FINANCE GENERAL

1993

APRIL – APRIL

COMPANIES

RMB's project finance team leaves

TIM MARSLAND

RAND Merchant Bank's project finance team would resign today to join Societé Générale from May 1 "for a better business deal", sources said yesterday.

The three, Justin Moore, David McLean and Pieter Meyer, left the bank as a team. Sources said the move could leave the bank exposed in the area of project finance.

Societé Générale MD Peter Gray said yesterday the three had approached his bank with the view to joining it.

He said they would concentrate on structured-finance — special finance deals designed for clients. BDM 1/4/93

"It was a business decision on their part. They approached us and we reached an agreement," Gray said. (58)

"They felt they would rather be part of an international group with the benefits it offers."

Societé Générale intended developing into the area of project finance and would issue a statement soon, Gray said.

The move comes on top of Rand Merchant Bank losing two of its key capital market dealers early this year.

Banking analysts said Rand Merchant Bank was "a good operation" and would not suffer unduly as a result of the moves.

Spokesmen from Rand Merchant Bank were unavailable for comment last night.

Star 11/4/95

Fedsure invests R25 million in EP Building Society

(58)

Finance Staff

The beginning of the end of an era for building societies was heralded in Port Elizabeth yesterday when Fedsure, holding company of life assurance giant Fedlife, confirmed its strategic investment in EP Building Society.

SA's mutual building society is now poised to become a specialist loans bank.

Fedsure group chief executive, Arnold Basserabie, handed over a cheque for R25 million to EP chief executive, Trevor Jennings, at the Port Elizabeth head office.

Jennings said the EP's relationship with Fedsure represented a milestone for the financial services industry as it had irrevocably changed the role of the "pure" building society.

The investment was made possible by amendments to the Building Societies Act promulgated last month, allowing mutual building societies to issue debt instruments as part of their secondary capital.

'Still a chance for bank rate cut'

58 cr 1/4/93

By AUDREY D'ANGELO
Business Editor

THERE is still a chance of a cut in the bank rate in the third quarter of this year — provided the installation of a transitional government eases pressure on the capital account of the balance of payments, Rob Lee, economist and senior portfolio manager at the Board of Executors, says in his monthly Investment Outlook.

Pointing out that inflationary pressures are still downwards, he says: "There is a good chance of inflation averaging less than 10% in 1994.

"Much improved agricultural conditions will relieve pressure on the trade account from mid-year.

"Should the installation of a transitional government ease pressure on the capital account as well, Dr Stals will be in a position to cut bank rate again, possibly in the third quarter but not before."

Pointing out that domestic money supply growth is falling and is well under control, Lee continues:"Double digit inflation cannot be sustained in such a monetary environment.

"The recent weakness in the commercial rand exchange rate is unlikely to continue. The decisive ending of the drought will significantly improve the trade figures from midyear onwards."

Discussing the exchange rate he says: "In spite of speculation to the contrary the Reserve Bank is unlikely to have altered its strategy. As soon as the Reserve Bank has the ammunition in terms of rising reserves we expect the rand to stabilise at present lower levels."

Discussing the outlook for the JSE, Lee says: "The share market indices in general look overbought and remain on relatively low yields.

"Prospects for company earnings do not provide the background for sustained upward movement and the share market remains vulnerable.

"However the recent re-rating of gold shares appears broadly justified by improved fundamentals, but a rising dollar gold price is now required to sustain the upward trend."

New controls for financial and investment services

APG 11/4/93 (58)

BRUCE CAMERON
Business Staff

A GOVERNMENT commission has recommended all financial and investment services be brought under one regulatory body.

The recommendation, which will go before the Cabinet shortly, is among other things, aimed at giving greater protection to investors, who have been hard hit recently in a number of financial scandals, including the Masterbond debacle.

The Commission headed by Mr Justice D A Melamet was appointed on the recommendation of the special task force which investigated the Masterbond scandal.

The task force was headed by Dr Japie Jacons, who is special advisor to Finace Minister Derek Keys.

The report was handed to Deputy Finance Minister, Dr Theo Alant, today by Mr Justice Melamet.

Dr Alant said the report would only be released for public comment after it received Cabinet approval.

Depending on the approval legislation could be put through parliament in the current session and a new financial and investment services commission could be in place towards the end of the year.

At the handing over ceremony today Mr Justice Melamet said a single controlling body was feasible and it could include the office of the registrar of banks, financial services and the Takeover Panel and the Registrar of Companies.

The commission was appointed by the government to investigate the possibiltiy of a "holistic approach" for financial supervision of financial services and deposit taking institutions; and, the regulation of people and companies involved as financial intermediaries or advisors, who did not fall under existing legislation.

Mr Justice Melamet said the issue had been discussed with all the major institutions. Government approval is expected to be a formality.

The Jacobs task force expressed concern about the grey areas between the functions of agent and principal in its investigation.

The Melamet recommendations are aimed at closing the gaps between the different regulatory bodies effectively bringing all people and institutions who take in investors' money under control.

PAC 'forced' kids from class

Own Correspondent

QUEENSTOWN. — Gun-wielding members of the Pan-Africanist Congress drove teachers and pupils at Qutubeni Junior Secondary School in Bengu, near Lady Frere, out of classrooms on Monday, the SA National Civics Organisation (Sanco) has claimed.

