	6,7	9,8	10,9
Earnings (c)	11,5	14,4	17,8*	24
Dividends (c)	11,5	14,4	17,8*	20,0
Net worth (c)	107,4	114,0	120,3	161,2

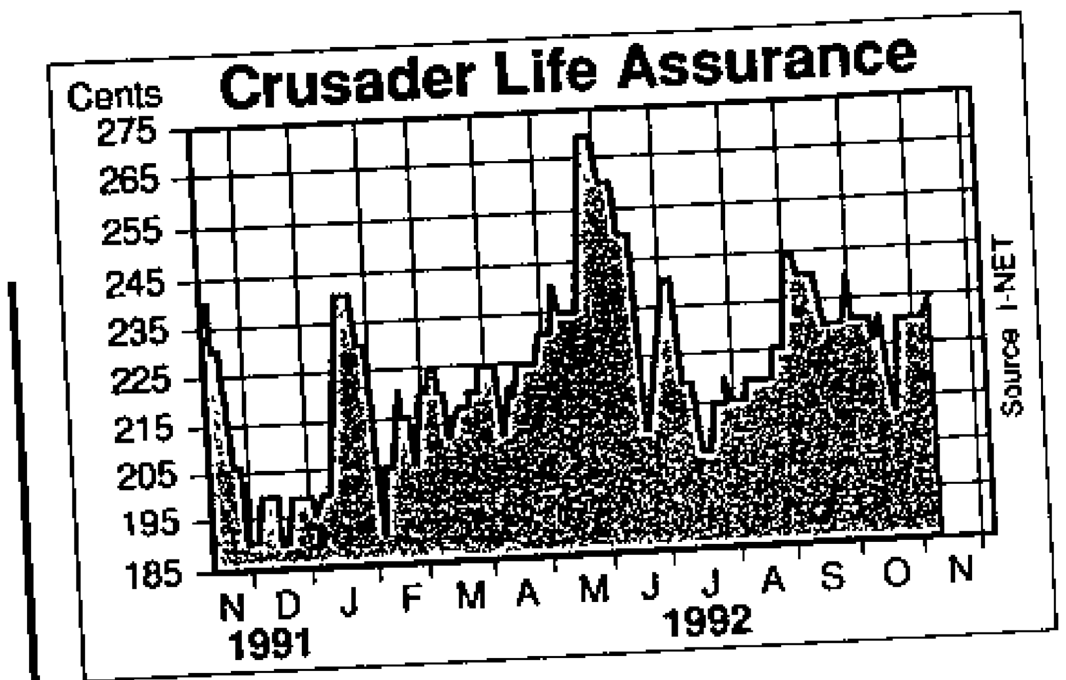
† 18-months. * Annualised.

Crusader Life has generally been perceived as an innovative and sound group, constrained by the size of its capital base. It pioneered health care insurance and launched a number of new health-related products.

But often, it seems, any advantage in being first has been largely lost as competitors with bigger resources follow with similar products and sell them in greater volumes. Most of the big assurers have cited their health-care policies as major growth areas in recent annual reports.

Executive chairman Don Rowand does not fully agree. He says Crulife is writing as much business as it can and that health-care products introduced by competitors have created more awareness of the products it sells through brokers.

Crulife's Rowand ... *adequately capitalised*



Even so, size has been a problem in the past for Crulife, so it will be interesting to watch its progress now its capital has swelled by R30,3m, two-thirds coming from the rights issue in March and the rest from issuing preference shares. A further R10m in prefs has been authorised and will probably be placed soon.

Rowand says Crulife is adequately capitalised to meet future business for the foreseeable future. Raising the capital has lifted issued ordinary shares by over 10m, with a diluting effect on earnings.

Year-on-year comparisons are still distorted by the change in financial year-ends in 1991, in line with that of controlling shareholder Anglovaal Insurance Holdings (Avins), but the increase on last year's annualised EPS of 35% is respectable. The dividend, up 12% on last year's 18 months annualised payout, was 44% higher when based on the weighted number of shares in issue. That maintains Crulife's objective of keeping dividend increases advancing by more than 20% annually.

No tax was paid in the past financial year and there is an estimated tax loss of R20m. Rowand says matched investment of funds will allow maximum use of tax losses. "In the past we have concentrated on risk-related products, like the Dread Disease policies. We are now looking for investment-type products. One, Crutax, has been launched and is selling well."

The interest in UK life assurer Pegasus was increased from 26% to 33% in the past financial year. Pegasus has been profitable since July and is expected to show reasonable profit this year, though Rowand says there probably won't be dividend payments until about 1995.

The investment has cost Crulife about R20m so far and will most likely need additional capital in the future. But Rowand points out that most of the R20m was paid through the financial rand some time ago.

It will take another year before a clear year-on-year comparison of Crulife's performance can be made, as well as to see advantages coming from increased capital resources. Latest results seem solid, so it remains puzzling that while the share has gained 35c since the beginning of the year, Crulife does not get the ratings of many of its competitors.

Part of the problem seems to be negative sentiment in the market about its connection with AA Life through parent Avins. Still, at the current price Crulife could be a recovery stock. More information about the unlisted AA Life should be available soon, when Avins releases its results.

Shaun Harris

INSURANCE FM 20/11/92

First lesson (58)

African General Insurance (Afgen), the first black-owned non-life insurer in SA, has had a shaky start with the resignation of its white MD, Johan Schuin. But its partners, SA Eagle and Aegis insurance companies, are confident the venture will succeed. So are most of the brokers who attended Afgen's re-launch this week. The company has its genesis in the takeover of the licence and about R30m of premium income from Business & Personal Insurance (BPI) earlier this year.

Following some dubious underwriting by the new company, Aegis seconded a senior executive, John Bowden, to Afgen. Bowden's appointment followed a request by new MD Khehla Mthembu, who retains over-riding management control.

According to brokers, they were approached by Afgen with "schemes" involving black and white consumers, at rates up to 50% lower than those prevailing in the market. Eagle and Aegis reacted because, though they had undertaken not to take dividends in the short term, they had taken equity with a view to making money in the medium term — and Afgen's attitude to the market made this a dim prospect. Also, Afgen inherited some construction guarantee business along with the BPI book, perhaps not the best of markets for a small company without substantial shareholders' funds.

Mthembu is the third MD (Terrence Maher was the first) since the transition from Business & Personal Insurance to Afgen and has a solid broking background with Afsure. The acceptance of Bowden's influence indicates an understanding that broking and underwriting are different disciplines.

Afgen is 51% owned by Future Bank — a

continue

black-controlled off-shoot of First National and Wesbank — and Fabcos (Foundation for African Business & Consumer Services). When the company was being formed, Schuin said it had a base of R30m of premium income derived from BPI, most of it risks placed by white consumers and businesses. The policy then was to explore black commercial potential but with the reservation that, because exclusivity would amount to racism, its doors would be open to all.

Mthembu talks of a different emphasis, on personal lines and small commercial risks in the "emerging" market, though he insists the traditional book of policyholders will receive service as before. His aides believe that some conscience money in the form of premium income from white business will also find its way to Afgen.

Eagle and Aegis intended their investment to be a niche player, working on consumer sentiment. They did not bargain for a company which decided to take on all the giants in insurance on several levels of business. Brian Seach, CEO of Aegis, declines to comment on the events of the past few months except to confirm the secondment of Bowden and to say he remains convinced that Afgen can now become a strong, specialised player. Peter Martin, MD of Eagle, was unavailable this week and Schuin was said to be overseas. Market sources suggest Schuin intends to specialise in broking taxi business which, if true, would make him a supplier of business not only to Afgen but to Eagle and Aegis, which have so far dominated this class of insurance.

It's possible Afgen fell into a classic insurance trap. With its new capital of R4m and a small base of premium income, its solvency ratio far exceeded that required by the Financial Services Board. So it may have seemed logical to write business at almost any cost to gain market share. With Seach and Martin known as conservative insurers, whose attention is given to rating rather than premium flow, a clash over management style became inevitable.

Afgen chairman Jabu Mabuza also has conservative goals. The underwriting target for February 1993 is R33m, of which R25m has already been written. In the next five years, the target will be R60m a year. Mthembu says the company's net retentions after reinsurance will be small, so the aim is to build a solid base without a rash of uncertain premium income. As a newcomer, Afgen will have little investment income so underwriting profit is the only goal.

During the launch, executives hinted that some of the business written but under-rated will be quietly dropped. It looks as though SA's first black insurer has quickly learnt the lessons of the bottom line. ■

SAA laying off 2 200 in in face of huge losses

S|Times (Buss) 22/11/92.

By ROGER MAKINGS

SAA will reduce its workforce by at least 2 200, mostly through voluntary severance packages.

However, those who do not leave of their own accord may find themselves being retrenched with a less favourable pay-out.

It is believed that a "considerable" number of employees have accepted voluntary severance packages.

But those who reject the first-phase option could be retrenched in months to come in a second round of reductions.

Both middle and top management will be affected by the cutbacks.

Not all those leaving are sub-standard performers unsure of whether they can hold down their jobs.

Nutshell

Without naming anyone, SAA chief-executive-elect Mike Myburgh says that among those who have elected to go are excellent managers capable of making a "career elsewhere".

"Some of them are the sort of people we would have liked to have kept, but this would have demotivated them to the point that it would be better to let them go.

"In a nutshell, we hope that those who are under-achieving are aware of the fact and will elect to leave. But if they don't, we will have to retrench them."

It is believed it will cost SAA less than R10-million to pay off 20% of its complement off 11 000. By cutting 20% off its annual salary bill of about R700-million, SAA stands to save R140-million a year.

A further 10% of R70-million will be saved by pegging salaries.

Overheads

SAA's losses for the year are expected to be more than R200-million.

It employs more than 300 people an aircraft compared with an average of 236 in similar-size airlines around the world — a difference of 29%.

Besides staff cuts, SAA will rationalise overheads — like unprofitable routes — with the combined savings being poured back into the airline.

Mr Myburgh says: "We are looking to improve our service to passengers by motivating staff through refresher training. In effect, we are putting our faith in our staff".

Also planned is greater investment in technology — such as wider use of seat-back video screens and more efficient aircraft so as to compete on an equal footing with international carriers flying into SA.

Stronger alliances with other Southern African carriers are also envisaged.

Mr Myburgh says: "We must broaden our base in the region and become a useful ally to our neighbouring carriers.

"In this way we will have more clout with the incoming international airlines who will become more dependent on us to get their passengers into the interior".

MIKE MYBURGH: Those who don't get the message will be told to go

Premium blow faces brokers

By TERRY BETTY

(Buss) S|Times 22/11/92

EARNINGS of insurance brokers will drop because they will no longer be allowed to hold premium income for long.

Registrar of Financial Institutions Nico Fourie has, against the advice of short-term insurers and brokers, amended regulations governing Section 20 bis of the Insurance Act with effect from the beginning of December.

Brokers receiving commission from customers will have to pay the money to the insurance companies 15 days after the end of the month in which it is received.

At present, brokers have to pay the insurer about 40 days after the month the premium falls due.

Cost

58

SA Insurance Brokers Association (SAIBA) vice-president Rod Maitland says several joint representations with the SA Insurance Association (SAIA) were made against the ruling. But the Registrar refused to back down.

Mr Maitland says brokers depending more on their investment income than on commissions will be under pressure if they had an efficient collection system.

He says the existing system was introduced only two years ago and is working well.

The main problem is the cost and inconvenience to insurance companies and brokers, who at great expense introduced administrative procedures and computer systems. They will now have to alter their systems.

For some companies it will merely involve changing programmes. For others, it will involve a costly change to computer systems.

Mr Fourie says the intention is to get the money from customers to the insurer as soon as possible.

He says it is not the role of the Financial Services Board to control market enterprise.

"The brokers are not really entitled to the investment income anyway. They are agents for the insurance companies and not principals."

Mr Fourie says: "Once the intermediary is in possession of the cash, there is little reason why it cannot be paid by the 15th of the following month.

"It is also realistic because insurance companies have to remit VAT on the premiums on the 25th of the month the money is received. It is unfair to make them pay VAT on funds they have not received."

A source says it seems strange that insurers would object to the change because they will theoretically receive the cash earlier.

Major

SA Eagle managing director Peter Martin says insurers will receive some money faster But the present system works well and he sees little reason to change it.

Mr Martin says it will be a major problem for brokers handling the business of a large group of companies. Often the brokers have to collect premiums from all the subsidiaries.

Not all payments go through brokers. Mr Martin says 50% to 60% of personal lines business is paid through brokers. About 80% of commercial and industrial premiums pass through brokers.

He says this is necessary because brokers have records of all customers, are in direct contact with them and know the premium amount.

First solar battery

FIRST National Battery is to launch the first range of commercially produced solar-power batteries early next year. Until now, batteries designed for solar applications have been imported at great expense. First National believes their introduction will help to promote the use of solar power in SA.

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Protea boss warns short-term insurers to 'change — or die'

ST Times (Cape metro) 22/11/92. (58)

SHORT-TERM insurers must accept the need to change — or die, warns the executive director of Cape Town-based Protea Assurance, Jim Brayson.

"Volatility, mutation and the increasing obsolescence of conventional approaches are the hallmarks of the 1990s," he says.

"The insurers who survive into the new century will be those who accept the imperative of change.

Mr Brayson was commenting on a warning from the incoming president of the actuarial Society, Peter Milburn-Pyle, that the short-term industry "remains an environment of short-term thinking, with the inevitable wide swings in fortunes and in premium rates."

The creative corporation will be the surviving corporation, as traditional market loyalties no longer guarantee profitability or even survival, according to Mr Brayson.

"The short-term industry is being globalised.

"Events ranging from technological linkups and the fall of the Soviet Empire to the increasing homogeneity of business environments worldwide are shrinking the international marketplace."

Pointing out that Protea is using actuarial skills for a growing variety of purposes, Mr Brayson says actuaries can play a valuable role in model projection, the conducting of viability exercises for marketing campaigns, determining rating structures, and in the "creative planning, design and incorporation of new computer systems".

Actuaries need to school themselves in the practicalities of short-term insurance — "a purely theoretical knowledge of short-term industry affairs, acquired through the traditional framework of the actuarial role, is insufficient."

However, responsibility for this rests upon the industry itself and not only on the actuarial profession.

Mr Brayson emphasises that actuaries will not be able to impose themselves unilaterally upon the short-term industry — they can only make a contribution if the insurance industry is properly receptive.

"Let us actively and creatively seek new ways to use actuarial skills. Let us join forces with this reservoir of expertise and harness it to the needs of the changing short-term industry."

Sage wants Barend on board

By DON ROBERTSON

MULTI-FACETED financial service group Sage hopes to have former Finance Minister Barend du Plessis on its board early next year. 58

Chairman and managing director Louis Shill confirms that discussions between himself and Mr du Plessis have taken place.

He says that if negotiations are successful, Mr du Plessis will initially join the board in a non-executive position.

"Mr du Plessis has enormous experience in our field of financial services. His main value, however, will be his overseas contacts. He is highly regarded abroad.

"We have been waiting for the right time to approach him. We want him divorced from politics and divested of any connection with his former duties. We want to employ him in his personal capacity." S Times (Bus)

This will be Mr du Plessis's first foray into the private commercial world since his resignation from the Cabinet on April 25 after eight years as Minister of Finance.

An earlier attempt in June to become president of the council of governors of the Development Bank of Southern Africa was thwarted for political reasons. He would have replaced previous Finance Minister Owen Horwood who was president for nine years. 22/11/92.

Nedcor settles its school fees

STimes (Buss) 22/11/92. (58)

By JULIE WALKER

NEDCOR group chief executive Chris Liebenberg admits: "We did make mistakes."

But the degree was nothing like investors had been expecting if one judges by the fall in the share price.

Nedcor slipped from a March high of R19 to R13,75 only a few days before the results for the year to September were announced on Monday. It has since recovered to R15,75.

Misconceptions were based on the relative importance of the Perm to the group as a whole. The irony is that the Perm's results showed an 8% rise in income to R70-million when many expected a tumble.

Outside

The mistakes Mr Liebenberg refers to were part of a learning curve on black home-loan lending.

"Exposure to this market requires extensive groundwork at community levels, including discussions with black leaders.