A Sanco spokesman said a school inspector, Mr Lungile Jaxa, was held hostage in his office for 24 hours by PAC members and ordered to reinstate six teachers involved in a sit-in at the school last year.

He said residents from all Lady Frere villages met high-ranking police officials on Tuesday to voice concern about PAC activities in the district.

50 CT 1/4/93

Star 1/4/93

Same again from Amaprop

(58)

Anglo American Properties (Amaprop) yesterday declared an unchanged final dividend of 35c per ordinary share.

This means that the company has maintained the payment of total dividend of 50c per ordinary share for the financial year.

(bar)

Estimated profit after tax attributable to shareholders is R33 million, or 73c per share (1992 actual: R36 million, or 78,5c per share).

Estimated earnings before tax are R38 million (1992 actual: R51 million).

The payment of interest at the rate of 50c per unit for the period October 1992 to March 1993 will be made to holders of Amaprop loan stock.

This brings the total annual payment to unitholders to 100c, once again maintaining the payment made in 1992. — Sapa.

New investment firm

Sowetan 1/4/93.

INSURANCE giant Old Mutual is launching a new unit trust company today. The Old Mutual Growth Fund is the seventh unit trust company to be formed by the group.

According to the fund's manager, Arnold Shapiro, the money generated by the fund will be invested in shares of some top companies in the Johannesburg Stock Exchange and also in smaller but high-performing enterprises.

The Growth Fund will operate just like any general equity fund where investors pay a lump sum of R500 to be followed by R50 monthly payments.

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In an attempt to attract as many investors as possible, the Growth Fund will offer a 40 percent discount on the five percent initial charge on all new investments.

Super body mooted to oversee all financial service activity

BDAY 2/4/93. (58)

LINDA ENSOR

CAPE TOWN — The Melamet Committee of Inquiry into the Regulation of the Financial Services Sector has recommended the establishment of a statutory body — the Financial and Investment Services Commission.

The co-ordinating body would regulate the entire financial services sector and provide an umbrella for the Financial Services Board (FSB) and the Registrar of Deposit-Taking Institutions which regulates banks and building societies.

The FSB regulates long and short term insurance, retirement funds, unit trusts, financial markets and the Johannesburg Stock Exchange.

The report of the committee under the chairmanship of Judge D A Melamet was handed to Deputy Finance Minister Theo Alant yesterday. Alant said it would become available later this month after Cabinet had studied it and taken certain basic decisions.

However, Alant said the report included draft legislation and he expected this to be submitted to Parliament this session. Interested parties would be able to make their submissions to the parliamentary standing committee on finance.

No details of the report were made available yesterday but sources said that it recommended that the two existing regulatory authorities, the FSB and the Registrar of Deposit-Taking Institutions, be brought under the commission.

Sources said the committee considered the adoption of a holistic approach to financial regulation to be feasible and especially relevant in a situation where financial institutions were increasingly offering a wide scope of services, which sometimes extended beyond the jurisdiction of their existing regulating authority.

The commission would be responsible for closing gaps and regulating grey areas within the financial services sector.

The commission would also be responsible to the Finance Minister for guarding against risks in the financial system and would seek to promote reasonable protection through the regulation of all activities where the money of the general public was invested, desposited or used by the financial services sector.

Further responsibilities identified by the Melamet committee, the sources said, were to monitor the capital adequacy of financial institutions and ensure that they disclosed the financial risk of transactions to those involved.

To assist it the committee recommmended that all financial service providers would have to be authorised and registered with the commission.

The committee recommended it should be an independent, self-funded, statutory body set up along the same lines as the FSB. It would attract staff by offering competitive salaries.

The Melamet committee was appointed after the Jacobs committee on the promotion of equal competition in financial markets found that the existence of two regulatory authorities in the financial services sector complicated matters.

Metboard fund top performer

58

BDAY 2/4/93

ANDREW KRUMM

THE Metboard Income Fund remained among the top-performing unit trusts in the March quarter, posting a 22% return, Metboard marketing manager Stephen Weir said yesterday.

The fund's market value grew 40% to R86m during the quarter (as investors were drawn to higher returns in the gilts sector, which accompanied a fall in interest rates.

Weir said the downward trend in interest rates would continue in 1993, as the outlook for inflation remained positive — despite the higher petrol price and VAT. He forecast an inflation rate of between 9% and 10% at year end.

In addition, economic activity was unlikely to improve significantly until a political settlement and elections took place.

"However, the deterioration in the balance of payments position (foreign exchange reserves have fallen since August 1992) could have an adverse impact on any drop in rates in the short term."

Meanwhile, Metboard Fund Manager Steve Mills said the group's second unit trust, Metfund, had given investors a 9,5% return for the year to end March.

This compared favourably with the lacklustre 3,4% return on the all share index over the period.

NBS mutual fund beats all share index

ANDREW KRUMM

THE NBS Hallmark Mutual Fund beat the all share index, notching up a 10,1% return in a volatile and difficult share market in the year to end-March, MD Ken Burns said yesterday. BIDAY 2/4/93.

A dividend of 17,47c a unit had been declared for the six months to end March.

Burns said although the level of unit repurchases increased during the March quarter as recession-hit investors cancelled units for cash, gross sales kept up at a steady rate. The result was that net unit sales for the period rose by R2m. This, coupled with a positive investment performance, saw the Mutual Fund grow to R50m in market value in March, as against R47m at end December 1992.

Due to the continued presence of high risks in the market, liquidity was maintained at a "reasonably high" 21% of portfolio value during the quarter. (58)

The decision to change this proportion would depend largely on the USA economic recovery being sustained and the current talks in SA staying on track.

The fund had built up a small holding of gold shares, swopping these for other mining shares to keep the mining content of the portfolio at 19% at quarter end.

FINANCIAL MARKETS 58

Opening up

FM 2/4/93

Corporate membership of the JSE will soon be legalised. The Financial Institutions Second Amendment Bill, tabled in parliament last week, proposes to amend the Stock Exchanges Control Act to make it possible for the JSE to amend its rules, with the approval of the Registrar of Financial Institutions.

The enabling legislation allows the JSE to make regulations on such matters as dual trading and the admission of corporate members. Existing legislation prohibits the JSE from making its own rules on these issues.

If the Bill is passed it will not automatically result in dual trading and the admission of corporate members as these issues are self-regulated by the JSE body.

JSE president Roy Andersen confirms that the amendment gives the JSE greater flexibility in running its affairs. "The revisions to the Act will enable the JSE to implement the recommendations of the research committee looking into the future structure of the market."

Andersen won't be drawn on the committee's recommendations but a market source says the committee has made "significant progress" and is expected to deliver its report to the JSE committee within a few months.

The Bill also proposes amendments to the Unit Trusts Control Act to allow property unit trusts wider investment scope, permitting them to buy into holding companies which have property-owning subsidiaries, instead of being restricted to investments in the subsidiaries. Also, unit trusts may now own a portion of a property with the consent of the Financial Services Board. This allows unit trusts to get stakes in large property developments.

FM 2/4/93 58

Association of Property Unit Trusts chairman Kevin Moore says the amendments represent two years of discussions with the board through the standing advisory committee on unit trusts.

Though the Bill introduces many changes to the Insurance Act 1943, few were unexpected. Major legislation aimed at protecting consumers when buying insurance will be written into the expected Financial Services Control Bill and the separated legislation covering the activities of long- and short-term insurance companies.

A Financial Services Board spokesman confirms the changes in the amending Act are simply designed to tidy up a few matters while the final legislation is prepared. The change to Section *20bis* of the Insurance Act, obliging brokers to pay over premiums within 15 days of the end of the month in which they are received, has already been regulated — though criticised by brokers for its effect on their cash flows.

Short-term insurance intermediaries will now have to disclose any fees charged over and above their earned commissions; they may not offer inducements to clients to sign insurance contracts. Both provisions are in line with long-term insurance practice.

But the accompanying memorandum to the Bill does mention "the development of certain practices in the marketing of short-term insurance." The intention, apparently, is to give the FSB the power to regulate marketing arrangements which are against the interest of the consumer. Regulations have already been made to restrict the retailing practice of selling so-called insurance policies to protect the sellers in credit deals. Some of the practices have been deemed to contravene the Act. ■

MONEY MARKET

New deal

FM 2/4/93 (58)

The Reserve Bank's new accommodation system, which comes into effect at the beginning of next month, is designed to give the bank a firmer hold on monetary policy. It will halt what the Bank calls the "open-ended facility whereby bankers' acceptances can be readily created and tailored to achieve liquid status."

Previously, banks could tap the discount window at seven different rates *(Economy* March 19) against a number of securities including bankers acceptances. From next month the Bank will grant only overnight loans and the liquid assets eligible as collateral will be: Treasury bills, Reserve Bank bills, Land Bank bills and central government bonds. Borrowers will be charged at Bank rate against liquid assets with a maturity of up to 91 days, and Bank rate plus one percentage point for instruments with a maturity between 92 days and three years.

When discussion papers were distributed in June a penal rate above prime was suggested for banks for securities which did not qualify as liquid assets (*Economy* March 19). But this option will not be available.

However, under "exceptional circumstances and for limited periods," banks facing severe liquidity problems will be able to get assistance. Rates and assets accepted will depend on the bank and the circumstances.

Bank treasury GM Andre Kock says it is unlikely banks will face a liquidity squeeze. "These days there can be up to R14bn worth of short-term Treasury bills, Land Bank bills, Reserve Bank bills and government bonds floating around in the system in 91-day instruments. We've never had a (money market) shortage that large. Even taking new minimum liquid asset requirements into account banks should be able meet their liquidity needs at the two rates." ■

Back to the niche

FM 2/4/93.

(58)

The merger between Smith Barney, the brokerage subsidiary of financial services group Primerica, and the former Shearson broking operations of American Express, has created a formidable new force in the US retail broking industry.

The recent deal, in which Primerica bought Shearson for US$1bn, underlines a trend towards consolidation — which now may be coming to a close — evident on Wall Street since the early Eighties. Ten years ago the early phase of consolidation was either about building fully integrated securities houses, that could prosper in both the retail and wholesale makets, or creating financial supermarkets by bringing securities firms and providers of related services under the umbrella of huge diversified corporations.

Only one large firm, however, succeeded in becoming a big, fully integrated securities house, and that was Merrill Lynch; though on a smaller scale PaineWebber has built a modest presence in investment banking to go with its retail strengths.