"There was a 14% reduction in Perm arrears and properties in possession dropped by 18%," says Mr Liebenberg.

More than three-quarters of the Perm's book is outside townships in any event.

A permanent readjustment of funding against which a deferred tax provision had been made resulted in R89-million being released from that obligation. This is now a specific special provision in the Perm.

"Our school fees have been paid now," says Mr Liebenberg.

He says the quality of Nedcor's earnings has improved enormously and there was no need to tap possible sources of income for appearance's sake.

"This is a competitive market and we have conservatively declared earnings 19% higher than last year," says Mr Liebenberg.

Net income was R408-million, of which Nedbank chipped in nearly half and Nedcor (including Nedfin and the Perm) R317-million. Earnings a share climbed 16% to 215c and the dividend by 16% to 66c.

This ranks Nedcor on a price-earnings ratio of 7,2. Absa is 8,3, First National 9,7 and Stanbic 12. Mr Liebenberg is surprised at these comparisons, particularly in the light of the proportionally greater provisions — both general and specific — made by Nedcor.

Mr Liebenberg will tread carefully with regard to any foreign moves.

"With the lifting of sanctions, all SA companies face the challenge of investing for hard-currency earnings and not soft ones.

"It reminds me of my holidays from boarding school when at last I had pocket money and access to the shops. I wanted to rush out and spend as fast as I could because I had been prevented from doing so. South African companies have been prevented from investing offshore for years and there is a dash to spend."

He says Nedcor has always been strong abroad — "our Hong Kong office reported a 60% rise in earnings last year" — and there are many opportunities in Africa.

World players will look to SA as the main correspondent for business within the rest of the region and Nedcor is established.

Shareholders could be in for bonanza profits in 1995. Nedcor has two special instalment sales on which it will not report income as accrued annually, but will defer it until 1995.

Nedcor chairman John Maree describes as very positive that quotes received on computer systems were well within what Nedcor had decided it would spend. Not more than R80-million needs to be spent.

Bank's oracle held no spooks

BDAY 23/11/92.

ONE of the most compelling factors behind last week's cut in Bank rate reappears this week when the **October money supply** figures are released.

The single-digit annual rate of growth in M3, the broad measure of money, since the start of the third quarter was cited by the Reserve Bank as a sign of greater financial stability. Together with slowing consumer inflation and steady rates of increase at around 10% in producer prices and private sector credit extension, restrained money supply growth enabled the Bank to trim another percentage point off Bank rate to 14%.

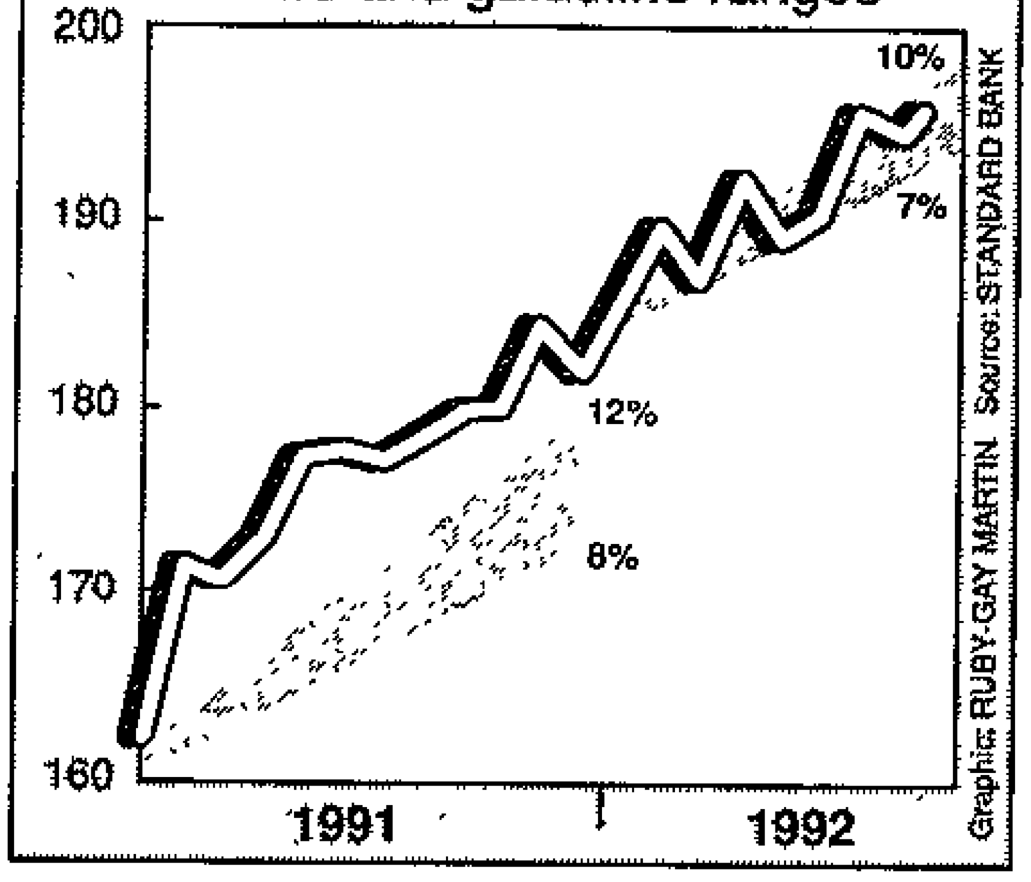
The Bank might have had advance notice of this week's October monetary aggregates, and cannot have seen any spooks in the readout. The sequence of sub-10% outturns for M3 growth in the 12 months to July, August and September has probably, therefore, extended into a fourth successive month.

The Bank statement accompanying the rediscount rate cut last week zeroed in on the 12-month rate of expansion in M3 rather than on the increase in the aggregate in relation to its guideline range. The 1992 range, at 7%-10% from a base at last year's fourth-quarter average, is the lowest and narrowest set by the Bank since it started monetary targeting six years ago. Since M3 comfortably overshot its 8%-12% guideline range throughout 1991, meeting this year's range at one time looked a stern task.

But, as the chart shows, M3 has been a model of restraint when stacked up against its challenging 1992 guideline range. That M3 has basically kept to its guideline range could also have been mentioned by the Bank as having allowed it to cut Bank rate again. The crumbling in economic activity in the third quarter has helped, but there has also been a cumulative reining in of monetary expansion which bodes well for the equally daunting quest that lies ahead — that of keeping inflation down next year.

Down the middle

M3 and guideline ranges



Internationally, much attention is likely to be focused on Wednesday's first revision to US **third-quarter GDP**.

The advance data showed a rise of 2,7% in output in the September quarter, which represented an appreciable acceleration of the 1,5% increase in GDP posted in the second quarter.

But there was suspicion that the outturn could be revised down as some of its features, such as the rebound in consumer spending to a rise of 3,4% from the previous quarter's -0,1%, looked out of line with the regular monthly data releases.

The November **US consumer confidence** index is published tomorrow, and should perk up from October's eight-month low of 53 now that the US presidential election is over. The correlation between confidence and the dollar could also bolster the index, as the dollar firmed after the election. US **October durable goods orders** are also out tomorrow, and could show a small positive readout since the September fall of 0,4% was mostly the result of weakness in volatile military orders.

Later today, the **UK trade and current account** figures for October are scheduled for release but the portents indicate a widening of both deficits, which came in at £1,1bn and £963m in September. Britain's principal export markets — particularly in Europe — look too sluggish to have reacted yet to the cheaper pound, while the lower interest rates in the UK since sterling quit the European exchange rate mechanism are almost bound to have boosted imports.

Another historic contraction in Japan's key money supply measure could be in prospect tomorrow, when the October level of **Japanese M2** is published.

The aggregate shrank for the first time in September, when it fell 0,4%, and another dip will raise pressure on the Bank of Japan to cut discount rate.

MONEY MARKETS by Hilary Gush

Drop in rate to 14% lent some new life to tired money market

B.DAY 23/11/92.

AFTER months of dull trade, the money market was revived last week on news that the Reserve Bank had dropped its Bank rate to 14%.

Wednesday's one-point cut in call rates, from 12,5% to 11,5%, was attributed to not only the drop in the official interest rate, but also to the high level of liquidity in the market. The shortage slipped to R1,6bn on Wednesday — a level believed to be favoured by the Bank — from R3bn a week before. November is traditionally an easy month and market liquidity, although expected to be tighter towards month-end, is not expected to move much above R3bn.

Interest payments on government stock — due on November 30 — should offset a tight month-end, while coupon payments on E168 stock and a maturing E164 bond on December 1 are expected to add further liquidity to the market, thus supporting lower call rates.

However, towards the end of December — when the festive season gives consumer spending a boost — the shortage should shoot up and push call rates higher.

While some dealers ruled out another drop in the Bank rate before year-end, others said further easing in monetary policy could come as soon as next month.

They said the rate on the weekly three-month TB tender, which was almost half a percentage point lower at 11,67% from a previous 12,16%, pointed to expectations that the next cut would be within three months. The much lower October consumer inflation figure of 11,7% — released on Friday — should fuel speculation of a speedy drop in the rate.

(58)

On news of the sharp fall in consumer price increases, gilts rates rapidly moved down. The yield on the bellwether E168 stock dropped to trade at around 14,43% towards the weekend close from an overnight 14,59%. Angry dealers who had hoped for an early Friday were caught off guard by the lunchtime CSS release — due only later this week.

Broke consumers use bonds to pay for cars

BDAY 23/11/92

SHARON WOOD

FINANCIALLY strapped consumers are putting new cars on their mortgage bonds, Nedfin CE Chris Beatty said at the weekend.

He said an analysis of the instalment credit business showed it had been knocked heavily by the recession in the third quarter of this year with business creeping up by just 1,2% to R33,2bn from R32,7bn in the second quarter.

The year-long trend showed no sign of turning around as banks experienced a major stall in their credit business, he said.

Reserve Bank DI 900 returns showed that growth in banks' total receivables in the third quarter of 1991 was 4,2%, compared with the previous year's 4,5%. Beatty said the current third-quarter performance represented a shrinkage in the banks' credit business.

He attributed the sluggish growth in instalment credit to a change in lending patterns because, while there had been an effective shrinkage in banks' credit books, there had been upward movement in the amount of mortgage business written.

"On the face of it, this does not add up as the property market remains in the doldrums," he said.

"One explanation is that some South Africans are putting their new-car purchases on to their housing bonds. Only by extending the repayment period over the existing life of their bond can they afford a replacement vehicle."

The market reacted to this phenomenon earlier this year when certain motor manufacturers began co-operating with banks on lease deals which could run for as long as eight years.

58

Price Forbes buys insurance broker

58

ANDREW KRUMM

THE Price Forbes Group (PFG) has bought 100% of SA's seventh largest insurance broking house, Willis Faber Enthoven (WFE), for an undisclosed sum, PFG MD Paul Heinamann said at the weekend.

Heinamann said the deal was concluded on Thursday and backdated to July 1, but he would not disclose the price.

One of the other major parties to the deal, Safren CE Buddy Hawton, said: "The asking price was not material as far as Safren was concerned." BIDAY

PFG acquired 60% of WFE's share-capital from Safren and the other 40% from WFE's UK-based shareholder Willis Corroon group — one of the world's larger insurance and reinsurance brokerages.

Hawton said an attractive offer plus the fact that broking was not a core part of Safren's business had tipped the scales in favour of the sale. 23/11/92

Meanwhile, Heinamann said the acquisition held strategic advantages for PFG, and added that it did not involve any changes to PFG shareholdings.

"The acquisition has strategic advantages for the Price Forbes Group and will add to our strength. We have always been a service orientated group and I assure the clients of both companies that their interests remain paramount."

Heinamann said WFE would not change its name yet and WFE's management team would remain unchanged.

Bank clears IFC rand loan scheme

(58)

B/DAY 23/11/92

LINDA ENSOR

CAPE TOWN — The Reserve Bank had approved an application by the World Bank-linked International Finance Corporation (IFC) to raise rand finance on the SA market for loans of up to 12 years, IFC's Africa manager Richard Parry told the Black Management Forum annual congress at the weekend.

Parry said SA financial institutions were awash with funds but were reluctant to lend to institutions in which the IFC was interested. He said certain tax aspects of the loans had yet to be finalised with the Reserve Bank.

IFC is a profit-making body which finances private sector initiatives around the world, has total assets worth about R15bn and invests about $2bn in projects annually. SA and 160 other countries are IFC shareholders.

Parry said the World Bank and the IFC were waiting until consensus on an interim government had been achieved and would then open an office in Johannesburg. Parry said the IFC had the ability to invest between $50m and $100m annually in SA and possible projects for financing had already been identified.

The IFC was also actively involved in investing with SA companies in Africa and Indian Ocean Islands.

"There is a huge potential for SA investment in sub-Saharan Africa and we would be keen to facilitate this," Parry said.

IFC was currently involved with Anglo American in a joint mining venture in Brazil, a joint venture in the Seychelles with an SA hotel group and was negotiating a $15m joint venture with an SA company for a hotel investment in Nairobi. It was also discussing providing a rand guarantee for a project in Mozambique.

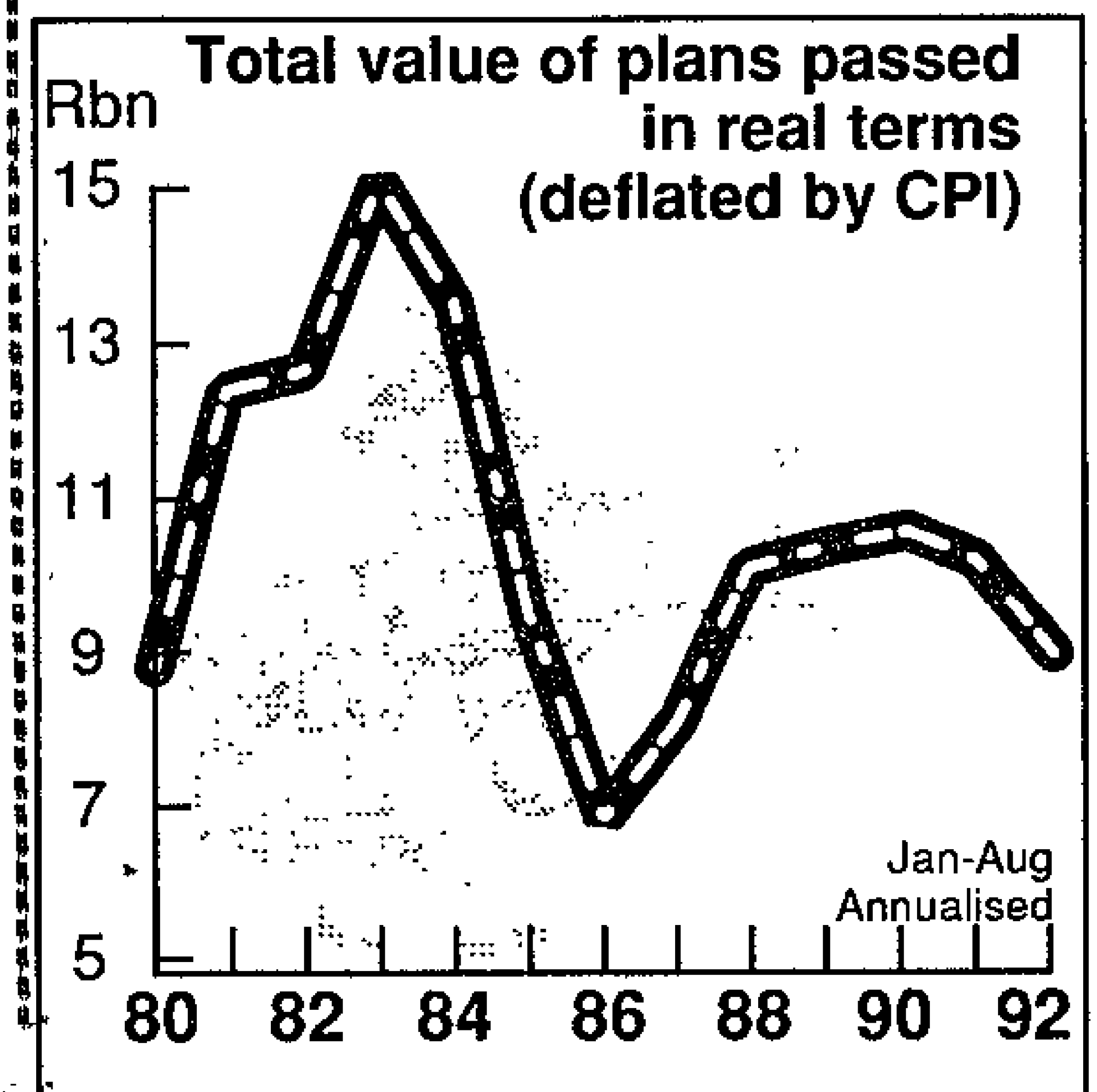
Parry said he believed IFC could play a role in the transfer of corporate ownership in SA by buying companies which wanted to redistribute ownership to employees. Shares purchased could be held in trust by IFC until they were sold to the employees.

Another possibility was for the IFC to buy a major stake in companies in which black managers could acquire shareholdings through "sweat equity". Shares would be transferred on the basis of performance.

Parry said 20% of IFC's worldwide investments were in equities, and 50% of its profits were derived from this source.

Oversupply of office space forces cut in new projects

BDay 24/11/92



Graphic. LEE EMERTON Source THE PROPERTY ECONOMIST

THE oversupply of office space, combined with a shortage of new tenants and static-to-diminishing demand for space has resulted in developers cutting back on undertaking new projects.

Latest Central Statistical Services (CSS) figures show that the total value of building plans passed during the first eight months of 1992 fell by 5,3% to R7,65bn compared with R8,07bn in the comparable period last year.

The largest drop was in non-residential building plans, which plunged 22,9% to R1,84bn from R2,39bn previously, with plans for residential houses also easing 7,1% to R2,39bn from R2,57bn.

However, a 40% increase in the value of plans passed is reported for flats and townhouses to R892,7m as people continue to seek the security offered by such complexes.

Secure

"As the level of crime continues to escalate, people are looking at moving from large, freestanding homes to smaller, more secure townhouse complexes or flats, and this trend can be expected to continue for some time," property economist Neville Berkowitz says.

A 3,1% rise in the value of plans for additions and alterations to R2,39bn was also reported.

On a regional basis, Cape Town reflected a R258m fall in the value of plans passed, while those for the Witwatersrand also eased, to R230m.

"In Cape Town, decreases of R121m for residential homes and R81m for office buildings were recorded, while the Witwatersrand saw a R188m drop in plans passed for homes and R95m for shops," the CSS says in its report.

However, the total value of buildings completed in the first eight months of the year rose by 20% to R5,26bn from R4,38bn in the same period last year.

The value of flats and townhouses completed rose 33,1% to R457,2m, while non-residential buildings increased by 29,2% to R1,55bn from R1,20bn.

Additions and alterations also firmed 14,5% to R1,36bn.

Economists predict another tough year ahead

B/DAY 24/11/92 58

ECONOMISTS predict that the next 12 months will be another difficult period for the property industry and players will have to continue to bite the bullet.

"However, there is light at the end of the tunnel as indications are the market will start to turn in 1994. The property market follows the economy and will thus be dependent on positive developments there," property economist Neville Berkowitz says.

He predicts the present general oversupply of office space will continue next year and an improvement is likely only in 1994. Rode Report editor Erwin Rode agrees, saying it was noticeable this year that demand for office space "screeched to a halt".

"The future of the Johannesburg office market lies in the decentralised areas. The CBD is no longer the place to be and there has been a negative take-up of space in the area in all categories over the past several years," he says.

In Cape Town and Durban the CBD is still regarded as the place to be and there has been less decentralisation. However, Durban's CBD is fairly overbuilt and Cape Town is also starting to reflect this.

On the retail front, Berkowitz says spending will remain under pressure as salary increases are unlikely and economic growth prospects for next year are also not good.

"The industrial market is waiting for an industry-led improvement, but given the uncertainty about world economic recoveries and the recent battering of the gold price, it is unlikely there will be an improvement in exports," he says.

Rode says the industrial market has, however, held up better than the office market as there has been relatively little speculative development.

Heavy industrial areas in the East Rand are suffering more than industrial locations in the northern suburbs. Rentals have been drifting sideways.

"The Cape Town market is performing better than the other markets as it has a far smaller industrial element, but the clothing and textile industries have been under considerable pressure," he says.

If the incentives on offer are taken into consideration, rentals have probably fallen in both nominal and real terms, he adds.

Berkowitz says rentals are likely to stay at present levels in the next year. "There are no real growth prospects, except in certain locations like Rosebank for offices, Strydom Park for industrial and Sandton and Eastgate for retail."

On the investment front, there is a major shortage of stock available, but, while the quantity of stock has decreased, in many cases the quality has improved.

The man-in-the-street is looking at forming investment syndications as the JSE is largely overbought, interest rates are dropping and good properties with annual escalations give a good return.

Rode's SA property trends
Summary of forecasts

Rentals Industrial	1991	1992	1993
Central Rand	2%	0%	5%
Durban & env	3%	2%	5%
Cape Peninsula	6%	6%	8%

Rentals Prime CBD office	1991	1992	1993
[illegible]	0%	-7%	0%
Sandton	7%	-7%	5%
Pretoria	2%	0%	-5%
Durban	0%	3%	0%
Cape Town	4%	0%	-5%

[illegible]

Taking a second look at investing before rushing in

(58)

B/DAY 24/11/92

WHILE institutional investors remain active in the commercial and industrial property markets, their investments have to meet strict investment criteria.

Old Mutual Properties (OMP) investment manager Ian Watt says the company continues to look for good, sound property acquisitions. "We do not have a specific amount allocated to us for property development as our level of investment depends on the number of suitable properties available . . . ."

However, the oversupply of space, particularly in the commercial market, has impacted on its investments and the group is now more cautious when looking at new acquisitions.

While OMP has never regarded the size of the deal as a critical factor, it has steered away from buying a large number of smaller properties that require heavy management.

"We are also slowing down on the number of developments we undertake unless they are generally well-tenanted. This means that perhaps the same large sums of money are not being moved as at other times in the past."

For the past three years OMP has accused many developers of developing unwisely. While it is busy with Surrey House — a speculative development in the Johannesburg CBD — this is based on the lack of A-grade space in the area.

Speculative

Watt acknowleges there are vacancies in central Johannesburg, but feels there are niche markets that allow speculative development. "We have been concerned for some time at the fact that certain markets are badly overbuilt. These will take some time to recover and we would not build there unless the development was well let."

However, he would not say how much OMP has spent on property acquisitions this year.

Sanlam properties GM Fanie Lategan says the coming 12 months are expected to be much the same as this year. Given the lack of tenants, there are few opportunities for new developments.

"We are reluctant to proceed with new developments that are not substantially pre-let. We have had to refine our planning on some proposed commercial developments, given the fact they take about two years to develop and will come onto the market in 1994," he says.

Industrial activities have a much shorter construction period and the group is prepared to await future developments in that market before taking decisions.

Limited

However, while there is limited opportunity for black retail development, there are no opportunities for large retail developments like its R200m Fourways Mall centre.

"While Sanlam would like to place about 10% of its cash flow into property, it is not going to randomly develop new properties and flood the market to achieve this," Lategan says.

Property seen as a good risk in a balanced stock portfolio

B/DAY 24/11/92 (58)

LATE 1993 should see the bottoming out of the property cycle with the next upswing period in 1994 and 1995, says Frankel Max Pollak Vinderine property analyst John Rayner.

"There is presently a two-tier property investment market. In the one, capitalisation rates are trending downwards because these well-tenanted, well-located investment-grade properties are being sought by the institutional investment market.

"This market appears to be taking a positive view of a property upswing from late 1993 to 1995 and is positioning itself for the anticipated upswing during this period."

The other property investment market comprises "less desirable properties" which are usually associated with the private investor or syndication market. This area has been experiencing a rising capitalisation rate trend.

The majority of the property trust and loan stock companies have only produced a marginal increase in distributions over the year and 1993 will be a difficult one for listed property as the institutional investment market expects distributions to be maintained.

"Investors must continue to closely monitor the fundamentals, including vacancy levels, provisions for the non-recovery of arrear rentals and the ability to increase rentals above the final escalated levels at the time of lease reviews or renewals," Rayner says.

The institutional market is also finding it increasingly difficult to locate well tenanted investment grade properties at an acceptable yield. Investment in property trusts and property loan stock companies should be viewed as a long-term investment, he says.

Protection

"In times of rising inflation, wealth protection becomes a priority. Property investment has proved to be a sound inflation hedge over time."

Over the period from January 1980 to September 1992, the Property Trust Index has provided a total average annual return of 18,9% a year compared with 22,6% for the financial and industrial index and 16,5% for the all share index.

These returns compare to the annual average inflation rate of 14,6% a year for the same period, but ignore tax on re-invested distributions and are therefore only applicable to pension fund and other low tax rate investors.

"The long-term value of property and its relatively lower risk underpin the need for its inclusion in a well balanced and diversified investment portfolio. Besides equities, property investment is one of the few investment alternatives that has provided a return over time," Rayner says.

Interest in industrial space suffers with economy

BDAY 24/11/92

THE industrial property market has not been spared the rigours of the depressed economy, although prospects look better than for the office market, says Investec Property Group MD Sam Hackner.

"Normally there is good interest in industrial space in the last few months of the year, but this has not been the case this year," he says.

However, there is still room for the smaller investor to move into the industrial market, but investors will have to assess the risk/reward relationship very carefully.

There is also unlikely to be any immediate take-up of larger industrial space unless there is major foreign investment in the country, which is dependent on political factors.

"I am still bullish as business confidence is on the up and interest rate cuts are imminent, which leads me to believe there will be an improvement in the market by year-end, strengthening in 1993."

JH Isaacs leasing and sales director Wayne Wright says deals are still taking place despite this being the toughest recession in history.

"Demand and available space are better balanced in the industrial market than the office market as most developments are tenant driven. I forsee a phase of continued activity.

"Many leases are still expiring and are either renewed or alternative premises sought. December could prove to be our busiest month this year," he says.

Edwards Mortimer and Associates MD Phil Grafton agrees, saying the industrial market is seeing more activity now than during the past year, particularly in the M2 East/West strip and in the Wynberg area.

Playing

58

"We are seeing a lot of tenants playing musical chairs as they move out of institutionally held buildings to others where better deals are offered," he adds.

The mini-factory market remains oversupplied and has high vacancies as "everyone jumped on the bandwagon". There has also been a change in attitude by tenants who were taking shorter leases at reduced rentals.

Well-located distribution/warehouse space is an area of growth as transport costs are rising and security is becoming an increasing problem.

"There has been no rental growth over the past year, but as soon as the economy turns these will soar. While a lot of companies are looking to do leasebacks, the institutions are becoming more wary about their leaseback investments," Grafton says.

Russell Marriott and Boyd Trust director Sta[n] Arenson says there ha[s] been little rental movement except in fringe o[r] difficult to let areas.

Certain industrial areas have seen irresponsible overdevelopment, resulting in certain pockets having large vacancies.

"Most industrial development is presently tenant driven and built according to his requirements. This year was a market of rationalisation and saw many companies consolidate," he says.

Security continues to play a major role in any tenant decision and those industrial townships near hostels or unrest areas are experiencing difficulty letting space, he says.

Companies offer reduced rates to stay in business

BDAY 24/11/92

COMMERCIAL and industrial property markets face an increasingly bleak future as prospects of an export-led economic recovery fade, says Pangbourne Properties chairman John Whiting.

"So far we have had little evidence that the recession is about to bottom out. On the contrary, most indicators — including a lack of foreign investment and a growing number of bankruptcies — point to another year of negative economic growth," he says.

Static

In the face of rising vacancies factors, rentals in the non-residential sector are, at best, static. As part of its rationalisation programme, Panprop is moving out of CBDs and consolidating its portfolio in the PWV area.

Metboard's Mike Kightley says that, for the first time in recent years, property developers have had to stop projects and only about 40% of possible projects considered by companies reach fruition.

The past year was particularly tough both for property developers and those who traditionally use institutions to finance their property projects.

Market competition has been extremely fierce in three main areas. There are far more developers looking for a limited number of sites with good potential, and construction companies are tendering at cutthroat rates. Many are merely attempting to cover fixed overheads and retain staff, while financial institutions are becoming more competitive about lending funds, Kightley says.

Wise developers with good, well-located sites are signing up tenants before they start the development. Present market conditions are forcing professional teams to make work for themselves and become creative.

Headlease

"A number of developers will take in equity partners — including tenants — and the headlease scenario has also become more popular," he says.

Investec Property Group (IPG) MD Sam Hackner says political volatility and the weak economic scenario has prompted institutions to take early Christmas holidays.

"The last few months have seen a softening in commercial and industrial property markets as players wait for political developments to guide their movements into the new year," he says.

Not only is demand for office space falling off, but a number of new developments are reaching the end of their development phase and are being offered to the market.

Many large new office blocks are standing empty.

As a result, rentals in certain areas are being forced down. In addition, many of the larger organisations are offering rent-free periods and a variety of other incentives, while others refuse to drop rentals and prefer to hold empty space.

"There could be an upswing in the market next year off the prevailing soft market. In essence it is crystal ball gazing but, assuming some sort of political settlement next year, we are looking at a much rosier picture," he says.

Continue

Russell Marriott & Boyd Trust (RMBT) director Stan Arenson disagrees, saying the downward pressure on the market is likely to continue next year, particularly in oversupplied areas like Woodmead and Braamfontein.

"Tenants can find space in any area and are demanding all sorts of incentives, which is placing deals under tremendous pressure as landlords either accept this or carry vacant space," Arenson says.

RMBH looks for top share rating

BDAY 24/11/92 (58)

SHARON WOOD

RAND Merchant Bank Holdings (RMBH) expects a premium rating for its 55-million shares when the group's financial services are listed on the insurance sector of the JSE tomorrow.

RMBH shares traded at 850c in the secondary market prior to the announcement of its listing. At an analysts' presentation yesterday, MD Paul Harris said improved tradeability resulting from the listing was expected to enhance the share's rating.

The listing was not aimed at raising funds but to make shares available for the broader investment community. It would, however, provide an avenue for funding if future investment opportunities arose.

Prospects within RMB augured well,he said, because banking margins had widened considerably. If bad debts could be kept to the level of previous years, the banking division should be able to repeat its good performance.

The fee-earning divisions also had sufficient work in progress to make a meaningful contribution to the bank's profits during the year.

Forecast growth in net income for RMBH during 1993 was 18% to R40m, with earnings a share of 72,6c, up 17,7% on the previous year, and a dividend of 31,2c, up 20%.

The forecast was based on expected growth in Momentum Life's earnings of 15% and in RMB's earnings of 20%. Earnings a share had grown at a minimum of 20% during the past 14 years.

The bulk of the group's assets were in the assurance business. RMBH would thus be listed in the insurance sector. The share was expected to list at a price which yielded a rating between the rating given to the insurance sector and to the banking sector.

Momentum chairman Laurie Dippenaar was optimistic that extensive restructuring and downsizing at Momentum would result in a small positive contribution from the assurance company to profits by 1994, from the previous loss.

Momentum had cut back significantly on unprofitable wholesale group funds, resulting in a reduction in its staff from 105 to 40. The strategic plan for its retail sector was still being developed and would probably be completed by next February.

The restructuring of Momentum would result in five clearly focused and separate divisions which included the life assurance company, RMB, RMB Asset Management, Momentum Health and a property management company.

"The joining of forces between RMB and Momentum Life will create a sound and well-rounded financial services group," Harris said. This had always been the objective of the group.

When deputy chairman G T Ferreira was asked whether there was a ceiling to the group's profit growth, he said the group would probably continue to deliver real returns in the future.

broadcasting time.

Jordaan and Bhamjee allegedly also overcharged the SABC by \$300 000 (R797 000) when broadcasting rights for World Cup matches were negotiated. Al-

end of 1991.

Jordaan invested R150 000 with town developers who promised a profit of R300 000 within six months. "With that profit, which never materialised, I would have paid back the R390 000 before the car was delivered."

Nkuhlu likely to succeed Horwood at bank

BDAY 24/11/92 (58)

GRETA STEYN

IDT executive vice-chairman Prof Wiseman Nkuhlu is expected to replace Owen Horwood as chairman of the Development Bank's board when Horwood retires at the end of the year.