None of the attempts to create financial supermarkets — notably American Express with Shearson Lehman Brothers, and Sears Roebuck with Dean Witter — succeeded. It is clear the big corporations that sought to build financial supermarkets paid too much for their securities units. When the securities business went sour in 1988-1990 they tried to get rid of them but could not find buyers.

As the industry returned to profitability in 1991, buyers began to emerge. Two parent groups, Sears and American Express, have taken the opportunity to sell part or all their securities units. Two others, General Electric, which owns Kidder Peabody, and Prudential Insurance, which owns Bache (now called Prudential Securities), may be looking for buyers over the next year or so.

As for those Wall Street firms that failed to make it as integrated houses, ever since the start of the Nineties they have been concentrating on either broking or investment banking.

The creation of Smith Barney Shearson, and the splitting of Shearson from its old investment banking partner Lehman Brothers, is part of a process that has been going on for several years. The merger certainly makes it easier to see how the structure of the US securities industry now looks.

The brokerage business is dominated by a few large firms, of which Merrill and Smith Barney Shearson are by far the biggest. Below them come a handful of medium-sized houses, such as PaineWebber, Dean Witter, Prudential and Bear Stearns.

Merrill, however, is different to its nearest rivals in one important respect — it is also a dominant force in investment banking, where it competes with a small band of global investment banking powerhouses such as Goldman Sachs, Morgan Stanley, Salomon Brothers and CS First Boston. This group concentrates on providing underwriting, financing and advisory services to corporations in the US and overseas.

Below the big brokers and investment banks come smaller players — securities firms such as Alex Brown, Donaldson Lufkin and Brown Brothers Harriman, investment banks such as Dillon Read, and finance boutiques such as Blackstone — which thrive by specialising in just a few areas of the securities business.

Among the groupings, Prudential Securities and Kidder Peabody are the odd ones out, because they are still owned by large parents. They have yet to undergo the final part of the consolidation process — a merger or a takeover — and GE and Prudential Insurance would probably sell them at the right price.

Smith Barney Shearson, meanwhile, faces a difficult first year of life. In leaving behind the Lehman Brothers investment banking unit at American Express, Primerica's chairman Sanford Weill made clear he was not interested in building an integrated securities house. Instead, the new firm will concentrate on what Smith Barney and Shearson did best when they were independent — selling stocks to the investing public.

In terms of size, Smith Barney Shearson is not far behind Merrill Lynch. The new company will have 11 000 brokers, 495 branches and mutual fund assets under management of $62bn. Merrill has 11 500 brokers, 458 branches and $117bn under management. The gap between the two is likely to widen, however, because Weill will have to cut fat from the new operation.

While Smith Barney, under Weill's careful eye, was generally regarded as trim and efficient, Shearson's cost base had become bloated. In particular, employee compensation was rising faster than productivity. The most common criticism analysts have aimed at the firm has been that Shearson was paying too many people too much money. Securities industry analyst Perrin Long estimates 2 000-4 000 people could go at the new company, and not all from the cost-laden Shearson.

It is too early to tell how much savings can be wrung from the merger but Frank Zarb, president of Smith Barney and newly appointed CE of SBS, expects to take $100m-$200m out of costs in the first few years. He insists there will be no lay-offs among the company's broking force but analysts cannot see how costs can otherwise be cut. Most of the jobs cuts, however, will come from back-office operations.

Merging the two companies' broking forces will pose human problems. Smith Barney's strength as a broker was in the top end of the market among rich individual investors. Shearson brokers, however, have always aimed much lower, and earned a reputation for hard-sell tactics.

Yet, in spite of Shearson's more aggressive selling, Smith Barney's brokers have been consistently more productive than Shearson's

Merging the two cultures, to avoid the kind of clashes and rivalries that undermined Shearson's alliance with Lehman Brothers, will be one of the most difficult tasks facing Weill and his senior managers over the next year.

Standard Bank sees continuing weak demand for credit

Star 2/4/93

By Stephen Cranston (58)

Demand for credit will remain weak and markets will continue to be liquid, predicts Standard Bank chairman Conrad Strauss.

Writing in the annual report for the year to December, Strauss says that interest margins should also remain favourable, although less so than last year because a further decline in the general pattern of interest rates is probable.

Standard Bank is well-capitalised by world standards, with consolidated capital for the banking facilities of 10,3 percent of assets.

The bank plans to meet or exceed accepted international capital norms.