Horwood yesterday announced his retirement as chairman of the board, but said he would remain bank president and chairman of its council of governors, positions he had held since 1983.

Nkuhlu, a former Transkei University rector, is deputy chairman of the bank and is national president of the Black Management Forum. He is also convenor of the Rockefeller Foundation-backed development committee which aims to raise foreign finance for development.

Bank optimistic on interest rates

BDAY 24/11/92. (58)

HILARY GUSH

EXPECTATIONS of below-12% inflation for the rest of the year gives hope for a further easing of interest rates this year and in 1993, says the latest Nedbank Economic Profile.

However, the bank report cautions: "SA is rapidly approaching a situation of balance of payments considerations taking precedence over inflation in maintaining a restrictive policy, as the political log-jam continues ahead of the expiry of the debt standstill agreement in 1993."

In the light of low levels of foreign exchange reserves in the late '80s and the "abnormal" foreign debt repayments falling due in the following years, the report says, the primary objective of restrictive monetary policy — introduced in the second half of 1988 — was to maintain surpluses on the current account of the balance of payments.

As political perceptions of SA started to improve and pressure on the balance of payments to ease from the beginning of 1990, fighting structurally rooted inflation took precendence over the protection of the balance of payments.

Although inflation has eased considerably in the past few months, the report says political stability and balance of payments considerations may prevent a further relaxation of monetary policy in the short term.

"The foreign exchange reserves position is still far from comfortable and could well come under pressure in the months ahead due to higher food imports and weak commodity prices suppressing export growth."

As a result, the monetary authorities could face a dilemma of whether or not to relax monetary policy.

"Without significant progress on the political front, monetary authorities will be compelled to maintain their restrictive policy, notwithstanding an average lower inflation rate in 1993."

The report says if the trend of declining GDP continues into the fourth quarter — it fell by an annualised 5,7% in the third quarter — a real shrinkage of at least 2,5% for 1992 could not be ruled out.

"In this context the recent widespread rains provide hope of some alleviation of the economic ills being experienced by the country."

Demand for industrial parks 'should surge'

BDAY 24/11/92

THE urgent need for employment opportunities will result in a medium-term surge of demand for industrial parks, says E P Building Society CE Trevor Jennings.

"Commercial and industrial property markets are expected to remain under pressure until the middle of next year, but should improve steadily from then on," he says.

However, this optimistic scenario is largely dependent on an end to violence and a political settlement; a return to a growth phase of the major industrial economies of the US, Japan and Germany; and a gradual return of foreign companies and investors to SA.

SA cannot afford to be hesitant and must prepare for the main thrust of development through industry. Political acceptability, combined with increased world demand, will result in export-led growth, he says.

"A focal point of this development will be the Small Business Development Corporation, and government's primary aim will be to provide employment through small, labour-intensive industries," he says.

The development of industrial park sites will be needed to accommodate these businesses as entrepreneurs will need adequate space with full services to produce high-quality products needed in future markets.

Scratching

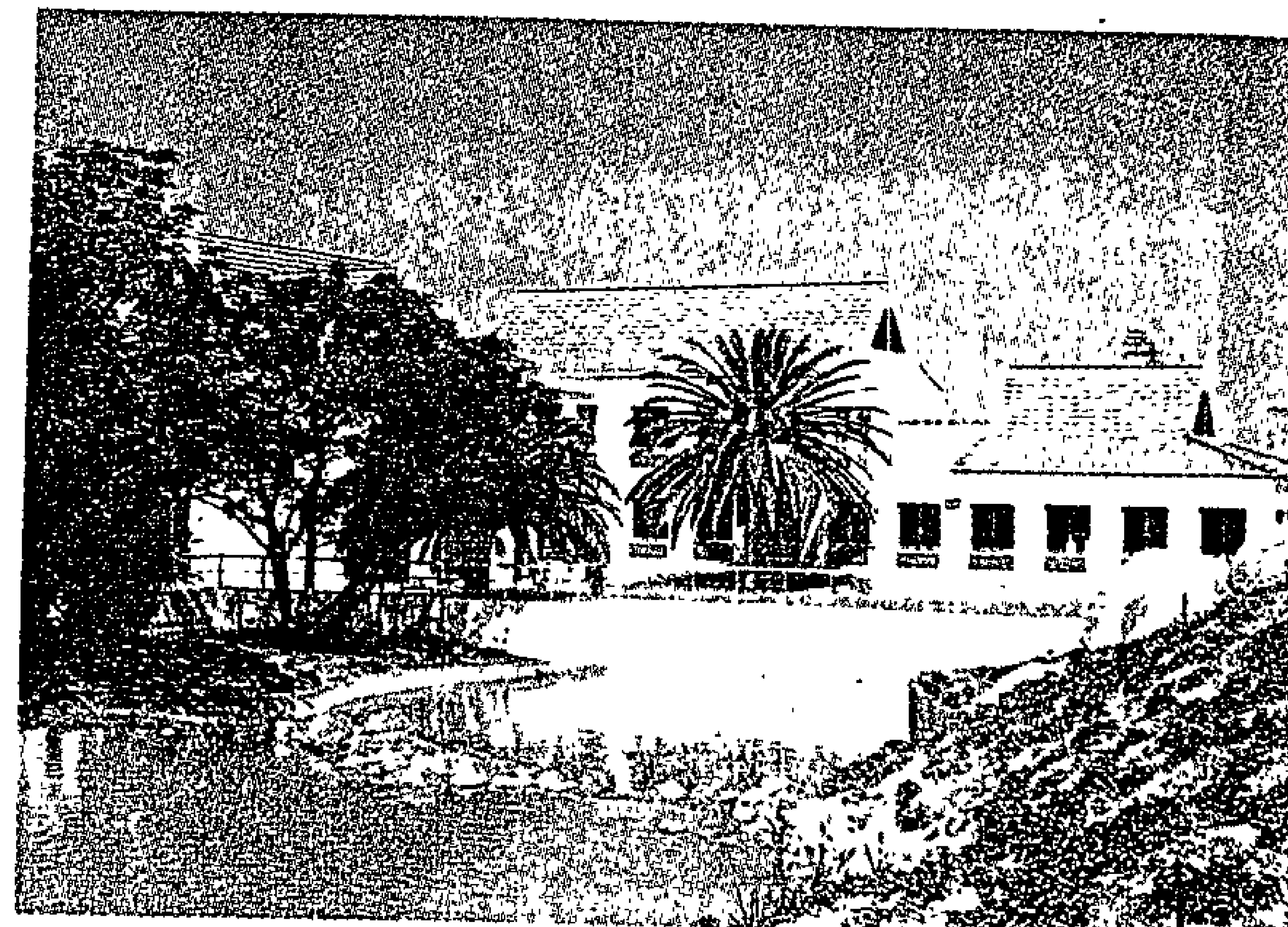
Providing the correct property at the correct price will be a major part of achieving this objective. "At present developers are only scratching the surface of an area of development that will almost certainly grow."

Fedlife assistant GM property investments and development Jan Oelofse says good research is the key to success in the property market.

"We base decisions on a five-year planning period and investigate what local councils are doing and planning to do; we keep a running analysis of where the future growth nodes are going to develop for major industries; and we keep an eye on future residential areas," he says.

Business Day SURVEY

The failure of the local economy to show any signs of a recovery and the likelihood of a continued world recession holds little short-term hope for the commercial and industrial property industry. Economists have revised their forecasts of a market improvement to early 1994, although this depends on political and economic developments. **PETER GALLI** *reports.*



The R40m Lincoln Wood office park development at Woodmead is 60% let because of market demand for this type of low-rise decentralised office accommodation.

Moves towards decentralised office parks continues

BIO AM 24/11/92 (44) (30) (58)

THE move towards decentralised office parks continues as tenants escape traffic congestion and lack of security in CBD areas.

In addition, many executives are locating their businesses closer to their homes and, given the network of black taxi routes, staff are finding this more acceptable.

While opinion differs as to what constitutes a true office park development, general sentiment is that it should be low-rise and contain a large amount of open space.

Despite the high level of vacancies in the Woodmead area, north of Johannesburg — standing at about 35% or 30 000m² of empty space — the AECI pension fund will spend about R450m on its Woodlands office park development.

Signed

The 43ha development is expected to take between five and seven years to complete. Deloitte & Touche have signed a 15-year lease for 16 700m² in five office blocks.

"We have examined seriously the impact of the development on the environment and have set aside about 22ha of open space outside the building envelopes," says AECI property manager Pat Sterling.

The project was taken over in March 1991. There is an existing 9 500m² office block available at a net rental of R25/m².

"A total of 128 000m² of bulk is planned and we will not move on to the next phase until the existing phase is well let. We have been marketing the development fairly hard over the past few months and recently signed Perry & Associates for 700m² for five years," he says.

However, the fierce competition in the market is seeing existing landlords offering tenants deals "they cannot refuse".

An office layout designer has also been employed, at AECI's expense, to draw up plans and show prospective clients how to utilise the space in the most effective way.

Security

Access and security are key aspects to any tenant's decision to rent and an electric fence surrounds the estate, which is monitored 24 hours a day.

The design is sensitive to the environment and buildings are low-rise, as the maximum height is three storeys. However, the design specifications are not rigid and prospective tenants can submit different architecture plans, but these must fit in with the guidelines for the scheme.

The site has a number of ponds and water features, and a herd of buck are to be introduced shortly.

RMS Syfrets has also gone the office park route at Woodmead, building a R40m 10 900m² development known as Lincoln Wood, which has been sold to the Unilever Pension Fund.

The buildings vary in size from 1 300m² to 2 400m² and net rentals of R25/m² are being achieved with operating costs of between R3/m² and R4/m². Parking is provided at four bays per 100m².

Battered market — no end yet to the agony

B|Dam 24/11/92 (58)

THE battering experienced by the commercial and industrial property market over the past 12 months is likely to continue for at least another year, leading economists, analysts and market sources say.

The failure of the local economy to show any signs of a recovery, combined with the prospect of little growth next year and the likelihood of a continued world recession, holds little short-term hope for the industry. Property economists have revised their original forecasts of a market improvement in late 1993 to early 1994 at the soonest, but say this is dependent on political and economic developments.

As a result, demand for space is expected to remain depressed, rental levels will be placed under further pressure and the construction and building industries will see the noose tighten even further in the coming year.

In some cases, firms are tendering at a level that merely covers fixed overheads and allows them to retain staff. Others are tendering at below cost merely to gain work so some staff can be retained ahead of the upturn.

Economists have expressed concern as to how long the industry can continue to do this. The smaller building and construction firms have been the hardest hit and indications are that up to 300 of them will go to the wall by year-end.

Decreases

But the effects of protracted recession are also felt by larger companies. As the level of available work decreases and an increased number of firms vie for the same contracts, future order-books have started to look less healthy.

But, on a more positive note, the fact that construction can be achieved at advantageous prices is stimulating some demand, while tenants are capitalising on the cut-throat nature of the rental market.

The latest buzzword in the property market at the moment is "niche markets" or areas of growth. While many companies are loathe to reveal their secrets, demand does still exist in certain quarters.

Well-located neighbourhood shopping centres are considered a growth area, while smaller, low-rise office park developments that retain each tenant's identity remain popular.

An increased number of new developments that were started in more buoyant times are coming on stream and have exacerbated an already oversupplied market.

Increased vacancies and a static number of tenants shopping around for the best possible deal have placed landlords and brokers under pressure. Incentives are being offered by nearly all major players to lure prospective tenants into their buildings. These include generous relocation and fitting allowances and substantial rent-free periods.

Tenants, who are aware that 1994 is probably the last chance for them to secure a long lease at a favourable rate, are playing one landlord off against another. In some cases, landlords are taking over the tenant's existing lease and signing him up in a building of their own under a long lease.

As a result, rentals have generally shown no growth at all and are at levels achieved two or more years ago. However, the predicted upturn in 1994 will see this tenants' market become a landlords' market.

Viable

Once the supply/demand curve begins to equalise and the glut of surplus space is reduced, new buildings will become a viable option for developers and large-scale construction will resume. This increased demand will result in a massive increase in building costs and a huge jump in rentals.

The inflow of foreign investment so desperately needed to stimulate the economy has not materialised, and political uncertainty and violence will continue to prevent foreign investment. In addition, much prospective investment is dependent on an interim government.

BDAY 24/11/92.

(58)

HARSH economic conditions have forced property developers and investors to look for alternatives to traditional markets.

The buzzword for this is niche markets, which loosely means identifying new growth areas and keeping ahead of the competition. To achieve this takes awareness of the changing needs and demands of the target market, says Fedlife Properties deputy GM Eugene Loubser.

"Many areas of growth are springing up continually and, despite what people think, government policy does sometimes create opportunities. An example of this is healthcare, where government's priorities are at the lower end of the market," he says.

This has created a niche market for the development of private health clinics that cater for specific markets but still provide an attractive yield on the investment.

There is also growing demand for smaller office buildings offering clients their own identity and, in some cases, naming rights. While these often start off small, they soon turn into successful investment parks, he says.

Growing

Assistant property GM Jan Oelofse says there is a growing demand for smaller, neighbourhood retail centres. However, the location of these is the key to their success.

"There are also a number of areas outside the major urban centres that have sound infrastructures in place and have, in the past, seen good investment. These are just waiting to be rediscovered," he says.

An example of this is Newcastle in Natal, which is attracting considerable industrial interest with lower land costs and its existing infrastructure. An R80m pool of investment funds has been poured into the area in the past 18 months.

Astute developers need to look at the effect of legislation that has been imposed up to now and what opportunities will arise should this fall away. An example of this is leisure and gambling resorts, particularly in the Cape Peninsula, he says.

"However, while we have had to consider niche markets, there are still areas of growth in traditional markets. This means you have to work harder and offer a better service and product as the market is not growing but merely moving around," Oelofse says.

'Single price best for units'

LINDA ENSOR

CAPE TOWN — The SA unit trust industry should consider introducing a single price for units to replace present buy and sell prices, says Syfrets unit trust marketing manager Kevin Hinton.

Speaking on his return from an international unit trust conference in Britain, he said a single price would simplify calculation of returns and exclude administration and other costs. These could be charged separately at the beginning or the end of the investment period. BDay 25/11/92

An advantage of imposing charges at the end of the period was that the initial capital would remain intact to earn a greater return for the unitholder.

Hinton said there had been a trend towards a single pricing system in the US and Europe.

The UK industry, hampered by hybrid pricing structures and complicated legislation, had failed to develop a spread of different products and had not diversified away from equities, he said. About 97,3% of the $52bn invested in unit trusts were in equities, compared with only 2,7% in bonds. (58)

In the $4 trillion US unit trust industry, 32,7% was invested in bonds, 40,1% in the money market and 27,2% in equities.

In Germany, the preference was towards low-risk, secure bond investments and there were 500 bond funds.

After the US, France had the second largest unit trust industry valued at DM696bn, 67% of it state controlled.

Hinton said this had been fuelled by the move of savings away from the highly taxed banking sector.

Nedcor shares are re-rated

SHARON WOOD (58)

NEDCOR's share price has been re-rated by the market following good year-end results, rising R1 to R15,50 in the past month.

Analysts said concern about the Perm's township exposure and the cost of a new computer system had been largely dispelled.

Davis, Borkum, Hare & Co banking analyst Graham Baillie said the market now understood the banking group better.

However, institutional shareholders were already fully weighted with bank shares after FNB and Standard Bank rights and scrip dividend offers. Baillie believed the share price would not have as much upward potential as it should. BDay 25/11/92

Baillie said: "Banks have reached the peak of their profitability cycle. Interest rates have come off and the wide interest margins have declined."

However, he expected banking sector shares to remain superior to industrial sector shares.

Banks' debtor-clients heave sigh of relief

BIDAY 25/11/92 (58)

SHARON WOOD

DEBT-RIDDEN bank clients breathed a sigh of relief last week when interest rates moved down by another percentage point, easing the repayments on overdrafts and mortgages.

The four-year reign of high real interest rates has been harsh on SA's consumers. Debts built up during the mid-'80s, when borrowing was more profitable than saving, are still being repaid at higher costs to the borrower.

The desperate need for a higher level of personal savings in SA is commonly agreed on, but the returns on saving instruments remain below inflation in most cases.

In addition, the fact that banks immediately reduce deposit rates when there is a Bank rate cut and stall on reducing lending rates to keep their interest margins as high as possible does not help the saver.

A survey on deposit and lending rates shows that the maximum interest rate a client will receive from conventional savings accounts will be in the region of 13%.

Slightly higher interest rates are applicable on exclusive accounts. Generally a customer will receive a better interest rate if the money is saved in a fixed deposit rather than in a savings account, where rates of interest depend on the account balance. Credit cards can also be used to save, but on average an interest rate of just 12% on a credit balance is received.

The introduction of the accessible mortgage bond has given the saver who owns a home a better deal. Additional funds can be deposited in the bond and these attract the mortgage interest rate, which currently stands at 16,75%. There are also tax benefits to saving this way because the money is not taxable. Obviously this way of saving is limited to the home-owner.

On the other side of the coin, the lender will pay much higher rates of interest on a loan. The Usury Act puts ceilings on the amount a bank can charge its clients for funds. The maximum interest rate limit on a loan of up to R6 000 is 31%, above R6 000 and below R500 000 it is 28%, and there is no limit on loans above R500 000.

Standard Bank says borrowing interest rates vary according to the nature of the facilities, the creditworthiness of the client and the client's ability to repay the loan. It suggests clients borrow on its revolving credit facility rather than through overdrafts.

PROP

National housing policy is 'completely lacking'

B/DAY 25/11/92

PETER GALLI

A COHERENT national housing policy is completely lacking even though SA is experiencing its most intense period of urbanisation, says Cape Town deputy mayor Clive Keegan.

Because of this, private and public sector bodies have been asked to start educating the public on the radical changes facing SA's cities.

Keegan recently told the Cape branch of the Institute of Valuers that land was the most politically volatile issue in SA society.

It would probably be the resource brought most strongly to the fore in any post-apartheid government's policy of redistribution and restitution, he said.

"In the current socio-economic and political environment, any re-adjustment aimed at normalising the highly inequitable shape of the apartheid city requires a combination of efforts by the public and private sectors and by community organisations," he said.

But a stalemate had arisen, and neither the private nor the public sectors were able to deal adequately with the crisis.

Not only was there no coherent national housing policy or strategy, but there was also little academic interest in inner city housing.

"There is a need to start reurbanising the city, to implode urban areas and so avoid developing the city fringes that place heavy costs on people and resources in terms of travel distance and lack of jobs in the area."

There was a tendency to resist subdivisions in city suburbs and this would have to change. The economic inefficiencies of the cities could be met only by a "profound change" in thinking, said Keegan.

Affordability

Options included looking at infill housing in existing areas, subdividing into smaller plots, and the utilisation of vacant inner city land for housing — particularly for the poor.

"However, this is also problematic. Inner city land is costly and, if we rely solely on market values, will push the cost beyond the affordability level of the people we want to move there," he said.

It could be argued that strategically located inner city land was far too valuable in terms of its potential for providing affordable housing to dispose of at market related prices, particularly at the current stage of political development.

"The ANC, civic associations and other progressive bodies are insisting that the state and local authorities should not be considering the disposal of public land until new local authorities are in place."

Keegan said there was a growing need for innovative thinking about new subsidy systems, title and housing management, which had not yet been contemplated in this country.

Unlike previous attempts at community involvement, it was expected that future housing would be designed and built through a process in which the end users would be involved from the outset of the project to its implementation.

A range of new administrative mechanisms would emerge in future years to facilitate urban initiatives for low income developments.

"Many will be based on prototypes not yet experienced by this country, like co-operatives, Section 21 companies as housing vehicles, community land trusts and sectional title for low income housing," he said.

Pretoria agencies due for merger next week

(58) ANDREW KRUMM

A MERGER between Pretoria-based Chapman Real Estate and Joan Behr Estates on December 1 will create the city's largest estate agency, says Chapman Real Estate MD Rob Ketjen.

The merged group, to be known as Chapman-Joan Behr Estates, would represent about 30% of Pretoria's property market with a combined turnover of between R150m and R200m in 1993.

Ketjen forecast that the new group's share of the Pretoria market would grow to between 35% and 40% by 1995.

Joan Behr Estates MD Roy Esakov, who will head the group, said the merger came about when both agencies realised they were seeking the same thing: market leadership in a single geographical area.

Ketjen said integration of the two operations had already started, and was proceeding smoothly.

The new agency would be represented in seven offices by 120 property consultants.

Property market optimistic after cut in mortgage rate

BDM 25/11/92. (58)

Reports by PETER GALLI

THE half percentage point cut in the mortgage rate by major banks last week has given rise to a more optimistic mood in the residential property market, estate agencies say.

However, the move in itself is not expected to have significant practical benefits, as positive political developments are also needed.

Eskel Jawitz JHI Real Estate MD Eskel Jawitz welcomes the move, but says that for any meaningful improvement in the property market to happen, rates have to fall even further — to between 12% and 13%.

"We have grown too accustomed to the distortions of a sick economy and need to keep a cautionary sense of perspective. Our interest rates are still far too high in comparison with those in the US and UK," he says.

Durban-based Wakefields chairman Keith Wakefield agrees, saying that while the property market would prefer to see mortgage interest rates at 14% or less, "the direction is right, and continued downward pressure on interest rates must lead to further cuts in bond rates".

The easing of overdraft and hire purchase rates would take pressure off many beleagured homeowners.

Lower interest rates mean more people can afford to buy homes and he hopes there will be an increase in the tempo of house sales as people start to make commitments.

"Recently we have seen many reports of dramatic increases in the number of homes repossessed by the banks, and one hopes there will be fewer people who are forced to sell homes they can no longer afford."

Pam Golding Properties Transvaal MD Ronald Ennik says that while the move will have no significant impact at present, it will give the market a psychological boost.

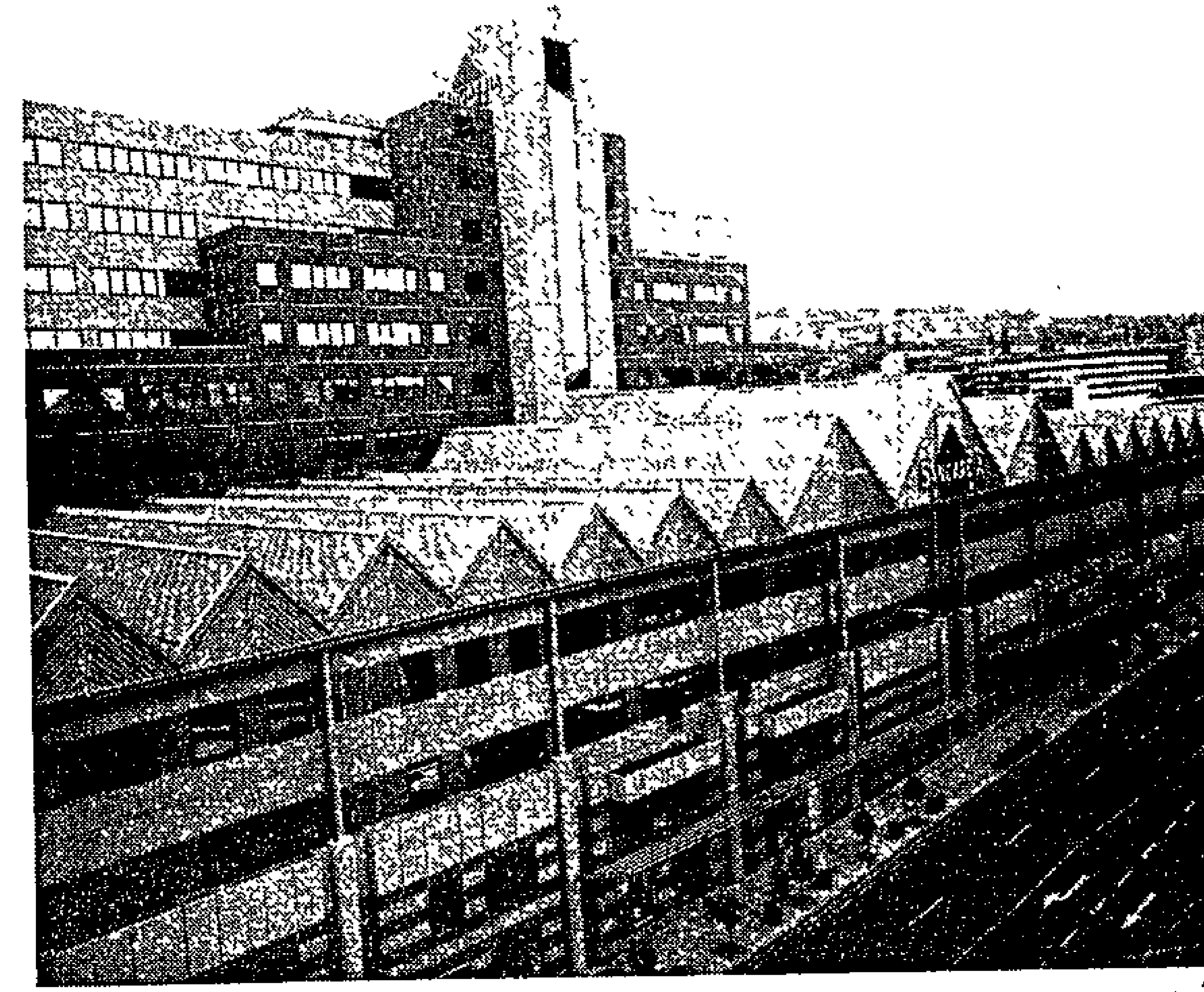
"The cumulative effect of the 3,25 percentage point drop since the beginning of the year will not have an impact on the upper end of the market as much as the middle and lower ends," he says.

Although the market is still influenced strongly by the lack of confidence in the political situation, without the boost of lowered mortgage rates the 1992 property scenario would have been far worse.

Wakefield says homeowners and estate agents face a much brighter market in the wake of the cut.

"If we can see some political progress to match the latest economic advances, then recent gloomy business forecasts will go out of the window as SA heads for greater prosperity in 1993," he says.

Interest rates are moving back to acceptable levels, which will have many positive spinoffs for property and the economy, he says.



Sancardia, Sanlam Properties' R114m office and shopping complex in Arcadia, Pretoria, is fully let — about six months after completion. Lease agreements for the 17 800m² office tower have been concluded and except for two small shops, the 10 600m² of retail space has been let for some time. The Transvaal regional office of Telkom is the largest tenant. It occupies 8 700m² on six floors.

BDay 25/11/92

Brisk sales in Bedfordview

ANDREW KRUMM

(558)

FLAT sales at the Bedford Gardens Estate in Bedfordview by Investec Property Group are moving far faster than forecast, says IPG MD Sam Hackner.

When IPG purchased the 11-building complex for a syndicate of financial institutions and developers for R90m in January 1991, the sell-out timetable was three years.

Now, 16 months later, more than 70% of the 964 flats in the 11-building complex have been sold. A strong marketing thrust aimed at day show customers began in August 1991.

"We are a year ahead of our sales schedule and with savings in holding costs, the group has been able to pitch entry-level prices lower," Hackner said.

Prices in the latest block to be marketed ranged from R124 900 to R180 000, he said.

Capacity at Richards Bay to increase

JONO WATERS

THE Richards Bay Coal Terminal capacity could be increased to 54,5-million tons a year at no extra capital cost, Randcoal CEO Allen Cook said in the company's annual report.

The re-organisation of the terminal, following the upgrading which was completed last year, would allow for the increase in capacity.

The terminal's export capacity was increased to 53-million tons a year from 44-million tons a year at a cost of R285m.

Cook said forward planning had enabled Spoornet to be in a position to meet the export rail requirements comfortably.

"In future, no difficulties are foreseen in maintaining this position as exports gradually increase in line with market demands."

In 1991, total coal exports from SA producers through the terminal amounted to 45,3-million tons (45,5-million tons), but this was expected to rise to 48-million tons this year. Overall coal exports from all SA ports were expected to amount to 51-million tons this year.

Randcoal production for sale to the inland and export markets increased to 6,89-million tons in 1992 from 6,72-million tons in the previous year.

BIDPM 26/11/92 Rietspruit

Cook added that 1993 was going to be a difficult year for coal producers as a result of the weakness in the export market, turmoil in foreign exchange markets following the withdrawal of the UK from the ERM, lack of growth in domestic power consumption and the recession.

However, it was hoped that Randcoal's policy of seeking long-term supply contracts with quality customers would continue and the full benefits of the restructuring at Rand Mines would become evident.

The improved coal qualities being planned at Rietspruit colliery would provide greater flexibility to the group's marketing efforts and reinforce the range of coal qualities offered to overseas customers, said Cook.

Close attention would be paid to the further mechanisation of the mining operations at Welgedacht, with the concomitant improvement in labour productivity.

At the Majuba colliery, where dykes and sills protruding through the seam had made longwall mining impossible, Cook said alternative coal supply sources to supplement the reserves would be examined.

He added that Randcoal was considering alternative mining methods which would make the extraction of coal more suitable to the coal seam as it was constituted.

Divisions serve UAL well

Business Day Reporter

THE strong profit growth in each of UAL Merchant Bank's operating divisions saw the company increase its taxed income by 21,7% to R47,5m in the financial year ended September 30.

BIDPM 26/11/92

This gave a return on average shareholders' funds of 35,4%, said MD Geoff Richardson.

During the period under review, total assets increased by 5% from R3,5bn to R3,6bn.

Richardson said the Corporate Finance division had a particularly successful year, achieving a record result. Mergers, acquisitions and fund-raising to the value of nearly R6bn were concluded.

Equally satisfactory was the performance of the Investment division, which far exceeded its target for obtaining new business and ended the year with funds under management exceeding R15,1bn.

Highlight of the Unit Trust division was undoubtedly the momentum created by the formation of UAL Investment Planning Services.

Rothmans on even keel with fair weather ahead

How to avoid getting

French Bank to increase its capital

BTDAY 26/11/92. (S8) (66)

LINDA ENSOR

CAPE TOWN — A R100m investment was planned for the French Bank of Southern Africa to expand its capital base over the next two to three years, chairman Phillipe Brault said.

Brault spoke at a farewell function yesterday for MD Francis Klein and to welcome his replacement, Marc Verhille.

He said the bank anticipated an economic recovery from the second half of 1993. He said this would bring more business and necessitate an increase in its own funds to comply with the Deposit-Taking Institutions Act.

The wholesale bank's own funds currently amounted to R100m but it wished to increase this to R200m by 1995. Last year R25m was injected.

Consumption was expected to increase next year with a better agricultural crop and World Bank and IMF funds coming into the country following an interim government.

The bank is 51% owned by international merchant bank, Banque Indosuez, 39% by Natal Building Society and 10% by Barlow Rand. Its total assets amount to R2bn.

Brault said sanctions had forced the bank to keep a low profile, but this was changing. It had been in the country since 1948.

The bank was active in the first half of this year in assisting European companies to gain a foothold in SA. However, this had tailed off with the increase in violence. "The political situation in SA in not clear enough for major new investment," Brault said.

Letting agent RMS is forced to cut deals

PETER GALLI

58

HIGH vacancies had seen RMS Property Holdings attempt to let any space falling vacant as soon as possible, resulting in it compromising on rentals received, chairman Peter Gerard said.

BDAY

In the RMS annual report released yesterday, Gerard said many vacancies had occurred as a result of poor economic conditions and tenants going insolvent or consolidating operations.

26/11/92

RMS had not been able to recover operating costsin some cases. It had also been unable to relet certain premises.

"We have a vacancy rate of 10,48%, but expect to reduce this over the next few months," Gerard said. This would allow for an increase in income not only from present escalations, but from income derived by reducing the budgeted vacancy level.

In the year to end-September, turnover dropped to R30,41m from R32,07m, while net income fell to R239 000 from R266 000. The share was untraded yesterday at its November 19 low of 400c, but reflected a seller at this level.

French Bank geared for new SA

By ARI JACOBSON CT 26/11/92

THE French Bank of SA is well-positioned to take advantage of the end to the sanctions era and the arrival of a new political dispensation, says chairman Philippe Brault.

Brault is in SA to see in the new MD of the local division Marc Verhille. Verhille replaces Francis Klein, who is to take over the group's subsidiary in Hamburg, Germany.