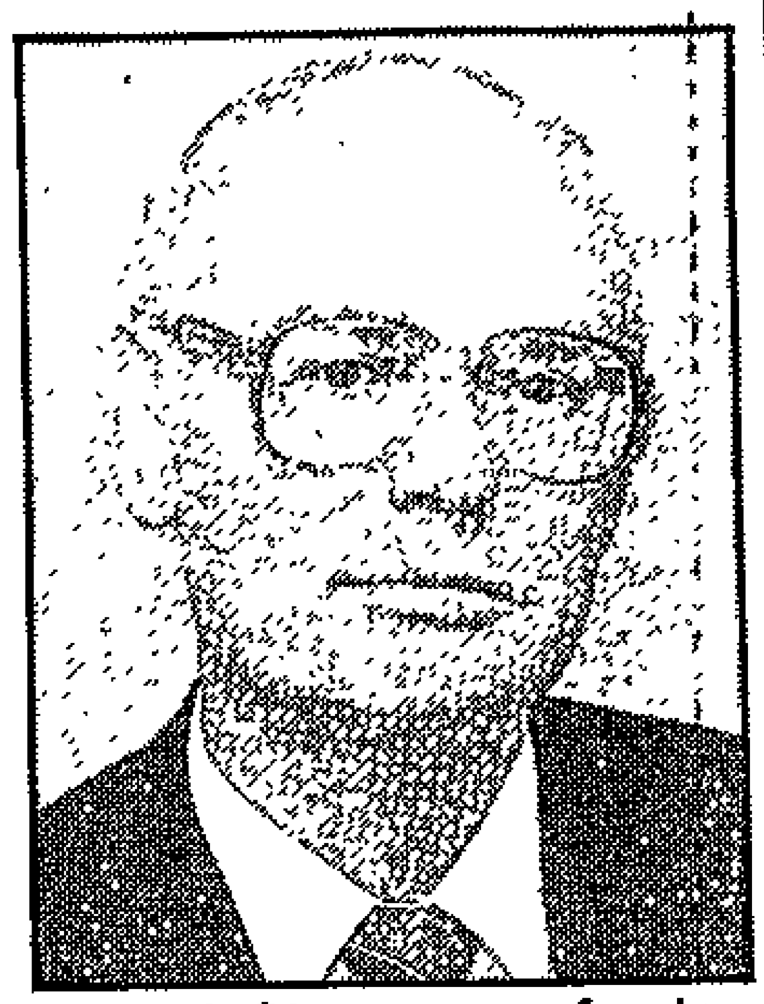
Shareholders showed their commitment by funding almost R1 billion in new capital during the year.

Shareholders' funds stand at R3,915 billion and could be boosted by a further R2,095 billion if the appreciation in the market valuation of the interest in Liberty Life (R1,79 billion) and in the value of land, buildings and other securities (R305 million) are included.

During the year the group realised its ambition to internationalise its activities when it set up Standard Bank London and bought the Jersey and Isle of Man operations of British merchant bank Brown, Shipley.

It later acquired the African operations of ANZ Grindlays and acquired an interest in a bank in Madagascar formed in association with Mauritius Commercial Bank.

The operating environment for South African business is in the process of fundamental



Conrad Strauss . . . fundamental structural adjustment

structural adjustment and will take time to reach a new equilibrium. He says this year will not differ much from last.

Strauss argues that political agreement is a necessary but not sufficient condition for economic growth.

If high expectations of economic progress are to be even partly met, we all face a special obligation to promote a culture of competitiveness and enterprise without which wealth creation and social progress are illusory, he says.

The universally understood and proven disciplines of economic management are now being recognised by a wider political spectrum, which is encouraging.

He says there is a need to harness the aspirations of the different regional and language groupings and that a new constitution must accommodate the tension between them, while fostering the common interest in economic and social development.

AEGIS FM 2/4/93.

Price settled (58)

An announcement is expected next week on the acquisition by life assurers Momentum and Norwich Life of the controlling interest in Aegis Insurance.

Aegis, the unlisted SA short-term insurer, is controlled by Norwich Union Plc. But, as part of a consolidation process to refocus operations in selected countries earlier this year, the UK parent told Aegis MD Brian Seach to look for a buyer of its 67% interest.

The deal, involving Momentum Life, its holding company RMB Holdings, Norwich Life and possibly the NBS, which owns 30% of Norwich, is understood to be near completion.

The price has been settled, apparently closer to R141m than the R120m speculated earlier (*Fox* March 5). It appears certain agreements have been signed and all that

FM 2/4/93 (58)

remains to conclude the deal is a due diligence study and final agreement on how the 67% interest will be best housed among the new owners.

Shaun Harris

Call for financial services 'umbrella'

THE Cabinet will soon be asked to approve proposals to bring all financial and investment services under one regulatory body.

This is one of the recommendations of a commission headed by Justice D A Melamet, aimed at giving greater protection to investors.

The commission's report was handed to the deputy Minister of Finance, Theo Alant, yesterday. He said it would be released for public comment after Cabinet approval.

The Melamet commission was appointed on the recommendation of a special task force headed by Japie Jacobs, adviser to the Minister of Finance. (58) CT 21/4/93

CI 24/4/93 SS

NBS mutual fund tops R50m

NBS Hallmark mutual fund reached R50m in the last quarter of its financial year to March, compared with R47m at the end of the previous period in December.

MD Ken Burns said in Durban yesterday the fund had declared a dividend for the six months to March of 17,47c a unit, placing the units in a current yield of 4,6%.

Liquidity in the fund has been maintained at 21% including cash and gilts, the same level as at the end of the December quarter.

Since its flotation in August 1988 the fund has earned a return of 20% per annum, against an Overall Index return of 19%.

Net sales — after repurchases — in the March quarter were just under R2m. The level of repurchases increased in the March quarter.

● **Metboard's Income Fund** achieved a return of 22% over the past 12 months and 18% over the past three years, Stephen Weir, marketing manager of Metboard said yesterday.

"The downward trend in interest rates that persisted through 1992 as a whole continued in the first quarter of 1993," Weir said. A sharp fall in inflation to a 15-year low of 9% and the continued rcessionary conditions were the major driving forces.

On the negative side, however, he expressed concern that the high fiscal borrowing requirement and the deterioration in the balance of payments position could have a negative impact on any fall in rates in the short term.