He pointed out that the French had not invested on a large scale in SA but that there was tremendous potential for trade with this country.

Braude said that in recent times links had been established between France and SA,in electricity supply and the hotel chain Accor was participating in joint ventures locally.

"Tourism has to be developed here to take full advantage of this beautiful country."

The Banque Indosuez, which has a controlling stake in the local division, has total assets worldwide of some R150bn and a spread of investments in some 65 countries.

The French Bank of SA is an exclusive bank for the local corporate customer and has an asset base locally of R2bn. It services high-powered customers such as Barlows and Seardel.

Seardel's Arthur Jacobson described the group as "small, swift and highly competitive".

Braude mentioned that SA had a highly sophisticated and competitive banking system.

But he said that a niche bank like the French Bank had a role to play in financing trade-related transactions to and from SA, and by providing international know-how.

Divisions serve UAL well

Business Day Reporter

58

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NEWS IN BRIEF

Reshuffle at Absa 58

IN ANOTHER senior management reshuffle at Absa, Absa Bank corporate division head Bob Aldworth has been appointed executive director of marketing for the division from December 1.

Absa says the appointment will give impetus to the drive to increase the corporate division's market share. BDay 26/11/92

The appointment follows last week's departure of Piet Liebenberg from his post as deputy CE in charge of the corporate division.

Merchant banking head Jean Brown will now be responsible for the day-to-day control of corporate banking.

RMBH gains 75c on first day of trade

SHARON WOOD (58)

RAND Merchant Bank Holdings (RMBH) shares gained 75c on their first day of trade yesterday, closing at R10,75 from the R10 opening price. BDAY 26/11/92

Analysts said the share had done better than expected, with most forecasting it to trade at R10.

The share hit a high of R11,50 during the day and remained well above R8,20 — the price at which the share had been trading in the secondary market.

A dealer said there had been good turnover, with 388 100 shares traded.

The listing also pushed Momentum Life's share price up by 35c to R5,75.

Senekal, Mouton & Kitshoff analyst Jannie Mouton said the share had performed better than expected and that there had been keen interest in it. He expected the price to increase to R11 today because it was a true blue-chip share.

Ed Hern banking analyst Alan McConnochie expected the share to settle at about R10,40 and at a price-to-earnings ratio of 14. The share had a p:e ratio of 14,5 at a price of R10,75.

Railways chief condemns attack

RAY HARTLEY

AN URGENT investigation into Wednesday's machine-gunning of 36 commuters at Soweto's Mlamlankunzi station has been ordered by SA Rail Commuter Corporation (SARCC) MD Wynand Burger.

Police said 12 attackers fired on commuters as they disembarked at the station. Most of those wounded were Inkatha supporters, according to eyewitness accounts.

Burger said yesterday that there appeared to be a link between the timing of advances in train security and attacks on passengers. BDM

The latest attack came as the ANC and Inkatha agreed to meet in an effort to defuse violence and days after the SARCC unveiled new high security train coaches, he said. 27/11/92.

"I am deeply concerned at Wednesday's attack and horrified at the brutality of the cowardly thugs who continue to prey on innocent commuters," he said.

Meanwhile, Springbok Patrols MD Mick Bartmann yesterday denied guards from his company fired on commuters during the attack.

He said three guards positioned at the station in terms of a contract with the SARCC had fired warning shots into the air, dispersing the attackers.

One of the guards — who were armed with shotguns loaded with birdshot — then fired in the direction of one of the fleeing attackers, he said.

The train had been inspected and no traces of birdshot had been found, confirming that the guards had not fired at commuters, he said.

Burger said more than R100m had been spent on new security measures in the Transvaal in the past eight months.

"We are going to continue full speed with both our anti-violence measures, as agreed with the Train Accord Group, and with implementation of recommendations that may come from the Goldstone commission," he said.

Sanco, SA Perm edge closer to agreement

BDM 27/11/92. (58)

WILSON ZWANE

THE SA National Civics Organisation (Sanco) and the SA Perm are edging closer to signing an agreement which will significantly change the building society's operations in townships.

Sources say a key feature of the agreement will be a banking code of conduct which will regulate the financial institution's lending policies to township residents.

The agreement is expected to be signed soon, probably within weeks.

Neither Sanco president Moses Mayekiso nor Perm GM for development Denis Creighton would comment.

But the Perm has, up to now, been the only financial institution which has agreed in principle to Sanco's proposal for a banking code of conduct.

According to Sanco's documents, it is envisaged that the code of conduct will improve the relationship between financial institutions and township residents.

The documents say the relationship has been soured by the banks' role "in pursuing investment policies which maintain the current government".

There is also a perception that banks are reluctant to lend money to township residents.

Integro nets two Dutch brokerages

58 SHARON WOOD

AMSTERDAM-based Integro, an international subsidiary of Investec, announced yesterday it would take over Dutch brokerage firms Intereffekt Commissionairs BV and Intereffekt Futures BV from January 1 next year. BDM

Integro would not reveal the size of the deal because the parties had agreed not to do so. 27/11/92

The acquisition fitted into the international strategy of the group, widened the client base and enhanced the European broking activities and worldwide asset management in particular, Integro said a statement.

Intereffekt would also strengthen Integro's knowledge and experience in asset management and its activities in the Far East would complement existing activities of the group.

Intereffekt was active on the Amsterdam stock exchange and international stock markets, the European Options Exchange and Amsterdam's financial futures market, it said.

The Integro head office has been in Amsterdam since 1984 and the group has branches in London, Geneva and Johannesburg. Activities of the group include stock broking, option trading, trust and administrative services and corporate finance.

Reuter reports Integro chairman Ian Kantor said at a press conference in Amsterdam yesterday that the group was expected to show a turnover of 15-million guilders this year. The Intereffekt takeover and further expansion plans would raise turnover to 20-25 million guilders in 1993 with an expected net profit of 3-million guilders.

Money supply growth sticks to guidelines

B|DAY 27/11/92

(58)

HILARY GUSH

GROWTH in the broad money supply in October kept just within the 7% to 10% guideline range specified by the Reserve Bank for 1992, Bank figures released yesterday showed.

While year-on-year growth in M3 — which consists of cash in circulation and all deposits with banks — rose to 9,34% in October from September's 8,73%, growth from the base of the guideline year (fourth quarter 1991) eased to 9,14% from 9,33%.

Boland Bank group economist Louis Fourie warned that too much should not be made of the slight increase in M3 growth.

"Borrowing is still depressed and increases in money supply are within the Bank's guideline range. This points to a well managed money supply and leaves room for another Bank rate cut before year-end."

Fourie was optimistic inflation would remain between 11% and 12% until next year, fanning hopes of another cut in the official interest rate.

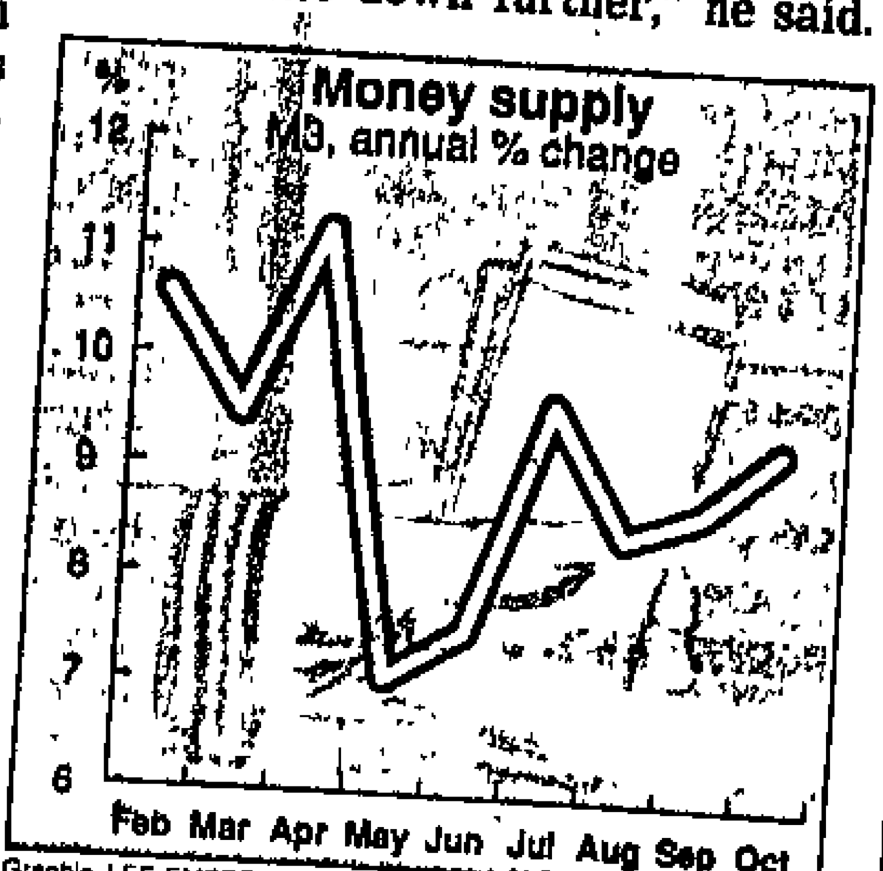
JCI assistant economist Peter Perkins said although inflation's fall to 11,7% in October fuelled hopes of another cut in the Bank rate before year-end, this was unlikely.

"It could well be that the Reserve Bank will want to see the final outcome of the deficit for fiscal 1992/1993, before cutting the rate again.

"While keeping money supply growth within the guideline range is certainly a prerequisite to an easing of monetary policy, there are too many other variables to consider when cutting Bank rate — particularly the fiscal deficit," he said.

The decline in total domestic credit extension growth to 8,53% in September from August's 9,07% reflected the weakness of the economy.

"Slowing domestic credit extension growth is important in bringing growth in money supply and the inflation rate down further," he said.



Graphic LEE EMERTON Source RESERVE BANK

Metpol pays 55c

STAR 27/11/92.

Finance Staff

Insurer Metropolitan Life showed strong growth in premium income in the year to end-September, boosting its surplus attributable to shareholders by 79 percent to R58,5 million (R32,7 million). (58)

This lifted ~~earnings~~ per share from 70c to 86c, on which a total dividend of 55c (45c) is being paid.

Individual premium income, which constitutes 73 percent of Metropolitan's total premium income, rose 23 percent to R594 million.

Due to a drop in single premium business after the sharp increase previously, group premiums grew at a slower rate, resulting in total premium income rising by 16 percent to R816 million (R701 million).

Investment income was 13 percent higher at R357 million, bringing the total income for the year to R1,17 billion (R1,02 billion).

Total assets of Metropolitan Life at market value increased by R695 million, or 17 percent, to R4,81 billion.

Buoyant Metpol bucks the recession

(58) ARG 27/11/92

MARC HASENFUSS, Business Staff

METROPOLITAN Life shrugged off unfavourable economic conditions to post a healthy 23 percent rise in earnings to 86c a share for the year to end September.

A final dividend of 35c a share was declared, bringing the total distribution for the year to 55c (previously 45c).

Although disclosed surplus for the year attributable to shareholders soared 79 percent to R58,5 million, earnings a share was diluted by a greater number of shares in issue following the rights offer of August 1991.

Managing director Marius Smith said the group's results compared favourably with those reported recently by members of the insurance industry.

"The earnings and dividend growth, as well as the continued sharp increase in individual premium income, whic has always formed the mainstay of the company's business, were particularly gratifying."

A drop in single premium business after a sharp increase in the previous year slowed growth in group premiums, resulting in total premium imncome rising by 16 percent to R816 million for the review period.

Investment income was 13 percent higher at R357 million — bringing total income for the year to almost R1,2 billion.

Mr Smith said the slower growth in premium income from group business should be seen against the background of the reduction in business activities by many companies, as well as staff retrenchments and lower salary increases.

Metropolitan has also changed its accounting policy to reflect investment assets in the balance sheet at market value and comparative figures were restated. Total assets at market value increased R695 million to R4,8 billion.

■ A healthy 31 percent increase in turnover pushed **Aroma Liquor Holdings'** net income after taxation up by 154 percent to R155 000 for the six months ended August from R61 000 in the same period last year.

Money supply growth still within guidelines

STAR 27/11/92

By Sven Lünsche (58)

The year-on-year growth rate in the broad money supply measure, M3, increased slightly in October but remained well within Reserve Bank targets for the year.

The bank reports that M3 grew by an annual 9,34 percent in October, compared with an 8,73 percent rise in September.

M3 growth has now remained below the 10 percent level since May this year — evidence of the negative economic growth rates and an indication that inflation could fall further in the months ahead.

Growth in M3 from mid-November 1991, which is the base of the bank's target range for this year, at 9,14 percent remained well within the seven to 10 percent guidelines.

The comparative figure in September was 9,23 percent and in August 8,4 percent.

The bank's figures also show that total domestic credit extension slowed in September to 8,53 percent year-on-year from 9,07 percent in August.

President (58) Insurance liquidated

Star 27/11/92

An application for the final liquidation of President Insurance Company was granted yesterday by the Pretoria Supreme Court.

The Registrar of Insurance, who brought the application, advises policyholders to arrange new insurance elsewhere immediately, as claims which arise from today, will not be enforceable.

President's short-term insurance business has been closely monitored by the Registrar for some time, after new shareholders took control of the company in March.

The company was placed under curatorship by the court on August 7 but the shareholders were unable to structure the company so as to comply with the Registrar's requirements.

The court appointed D J Rennie and W H Edelstein as liquidators.

INSURANCE FM 27/11/92

Mysteries, part two 58

Trying to follow the fortunes of President Insurance is a frustrating exercise. It's not that the major players do not wish to discuss

FM 27/11/92 (58)

what is happening — but that they are barred by court order from discussing it (*Economy* November 13)

The return date for the court proceedings was set for Tuesday but the case was not on the Rand Supreme Court roll. Sources at President thought it might have been deferred to Thursday Meanwhile, those who will not talk about President — because of the court order — include:

☐ President CEO Willie Smit, who has stated he is going back to broking;

☐ Robert Shaw, a respected figure in the insurance industry who was introduced to President in a consultancy capacity, apparently at the instigation of the Financial Services Board,

☐ The Financial Services Board itself; and

☐ The lawyers said to be acting in the case in the Supreme Court.

One person who was quotable was Frans Beetge, well-known as a consultant in the short-term industry He agreed he had been approached to take over as MD at President, adding: "I gave a qualified yes, so long as the problems were sorted out first."

Unusual events at an insurance company are certainly in the public domain, though a court order must be respected If the court decision leads to speculation – which is what is happening throughout the industry — that is inevitable.

At the centre of the speculation is Willie Smit, who gave evidence in the David Webster inquest and has connections with the CCB Smit, who was flying to Harare on Tuesday, has agreed that the problems with the Financial Services Board relate to himself and a clash with Shaw. He has shown management accounts to the *FM* indicating finance is not a problem and that President has made a profit of R1,5m in the past five months

There is a precedent for the FSB to act against an insurer on the ground of management inadequacy *(Registrar v Johannesburg Insurance Co, 1962)* and, since its failure to stop Warren Plummer leading AA Mutual to disaster in 1986, the board has been ultrasensitive on the issue.

But, is it only management? A profit of R1,5m in an insurer which has a heavily reinsured book of R40m and little investment income, appears handsome. The figure is unaudited, so unacceptable to the FSB, but, if correct, could possibly derive from the large volume of business President inherited from the Multilateral Motor Vehicles Fund (MMF) A more usual underwriting profit on a R40m book, where retentions could be about R25m, would be no higher than 3%, perhaps R300 000 in the period since the licence was sold by Rentmeester group to

continued

 FM

Smit and his associates.

Smit has acted vigorously to replace himself, however. This week, three possible successors were being considered: Shaw, Beetge and a highly placed executive of Munich Re. But that introduces another oddity because most of President's reinsurance was previously placed with Munich but, after Shaw's involvement, it moved to Hollandia, an associate of Hanover Re, represented in SA by Shaw.

Adding to the mysteries is the link with Standard General, SA subsidiary of Generali, one of Europe's largest insurance empires. StanGen confirms Shaw arranged certain guarantee business to be placed through the company but emphasises. "StanGen is not on risk."

Bryan Deans

FRENCH BANK FM. 27/11/92 (58)

Higher profile

The largest foreign bank in SA, French Bank of Southern Africa, is to get a new MD. Francis Klein, MD for the past four years, is being posted to Germany and Marc Verhille, formerly of Banque IndoSuez in Italy, will become the new MD from January The bank is a subsidiary of Banque IndoSuez which has a 51% stake. NBS Bank holds 39% and Barlow Rand 10%.

French Bank chairman Philippe Brault, based in Paris and on a visit here, believes SA has long-term potential. "We have been in SA since 1948 and took a decision to remain when other banks moved out in 1985/1986," he says. "We kept a low profile but are now becoming more visible."

The bank targets large corporates that need export financing, forex, speciality trade financing and international corporate financial advice. It has a corporate finance subsidiary — acquired from Cape Investment Bank in 1991 — specialising in corporate and project finance.

Through IndoSuez the French Bank has a presence in 65 countries, access to the treasury of Banque IndoSuez with capital and disclosed reserves of FFr15,5bn (about US$3bn), and access to Eurocurrency markets. Earlier this year, Banque IndoSuez financed Barlow Rand's £85m acquisition of Finanzauto, the Caterpillar dealer in Spain. "No SA banks would have the contacts we have in Spain," says Klein.

He says about 80 of SA's Top 100 companies are clients. "They use us as a specialist bank for overseas trade and big forex deals as well as some local financing. We act for foreign companies wanting to invest in SA." However, much of the planned foreign investment — which he says involves some large groups investing moderate amounts in this country — has been frozen until the investment climate improves.

The French Bank is based in Johannesburg with branches in Cape Town, Durban and London. Brault says the recent purchase by NBS Bank of a 39% shareholding in it

27/11/92 (58)

from Barlow Rand gives it a closer link with the local banking industry and the market.

Klein says capital and reserves of R99m are sufficient now but, as the economy improves and should the need arise, its French parent company and local shareholders would consider a further capital injection. IndoSuez increased French Bank capital by R25m last year. ■

Metropolitan maintains growth

BIDAY 27/11/92. (58)

LINDA ENSOR

CAPE TOWN — A healthy surplus in its life fund enabled assurer Metropolitan Life to counteract the dilution of its earnings in the year to end-September and maintain steady growth in earnings.

Earnings rose 23% to 86c (70c) a share on issued share capital, increased to 65-million from 45-million after a R186m rights issue. The final dividend of 35c brings total distribution for the year to 55c, up 22% on 45c previously.

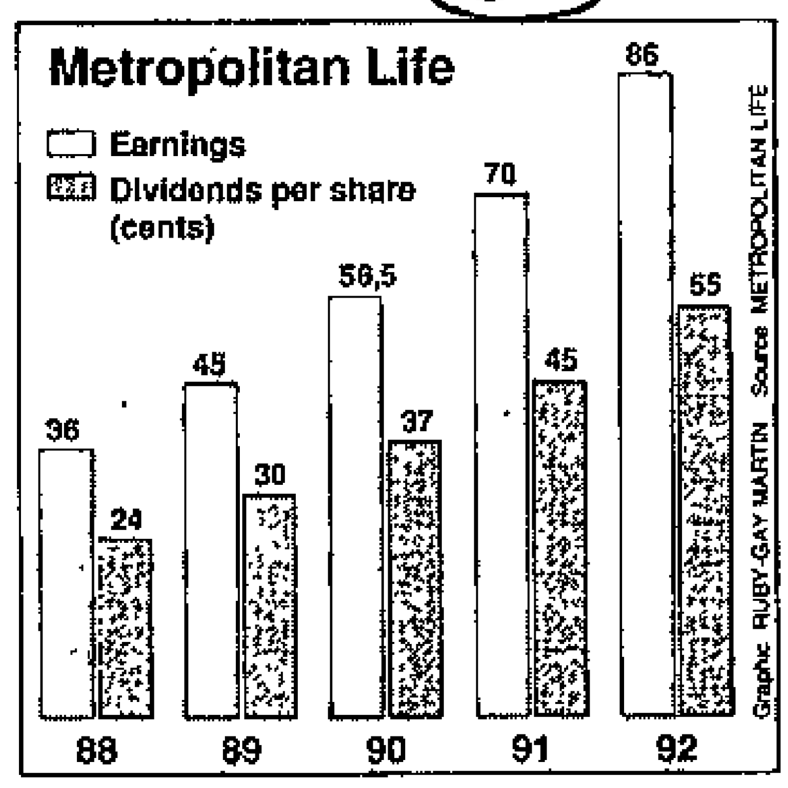
The extent of the transfer from the surplus resulted in the 79% growth in attributable income to R58,5m (R32,7m) compared with the 15% rise in total income from operations to R1,2bn (R1bn).

MD Marius Smith said this was achieved in spite of violence and recessionary conditions in Metropolitan's black niche markets.

Total premium income rose 16% to R816m (R703m), with individual recurring premiums increasing 21% to R559m (R460,5m) to bring its share of total premium income to 68%.

However, single premium business slumped 22% to R41,7m (R53m) mainly due to the loss of several group schemes and slower growth in this business.

Senior finance GM Peter Doyle said although Metropolitan's lapse rate had improved, there had been a high level of policy surrenders.



Investment income, boosted by the rights issue, rose 13% to R357m (R317m) in spite of lower dividends and interest rates. A marked shift was made away from the money market into government bonds.

Benefits paid to policy holders went up 31% to R379,3m (R289m).

Marketing costs increased 24% and operating costs 20%, with investments in the branch network and infrastructure.

Operating costs as a percentage of premium income were slightly higher at 16,2%.

"The effects of these actions will still be felt in the 1993 financial year," Smith said.

The market value of assets increased 17% to R4,8bn (R4bn), bringing the growth rate in assets over the last four years to 25,8%.

MORTGAGE RATE CUTS (58) FM 27/11/92 :

Not enough for lift-off

Lower interest rates — triggered by last week's cut in Bank rate — should bring relief to homeowners, but a turnaround in the property market still seems some way off. Absa economist Christo Luus says the cut at this stage has only a psychological effect. "The cut in mortgage rates this time round was relatively small and, with the depressed economy, alleviates the burden rather than pushes up demand."

Still, some stimulus can be expected, though it will take some time to filter through as the building industry breaks for the festive season. Further cuts, on the back of October's lower-than-expected annualised inflation increase of 11,7%, should occur only in the new year.

Luus believes there could be another two-percentage-point cut in Bank rate before mid-1993 — which should mean an equivalent drop in the mortgage rate. "If the economy expands the way we hope it will, these rates will prevail until early 1994," he says.

"Thereafter, we could move into an upwards interest rate cycle if the Reserve Bank is forced to put the brakes on credit expansion and curb any inflationary pressures that may start to build up again. The Bank would be very reluctant to have an accommodating monetary policy meaning low or negative real interest rates in view of the bad shape of government finances," Luus adds.

Property analyst Erwin Rode says cuts in interest rates usually help to push up the level of transactions. "There should be some beneficial effect on the number of new houses started, though this is limited to the traditional white homebuyers, with the continuing crisis in black housing," he warns. But Rode also feels that lower rates have little effect on house prices.

Luus says a property market upturn is still pretty much dependent on a general upturn in the economy — not expected until the third quarter of next year.

But lower interest rates will place downward pressure on bank margins, with the competitive environment of the home loan market not allowing institutions to buck the trend. Luus says, in view of this, and the ever-present fear of bad debts, interest rate cuts could push down deposit rates even further. Perhaps with this in mind, many banks are urging homeowners to keep payments at current levels, shortening the life of the loan, rather than lengthen the period or incur more debt.

Mortgage rates are often lower than the 16,75% now available from most institutions. Martin Charney, of Martin Charney & Associates, says homebuyers can now acquire a bond at 15,5%, for a home of R500 000 or more, at most institutions. "This is considerably better than the 16,25% one can get on Standard Bank's Prestige home loan, and goes to show how competitive the market is."

The effect of lower short-term interest rates should be even less on the commercial and industrial property market. Rode says there is a long lag involved in the relationship between the two. "Ultimately, the market reacts to changes in demand for space, which in turn will increase only once the economic upturn is under way. The problem is compounded by the oversupply of office space," he says.

Luus says the drop in interest rates might benefit the industrial property market as costs of finance decrease and returns on other investments decline.

Sanlam Properties GM Dolf Müller says the industrial and commercial property market is little affected by short-term rates: "Investment decisions of this nature are guided by the long-term view, which is still clouded by sociopolitical uncertainties. Rates at the long end of the market don't seem to be coming down." ■

FM 27/11/92.

LOW-COST HOUSING

Use that slag

The *FM* has in the past suggested that one way to bring down the costs of housing for low- or no-income people is the re-use of building materials from demolition sites. Now Portland Cement Institute has come up with some ideas of its own.

It has been suggested that at least R700 could be sliced off the cost of a R20 000 house if industrial waste were used in the manufacture of cement bricks or blocks. Institute executive director Graham Grieve says analysis and testing of waste material for sectors such as mining show that byproducts of many metal smelting processes — such as silica fume, blast furnace slag and fly ash — could be blended with Portland cement to form products similar to cement.

Investigations are also being carried out into the use of charge chrome tailings and waste silica ore for possible use as aggregates. Large volumes of these waste materials are often dumped and could damage the environment.

Grieve adds: "Some waste materials have been used as sources of aggregate for use in concrete or concrete products. Blast furnace slag produced by Iscor, which, when used in the manufacture of blended cements, has already attained a quality covered by a Sabs specification. Fly ash, derived from Eskom power stations, can also be used for the

SANTAM FM 27|11|92

Cresting the wave (58)

Strong year-end results from short-term insurer Santam go a long way towards justifying the rerating the share has enjoyed over the 1992 financial year.

Admittedly moving off a low base, Santam has, nonetheless, shown it is a significant player in the market. Nearly all listed short-term insurers plunged into the red during 1990 — Santam was one of the first out of the underwritirg trough and, relative to its size, has been one of the strongest performers since then.

One feels however that Santam, along with the rest of the industry, is riding the crest of a wave which could break any time. MD Jurie Geldenhuys attributes the dramatic increase in pre-tax underwriting profit to the absence of large-scale natural disasters and stringent control of underwriting practices.

The former is out of the hands of insurance companies and though most, like Santam, have used the past two years' favourable weather to build up contingency reserves, recent heavy rainfalls must be making them a bit twitchy.

But apart from the strong underwriting performance, what is most impressive in Santam's results is the 18,8% increase in investment income. The group is clearly getting the best use out of its increased cash flow from underwriting and must have timed its investment portfolio mix between gilts and equities well to get such a good return.

STRONG RERATING

Year to Sep 30	1991.	1992
Gross premium inc (Rbn) ..	1,04	1,16
Underwriting profit (Rm)	12,4	51,6
Investment inc (Rm)	76,5	90,9
Earnings (c)	71,3	110,5
Dividends (c)	33	42

FM 27|11|92

The weather remains the big question mark for this year. Geldenhuys, who expects positive growth in 1993, notes that interest rate cuts and the uncertain share market could dampen growth in investment income.

Ten months ago, Santam's rating was lagging the sector, with the share on an historical yield of 7,2% and at 460c, at a 23% discount to NAV. The yield has firmed to 5,1% and the R7 price is 12% below NAV

The counter is still rated below market leaders like Mutual & Federal and Cusaf, but has gained ground against them. Latest results back this rerating, though Santam is now probably close to being fully priced.

Shaun Harris

Nkuhlu tipped for top Development Bank job

W/Mail 27/11 - 3/12/92

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Weekly Mail Reporter

JUST as the former finance minister turned out to become chairman of the Southern African Development Bank, so the incoming chairman of the bank may soon be minister of finance.

When Owen Horwood retires as bank chairman at the end of this year he will almost certainly be replaced by the current Independent Development Trust vice-chairman, Wiseman Nkuhlu, a man who has been dubbed South Africa's Bernard Chidzero.

Nkuhlu, one of South Africa's most respected economists, is widely expected to succeed Horwood at the DBSA at the end of the year. He is a former principal of the University of the Transkei and sits on many corporate boards.

Born in Transkei 48 years ago Nkuhlu graduated from Fort Hare University and went on to obtain a master's degree in finance and international business at New York University. He became the country's first black Chartered Accountant after completing a degree from the University of Cape Town in 1976. Nkuhlu also has among his credentials being expelled from Lovedale High School and serving a year on Robben Island.

After serving eight years as Unitra's principal he was last year appointed to his present position. Last year he was elected president of the Black Management Forum.

Although regarded as an Africanist, Nkuhlu is a key economic adviser to the African National Congress. He qualifies this by saying that he prefers to "plough his energy and ideas to whoever can deliver the goods" and not on ideological grounds. One of his current projects is a feasibility study on a multi-party project to raise development funds under the auspices of the Rockerfeller Foundation.

In black business and political circles Nkuhlu is seen as the best candidate for heading the finance ministry because of his skills and lack of ideological attachment, hence his Chidzero label.

Nkuhlu has turned down several job offers from the International Monetary Fund and the World Bank, the last of these being chairman of the Africa Capacity Building Institute.

An advocate of affirmative action, Nkuhlu feels strongly about "progressive" whites running development programmes that mainly affect blacks and has voiced his concern about the possibility of labour and business — whose interests he describes as "close" — developing a pact that will affect everyone else. He also advocates a land and graduate taxes.

Don't taint all property syndicates – Seeff man

STAR 28/11/92

FINANCE STAFF

MICHAEL Flax, MD of Seeff Trust, a promoter of property syndications, and an executive member of the Public Property Syndication Association (PPSA), described as "unfortunate sensationalism", a recent report which claimed that "hopes built up in a property syndication prospectus can easily turn to rubble as projections to rent returns and capital growth founder on economic reality".

Flax said: "While it is reasonable to expect media investigation of any investment vehicle, it is quite irresponsible to editorialise in general terms and condemn an entire industry outright without supporting the comments with facts."

Flax stressed that the PPSA to which all responsible syndication promoters belonged, included among its membership, representatives of the Financial Services Board and the Registrar of Companies. It operated under the auspices of the SA Property Owners' Association (SAPOA) and all PPSA members were bound by a code of ethics.

Should any person feel that a particular syndication needed investigation, the PPSA had "both the teeth and the will to do so."

Flax said the organisation would welcome any professional investigation into the industry which would be a better route to follow than one which might give rise to panic.

He added that no syndication had failed to date, but that the public would be well advised to ensure that before investing in a particular syndication, they confirmed that the promoter was a member of the PPSA.

Watch risks in property syndicates

STAR 28/11/92

(58)

AWARE of the risks inherent in property syndications, and rather than invite checks and control from the central Government, the property industry has decided to form a body to help regulate the industry itself. MAGNUS HEYSTEK reviews the new developments.

THE Financial Services Board (FSB) this week issued a statement warning people about risks inherent in property syndications. This follows on recent warnings by SA Property Owners' Association (Sapoa) chief executive Brian Kirchmann that some of the promised returns, mainly in aggressive advertising campaigns, are becoming more and more unrealistic.

Partly as a result of the concerns of the major players in the industry, the Public Property Syndication Association of SA (PPSA) was recently formed.

They all realise that the entire industry, estimated to be worth more than R1 billion, would be tainted by the failure of just one badly constructed property syndication or an event where an unscrupulous promoter disappears with public money. Rather than invite regulation from the Government, the property industry has decided to regulate itself.

At the heart of the PPSA is the code of conduct, which has already been approved by the FSB and the Registrar of Companies. All members who voluntarily join the PPSA will have to adhere to this code by means of:

- An affidavit to the effect that the promoter adheres to the code.
- Producing a statement signed by the promoter's attorney or accountant to the effect that the proposed syndication complies with all legal requirements. In exchange for signing the code of conduct, promoters of property syndications will be entitled to insert a Sapoa logo in their advertising, which will offer some credibility to the proposal.

Does this mean property syndications without logos should be avoided? Not really, but it should increase awareness about the assumptions and projections contained in a prospectus. Does it also mean a syndication with a logo will be guaranteed to succeed?

Once again the answer is no. Nothing in life is certain or guaranteed. But what it will do is weed out the less moral developers who are bound to be attracted to this booming field of investment.