Rotary offers 2 scholarships

STAR 2/4/93

The Orange Grove Rotary Club is offering two ambassadorial scholarships to study overseas, and the closing date for entries is April 30.

Candidates must be older than 18 and have a bachelor's degree or equivalent.

One scholarship is worth R20 000 and the other is a three-month one for students who wish to hone their language skills.

Applicants should write to Ted Firkser, Box 52096, Saxonwold, 2132, or telephone (011) 333-9467. — Staff Reporter.

Amaprop sees lower earnings

DUMA GQUBULE (58)

ANGLO American Properties (Amaprop) forecast lower earnings for the year ended March 1993, but declared an unchanged total dividend of 50c a share. BDAY 1/4/93

In a statement published today, the company said its estimated profit before tax was about R38m compared with last year's actual R51m. Attributable earnings were estimated at about R33m (R36m).

The company said if the proposed 15% supplementary tax on companies was applicable to the new dividend, the cost to the company would be about R2m which had not been provided for in profit estimates.

Holders of Amaprop loan stock would receive a payment of 50c a unit for the six months ended March, bringing the total interest payment for the year to an unchanged 100c.

The company said in its 1992 annual review rentals in the office markets were falling due to an oversupply of space. In 1993 it would increase rents only where leases provided for an automatic increase.

Badenhorst's R100m 'grudge'

SITimes (Buss) 4/4/93 (58)

By CIARAN RYAN

A FRESH storm blew up this week around embattled Absa chief executive Piet Badenhorst, who stands accused of harbouring a "R100-million grudge".

Sports promotor Peter Mancer, whose home was raided by Mr Badenhorst's son, Frikkie, and other tax officials this week, is considering a multi-million rand claim against Absa.

The claim follows a letter Mr Badenhorst wrote to SABC chief Wynand Harmse in May 1991 instructing him not to deal with Mr Mancer or former Allied managing director Kevin de Villiers.

Mr Mancer says this letter led to the cancellation of contracts to the value of R10-million worth of sports sponsorships.

Red-faced tax officials acknowledged on Friday that they mistakenly believed from press reports that Mr Mancer's company, Tytherley Investments, had been involved in alleged tax irregularities.

Teubes Prinsloo, chief director, operations, at the Department of Inland Revenue, says the raid on Mr Mancer's home and the offices of his attorneys and auditor was prompted by a misunderstanding of a press report regarding "possible misuse of sponsorships for tax purposes in the tax industry".

Inland Revenue officials were under the impression that the company was South African registered and had not filed tax returns while it is in fact registered in Ireland.

The raid followed a week after an unsuccessful R1,5-million court action by Absa where Mr Justice Hartzenberg said the Absa case made no business sense.

Questions are now being raised as to whether Mr Badenhorst will survive as chief executive of Absa.

One businessman, who contacted Business Times on Friday, says he intends closing his account at Volkskas in protest at what he describes as the malicious treatment of Mr Mancer and others by Mr Badenhorst over the last two years.

Several Absa shareholders have told Mr Mancer they have complained to 25% shareholder, Rembrandt, demanding Mr Badenhorst's resignation.

It is estimated that Absa spent R10-million in internal investigations and in bringing the court action against Mr Mancer.

"Now Absa is threatening to spend more shareholder money in an attempt to appeal the case. How much longer will Absa shareholders put up with Piet Badenhorst's costly personal vendettas?" asks Mr Mancer.

The dispute with Absa dates back to 1990, when Kevin de Villiers ran Allied. Allied and Mr Mancer signed a R4,5-million agreement which granted Allied exclusive European TV advertising rights to the BOC yacht race.

Absa claimed the agreement was a tax ruse and therefore invalid. Mr Justice Hartzenberg cleared Mr Mancer of any wrongdoing.

The day after judgment was handed down, the Johannesburg sheriff arrived at Allied Bank in Absa Towers and attached two Treasury bills worth R2-million.

Mr Mancer believes Mr Badenhorst is using him to attack Mr de Villiers.

Mr de Villiers says: "I do not flatter myself into thinking that he is conducting a campaign against me in particular."

Commissioner of Inland Revenue, Hannes Hattingh, who admits that the inclusion of Frikkie Badenhorst "looks suspicious under the circumstances," has taken control of the investigation.

"It was not a raid," says Mr Hattingh. "That is not the way we handle things. But I cannot comment further until I have all the facts."

He says various disciplinary codes may be invoked if it is found that a tax inspector was acting for an outside party. He would not say what action would be taken.

Referring to Absa's court action against Mr Mancer as "a R100-million grudge" against Kevin de Villiers, Mr Justice Hartzenberg expressed surprise at the lengths to which the bank went to prove dishonesty by former managers at Allied.

The R100-million refers to the premium Absa paid for acquiring control of Allied when First National Bank, supported by Mr de Villiers, bid the price up by nearly 50% in a bitterly-contested battle for control.

Absa declines to comment. Chairman Herc Hefer says Absa cannot comment because of pending legal proceedings.

Two men up a pole

ON A Saturday morning in September 1991 Peter Mancer found two men climbing up a telephone pole in his neighbour's garden. He later found out that they were removing an unauthorised telephone-tapping device. Someone had been listening into his conversations.

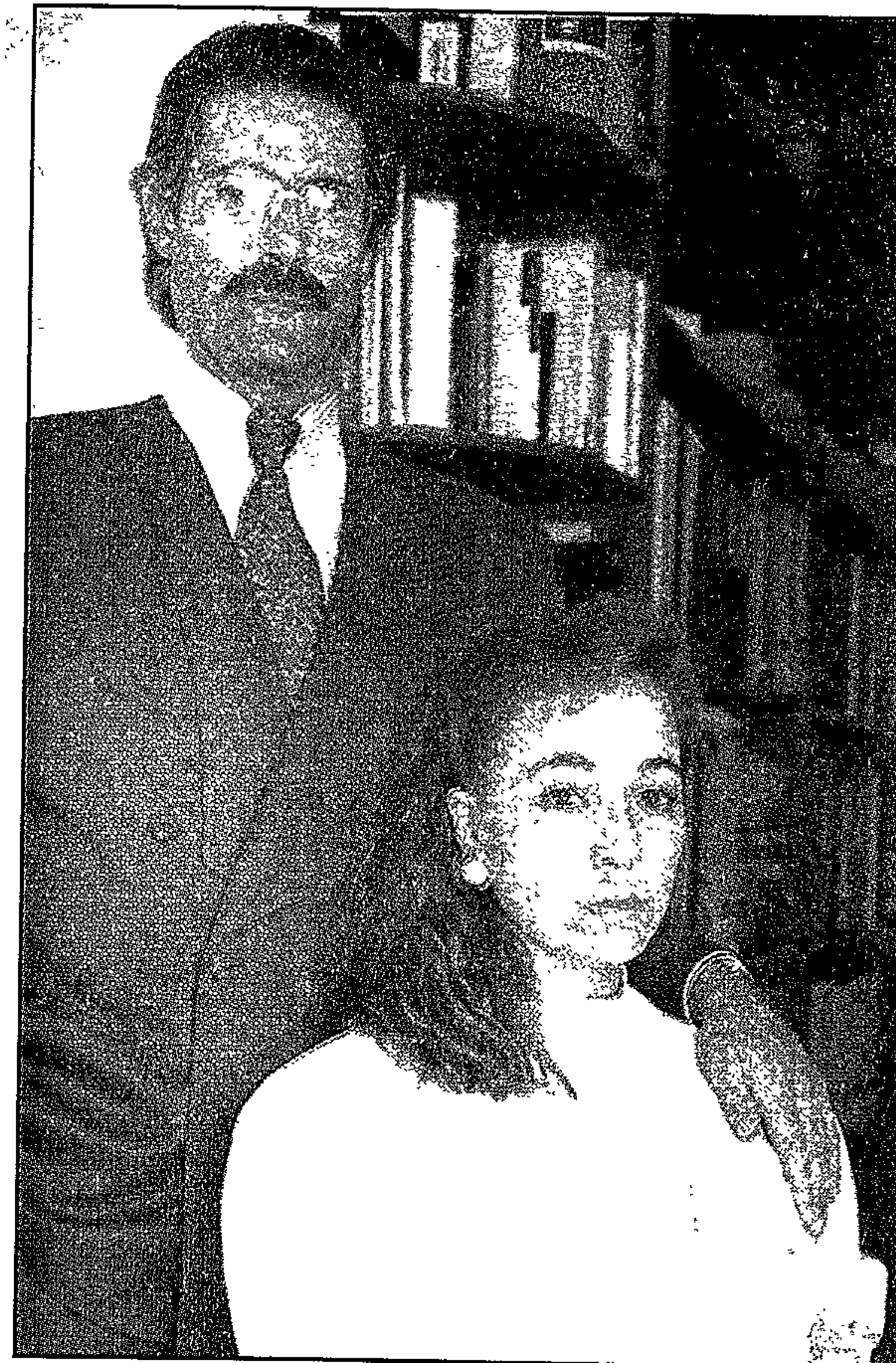
Disgraced former Absa director Bob Aldworth claims Piet Badenhorst ordered Peter Mancer's and Kevin de Villiers's phones tapped. Mr Aldworth alleged that Mr Badenhorst had spent about R80 000 on phone tapping.

"I asked the men: 'What the hell are you doing'?" says Mr Mancer. "They replied: 'We're fixing a complaint.'

"I ran inside to contact the Post Office and ask them if they had sent a maintenance team to my house. They told me that there was no maintenance team in my area. When I went outside again, the two men raced off in a Post Office vehicle.

"I later found out from the Post Office that my lines had been monitored, but that neither the Post Office nor the SA Police had authorised the tapping."

Absa have not responded to Mr Aldworth's allegations that tape recordings of taped phone calls were played to senior Absa staff members.



SHOWING STRAIN ... Peter and Debbie Mancer after raid

Star 5/4/93

'Unlock insurance billions to rebuild'

By Clyde Johnson
Lowveld Bureau

58

NELSPRUIT — The billions of rands invested in South African insurance companies should be "unlocked" to fund the rebuilding of the country, ANC international affairs director Thabo Mbeki said here.

Speaking at a fund-raising dinner at Nelspruit's Valencia Park hall on Saturday, Mbeki said solutions to the country's investment programme were not international, but local.

"Life for people in squatter camps will not change and it will not be a matter of manna from heaven once these people have the right to vote," Mbeki said.

(0A)

He suggested that rather than invest in shopping complexes and commercial high-rise buildings, insurance companies should utilise accumulated funds for black housing.