In addition, plans have already been put into effect to give the PPSA statutory powers which will be included in the Financial Services Board Bill, to be presented to Parliament next year.

Happy medium

But at the end of the day, any prospective investor also has to take some responsibility for his or her investments. I don't believe in the laissez faire approach advocated by many spokesmen. I don't believe in protecting the stupid or ignorant against themselves. Somewhere in between there is a happy medium, I feel.

So what should the prospective investor be looking for in all the small print in a propectus?

Read the document carefully and, if you don't understand certain terms and phrases, ask someone you can trust to explain them to you, even if this will cost some money. Rather lose a little money than all of it.

- Look at the track record of the developer/vendor. Stay away from developers who are entering this field for the first time. Rather opt for developers with long-standing track records — and even then, ask for performance figures of their more recent syndications.

If developers have nothing to hide, they should willingly oblige.

- Organise rental agreements very carefully, as this detemines your income.

Ask about the duration of leases, renewal options and rental escalations, and be alerted when a large number of tenants short-dated lease agreements.

- Be sceptical about claims concerning dramatic capital gains. In the property market, like any other market, nothing goes up in a straight line.

Look out for geared properties or where management has the right to gear properties.

- If possible, have a good look at the building being synidicated. Look at the condition of the building and its location and ask yourself: Would anyone else want to become a tenant unless the rentals were very low?
- Ask the developer about the secondary market. Understand the concept a little better before leaping.

Property syndications have a definite place in a soundly structured portfolio. Many people have made a lot of money over the years.

● For a list of developers who signed the code of conduct, telephone (011) 880-4703.

LIFE POLICIES: *Warning on the hazards of state-of-health non-disclosure*

Ombudsman's busy year

STAR 28/11/92.

SOUTH Africa's Life Assurance Ombudsman handled a record 441 complaints from the public in the 12 months ended December 1991, but by the year-end 332 cases had been finalised.

In his annual report, the ombudsman, former Justice G P C Kotze, says the 441 complaints compared with 345 in 1990 and 193 in 1989 included 18 short-term insurance cases which were referred to the Ombudsman for Short Term Insurance.

A further 30 cases fell outside the scope of the rules, the report says.

Disability claims (49) were the largest category followed by repudiation on the grounds of alleged non-disclosure (43) and lapsed policies (39). Out of the 332 cases handled, partial or complete relief was recommended in 190 cases (58 percent).

The life assurance industry received a bouquet from the ombudsman, who says that broking and intermediary disciplinary bodies are, in the main, efficiently overseeing their members. Only 31 cases of misleading, unethical or negligent conduct by intermediaries were reported to the ombudsman.

Of these, 14 cases were wholly or partially resolved in the favour of the complainants — a small number in relation to the large volume of business transacted by the life assurers.

But the report has again called on the industry to introduce safeguards to ensure that clients understand that the non-disclosure of material information — mostly about the state of health of the proposer — can invalidate claims.

~~300~~ 58

"It frequently happens that the death of an assured is unrelated to a health defect from which the deceased suffered prior to applying for the policy where he failed to disclose the condition. Policyholders fail to appreciate that the non-disclosure of an apparent unrelated matter nevertheless entitles the assurance company to repudiate the policy."

Repudiation of claims for non-disclosure remains high on the list of complaints — about 13 percent in 1991. The ombudsman has proposed that assurers attach a prominent explanation of the purpose of the health declaration to every proposal form. This would also include highlighting the importance of completing the form accurately and of providing all information essential for the assurer to evaluate the risk.

The ombudsman has also proposed that a copy of the proposal form should be attached to every policy, together with a prominent notice calling on the assured to correct misstatements or omissions within, say, 14 days in order to enable the assurer to rectify the policy before any claims arise.

"I appreciate that to follow this suggestion will increase expense and paperwork, but am convinced that the ultimate advantage which the scheme will generate will greatly enhance the image and efficacy of the industry."

DIAGONAL STREET
by Julie Walker

Millionaires at RMBH

58

S Times Bus 29/11/92

RMB Holdings' impressive listing price of 1 085c made some wealthy men out of the shareholders who founded the company 13 years ago.

Deputy chairman G T Ferreira and Laurie Dippenaar — now Momentum chairman and still an RMBH executive — are worth more than R90-million each on their holdings in RMBH alone. Rand Merchant Bank managing director Paul Harris is worth R39-million.

The group is capitalised at more than R590-million in the insurance sector of the JSE. RMBH comprises two major legs — 77% of Momentum Life, which wholly owns Rand Merchant Bank, and 100% of RMB Asset Management.

Mr Dippenaar says the Registrar of Insurance approved RMBH's takeover of Momentum, but asked that the group structure be further streamlined within two years because it was unhappy with a bank sitting below an insurer.

Likely solution would be a side-by-side structure where RMB Holdings tops a financial services company with five divisions — life assurance, merchant banking, health care, property management and fund management.

Mr Dippenaar says some improvements have been made at Momentum since the merchant-bank culture was infused. Two distinct business areas — wholesale and retail — have been identified and effort focused on the wholesale area comprising group benefits and fund management.

In group benefits, notice was given on 660 schemes too small to be cost effective. Staff numbers were reduced from 105 to 40 and by 1994, group benefits should be making a small contribution compared with the R4-million loss this year.

Mr Dippenaar found it prudent to write down the property portfolio by R85-million to market prices.

"It was very painful because it meant Momentum got the wooden spoon in the investment performance table, but we believe it was right. We have sold R50-million of property exactly in line with expectations."

On equity management, it was found that although Momentum's view often corresponded with RMBH's, it was not always reflected in the portfolios. A realignment effort is under way to reflect the best investment view.

"I am pleased to say there are no skeletons in Momentum," says Mr Dippenaar. "It is not perfect, but if it had been, we would not have been able to afford it. We are doing the right things now, and although Momentum is small enough to be flexible it is big enough to exercise economies of scale."

Mr Ferreira says that although there have been successes, there have also been failures.

"In a long-term race there are bound to be stumbles, but as long as we don't fall we will finish the race."

The forecast earnings a share for 1993 is 72,6c. The group commands a premium price-earnings ratio of 15.

So even if the punters who paid R11,50 at listing did not exactly get in on the ground floor, it might prove to be a bargain price in a year or two.

Absa warns brokers and staff members

S/Times (BUSS) 29/11/92. (58)

By JEREMY WOODS

ABSA has warned its financial advisers not to sell unapproved products such as Supreme Bond.

The warning comes from Absa marketing head Gert Dry.

A statement says: "Our financial consultants and brokers are encouraged to market a cross-section of approved group products. If anyone moves outside of the guidelines, they will be viewed in a very serious light and the necessary disciplinary steps will be taken."

A spokesman says the bank will not tolerate group financial advisers or brokers who sell non-approved products, for which they receive a separate commission.

These commissions are effectively private deals for which any financial institution with its own investment products is on a hiding to nothing.

Call

"The sale of outside products is doubly damaging to our banking group. Firstly, because our own products are not sold and secondly because many of our clients believe they are being sold products guaranteed by the Absa umbrella," says the spokesman.

The bank has reacted to a few cases where customers have allegedly been put into investments such as Supreme Bond and Masterbond and now stand to lose their cash. For many elderly investors, these funds are their life savings.

One example is that of 69-year-old Barbara du Toit, who lives on her own in Johannesburg.

She received an unsolicited call from a financial adviser at Allied United where she kept all her retirement money in a savings account and on fixed deposit account. She was asked to go to a branch.

Mrs du Toit was apparently advised she had too much money in her savings account and could get a much greater return if she moved it to Supreme bond.

She placed her savings of R60 000 in Supreme Bond in the belief that her investment had the backing of the Allied. She was "very shocked" when told this week she might lose all her savings.

TERRY BETTY reports that several companies are interested in buying the three listed subsidiaries of the provisionally liquidated Supreme holding companies.

A source says a decision on the sale will be taken only after the value of the underlying assets has been assessed.

Coopers Theron Du Toit is studying the net worth and viability of the subsidiaries.

The subsidiaries are Supreme Industrial Holdings, Supreme Manufacturing Holdings and Protea Furnishers.

Even if the companies are sold as going concerns, it is uncertain what will happen to the debenture holders' money. It will depend on whether the liquidators are obliged to hold the companies to their securities.

A financial analyst says it is unlikely anybody will buy the companies if the debentures remain secured. Debenture holders would then be able to call in their debt at any time.

He says the buyers would be in a strong bargaining position to have the securities over the debentures removed to keep working capital in the business.

Other options for the liquidators include liquidating the listed subsidiaries to raise cash to pay debenture holders. It could also be possible to convert the debentures into equity.

Warning

Either way, it seems the debenture holders will have to be patient while waiting for their money.

In the time being the provisional liquidators are allowing the companies to continue trading. They say the subsidiaries are viable and will continue to trade profitably over Christmas.

The Harmful Business Practices Committee has warned the public. It says the onus is on investors to investigate a company before they place their money with it.

It says many people are unaware that neither the Government nor regulatory bodies guarantee repayment of capital investment or the yield on an investment.

It warns people to look into the financial history of the company and ascertain the possible vested interests of the agent promoting the sale.

GERT DRY: Stick to the group's products

R150m for water and sanitation

S/Times (BUSS) 29/11/92. (58)

By KEVIN DAVIE

THE European Community, the Independent Development Trust and the Development Bank have combined in a R150-million water and sanitation project for marginalised communities.

The goal of the three-year programme is to ensure that the poorest of SA's communities have adequate water and sanitation facilities.

The EC and IDT will put up R48,5-million each, the Development Bank making R3-million in operational support and a R48,5-million loan available.

The programme, which is to be independently operated, was signed on Friday and will begin as soon as support staff members are in place.

It will be known as the Water and Sanitation Programme and be run by a board which will include representatives of the targeted communities.

"We hope that the programme will play a role not only in meeting the needs for water, sanitation and primary health care but that it will bring South Africans together," says IDT chairman Jan Steyn.

"Development can and does perform that function."

The programme intends to ensure that historical imbalances are dealt with, mobilising resources for marginalised communities, increasing the capacity of development implementors and enhancing the co-operation of developmental institutions.

The allocated resources will not completely reduce the vulnerability of deprived communities, but are an important step in alleviating the cycle of poverty, the parties say in a statement.

PFV sets up a freight unit

Business Day Reporter

PFV Insurance Brokers has set up SA's first comprehensive risk management unit for the freight transportation industry.

Known as PFV Transportation Risk Managers, the newly formed group would help clients reduce their cost of risk, and increase profitability, deputy MD Victor Vaz said.

"Until now each player in the freight transportation industry had been assessed independently, and only from a simple cost of insurance viewpoint."

This led to excessive and unnecessary insurance costs, for example, where allocation of liability among industry players resulted in double insurance, adding to costs. Vaz said by combining traditional marine insurance broking with transport risk control and analysis, the group aimed to provide every link in the freight transportation chain with effective risk management.

B/DAY 30/11/92.

The unit would assess and service freight operators' legal liabilities and develop risk financing mechanisms to suit freight operators and cargo owners.

Analysis of the logistics of transportation, storage and distribution options would allow freight forwarder and cargo owner to evaluate transportation methods.

"There is also a need to enlighten the industry on how to manage risks and minimise, or regulate, exposures," Vaz said.

The formation of the group was part of the restructuring of PFV Natal into PFV Corporate, PFV Natal Consolidated and Transportation Risk Managers.

MONEY MARKETS by Hilary Gush

Call rates move in tandem with mystery rise in shortage

BDay 30/11/92

IN WHAT was labelled a "month-end hiccup", the shortage — the extent to which the Reserve Bank finances the market — rose from R3,292bn on Wednesday to R4,352bn on Thursday last week.

While conditions in the banking world are traditionally tighter over month-end, the reason for the R1bn rise in the shortage remained a mystery to many. The lower market liquidity saw some call rates move up on Friday.

While some big banks kept their calls steady at 11,5%, others — mainly the smaller banks — pushed theirs up to as high as 12,5%.

Despite an expected easing of the shortage this week when beginning-of-the-month government spending flows into the system, call rates are not expected to drop below 11,5% in December.

As wages, salaries and year-end bonuses are paid to workers before the holiday break, conditions in the money market are set to become tighter as Christmas nears. Many players are expecting Reserve Bank intervention, in the form of repurchase agreements, in December to prevent a highly illiquid year-end in the banking sector.

In a week of rather flat trading the average rate on the three-month Treasury bill (TB) was slightly higher at 11,78% from 11,67%. The rate on the six-month TB was a little lower at 11,05% compared with 11,08%.

The future of the 90-day liquid BA — which traded between 11,7% and 12% on Friday — appears uncertain, as dealers expect the TB rate to take the BA's place as a leading indicator in the money market. TBs are said to be more tradeable and more sensitive to the market. If BAs shrug off their liquid status — as proposed in a Reserve Bank discussion document released at mid-year — commercial paper is set to become a true short-term funding instrument.

Continued bearish sentiment in the capital market saw rates move up towards the weekend. The yield on the Eskom 168 was at around 14,60% late Friday, after trading as high as 14,74% at the session's opening from the previous week's 14,43% close. The outlook for gilts did not appear to be rosy.

Absa looks into 'Supreme' complaints

STAR 30/11/92

By David Canning (58)

DURBAN — Absa has launched an investigation into claims by clients that some employees advised them to put money into Supreme Investments, which went into provisional liquidation 10 days ago.

John Cheetham, general manager (United division) of Absa Insurance Brokers, said at the weekend clients' claims were being investigated from various viewpoints.

He would not detail the number or value of the claims, but said a fuller statement could be made tomorrow.

Among investors' allegations were that they had been told their capital was completely safe because Supreme had been obliged to invest rand-for-rand with the Reserve Bank.

Others claimed they had been under the impression United was somehow involved with Supreme — which is totally untrue.

It was reported last week that a number of other instititions had required their agents to sign documents binding themselves to sell only designated investments.

While this could be a legal protection for the institutions, investors could argue that they associated the actions of the broker/agent with that of his employer.

They would not normally know the contents of contracts between institutions and their employees. Cases could turn on the legal principle of "estoppel".

A spokesman for lawyers Shepstone & Wylie summarised estoppel as follows:

"If an employer represents expressly or by conduct that a certain state of affairs exists in regard to the authority of an employee — and a person relies on that representation to his prejudice — then the employer could be estopped, i.e. prevented from denying that such state of affairs in fact exists.

"Each case, however, will depend on the particular facts applicable."

BUSINESS DAY, Monday, November 30 1992

Development Bank decides to double local borrowing

TIM MARSLAND

THE Development Bank of Southern Africa will double its borrowing on the local capital market in the next fiscal year to R400m as foreign funds dry up.

The bank is set to become a larger borrower on the local market as it steps up financing of investment in upgrading townships. It announces its financial results today and is expected to release more information on its borrowing and lending.

But Development Bank group finance manager Richard Kirkland confirmed at the weekend lending in the past financial year had fallen significantly. The bank had planned to lend about R1bn a year, but the current year's lending was far below this.

He said the bank planned to raise about R400m on the capital market in the 1992/93 year. The bank raised about R400m in the current year, but this was split between the local capital market and offshore sources.

Difficulties with the political transition were mostly to blame for the slowdown in lending, he said.

However, the bank was looking at improving its channels of lending.

Kirkland said the bank expected its capital market borrowings to increase significantly because of increased development spending. Offshore funding had dried up because of an unwillingness to lend to SA.

The bank has R1,112bn raised on the capital market at present — R612m in its long-dated DV07 bond and the rest in short- and medium-dated bonds.

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The bank is authorised to borrow up to R1,5bn on its DV07 bond, but a dealer said this limit would have to be raised further.

The dealer said the bank's DV07 bond was very marketable — turnover in the DV07 for the week ended November 20 was R543m. He said the paper attracted a number of jobbers because the bank had a market maker who quoted a two-way price on the bonds at any time.

A senior dealer said the capital value of the DV07 increased by R616 for every point the rate — currently 14,845% — increased. This compared with R495 on the Eskom 168 and R496 on government's R150 bond.

Kirkland said the bank preferred to get its funding from other sources, such as offshore grants, before tapping the local market. He said the bank focused on impoverished urban areas where some sort of return was made.

One dealer said that institutions should lend to the bank because of the nature of its activities.

30/11/92