Mbeki said South Africa should, at all costs, avoid the situation in which Angola now found itself.

About 60 couples from Nelspruit's business community attended the function.

Firm market aids Momentum trust

(926) ANDREW KRUMM (58)

~~THE~~ Momentum unit trust ~~posted~~ an 11,75% return for the year to end-March, its performance buoyed by a firmer share market in the last quarter, the management company said last week. BDM 5/4/93.

By comparison the return on the all share index for the year ended March was 3,4%. Despite a marked rise in unit price, the fund attracted few new investors as market value (indicative of the inflow of investment funds) stood at R54m in March against R53,7m in December 1992.

Momentum unit trust spokesman Peter du Toit said liquidity rose to 20,1% (December 1992: 17,8%) although "the overall equity exposure of about 80% is high in view of the present economic conditions in SA".

The most notable changes to the Momentum unit trust portfolio over the past quarter were the additions of Stanbic, Amgold and Gold Fields. Gold mining and financial shares now made up 11% of the portfolio.

Guardbank trusts outpace indices

(58) CT 6/4/93

JOHANNESBURG. — Guardbank's four unit trust funds put in a strong performance for the 12 months to end March 1993 with their returns above the corresponding market indicators.

The **Growth Fund** posted a total return for the year of 14,22% against a 3,78% increase in the JSE all share index adjusted for dividend re-investment.

During the March quarter, the fund concentrated on mining acquisitions. A new holding was established in Amcoal, while additions were made to Rusplats and Rand Mines. The stake in Western Deep was disposed of and added to Gold Fields of SA.

The **Income Fund** enjoyed a total return over the year of 19,51% compared to the official inflation rate of above 10%.

The maturity profile of the Income Fund was lengthened with the purchase, during the first quarter of this year, of short- and medium-dated bonds and the disposal of shorter dated paper.

The **Resources Fund** achieved a total return of 6,23% over the year while the JSE mining financials, diamonds and coal indices notched returns of 1,28%, -10,92% and -36,45% respectively with the gold index showing a positive return of 13,9%.

The fund increased its equity content at the beginning of the March quarter from 75,55% to 82,91% in anticipation of an improvement in mining markets.

Guardbank's **Industrial Fund** posted a sparkling performance in its first year, achieving a return of 25,85% compared to the financial and industrial index which reflected a return of 7,24%.

The fund's size increased by 29,33% with strong cash inflows during the March quarter.

Commenting on future prospects, Guardbank said the outlook for the domestic equity market would be largely dependent on a sustained recovery in the United States.

Sage set to acquire Absa stake in AIH

CT 6/4/93 (58)

JOHANNESBURG. — Sage would acquire Amalgamated Banks of SA's 49% stake in Amalgamated Insurance Holdings thus making it a wholly owned subsidiary of the former financial institution, Absa Merchant Bank said yesterday.

AIH would have 100% interests in Sage Life, Investors Mutual Funds, Sage Capital Managers and FPS, as well as a 11,48% in Rand Merchant Bank Holdings.

According to the deal between Sage and Absa, Sage would continue to hold its approximate 21% investment in Universa which in turn, holds about 25% of the issued share capital of Absa, and Absa retains its 14,6% interest in Sage.

The agreement was subject to certain conditions and an annoucement would be made giving details of the transaction and its financial effects by April 22, 1993.

In the interim, shareholders of Absa and Sage are advised to exercise caution in dealing in their shares, Absa said. — Sapa

Meiring tells of ever-increasing socio-economic burden on Province

'Dramatic' health cuts warning

85 ARG 6/4/93

MICHAEL MORRIS
Political Correspondent

DRAMATIC cuts in health and hospital services in the Cape would be unavoidable this year unless more money became available, Administrator Mr Kobus Meiring warned today.

All provincial services were being pruned to match tough financial constraints.

Introducing the two-day Provincial debate in parliament, Mr Meiring also told Cape MPs:

- He would be applying soon to the government to have Table Mountain and the rest of the Peninsula mountain chain declared a national park;
- No more new roads were to be built and money would be spent only on repairing or improving existing roads;
- The provincial administration had cut more than 4 300 posts — more than six percent of the total — and further rationalisation was necessary;
- The high rate of urbanisation, coupled with the shortage of houses, demanded a greater willingness by local authorities to set aside land for informal housing and negotiate with squatters to meet their needs;
- The fragmentation of services was unnecessarily costly and had to be addressed;
- Uplifting disadvantaged communities was the only long-term solution to crime; and
- The present system of administering the province was "inadequate" because it was not representative of the whole population.

Mr Meiring said that while the Cape's budget had nominally increased this year by 10,1 percent to R4,3 billion, the actual increase — taking the additional budget into account — was only 3,9 percent.

Challenge

Endorsing Minister of State Expenditure Mr Amie Venter's 12-point plan for cutting State expenditure, Mr Meiring said: "The Province accepts the challenge to play a part in cutting spending."

But the continuing high rate of urbanisation was placing an increasing demand on services, particularly health and hospital services. This sector was already absorbing the largest portion of the budget — R2,7 billion — but the Province was "already experiencing difficulties in retaining the full spectrum of services and past standards of service".

He added: "Due to an ever-increasing socio-economic burden, we are experiencing an ever-increasing demand in hospital and health services."

The challenge was to provide for constantly growing needs with a "progressivly weakening resource capacity".

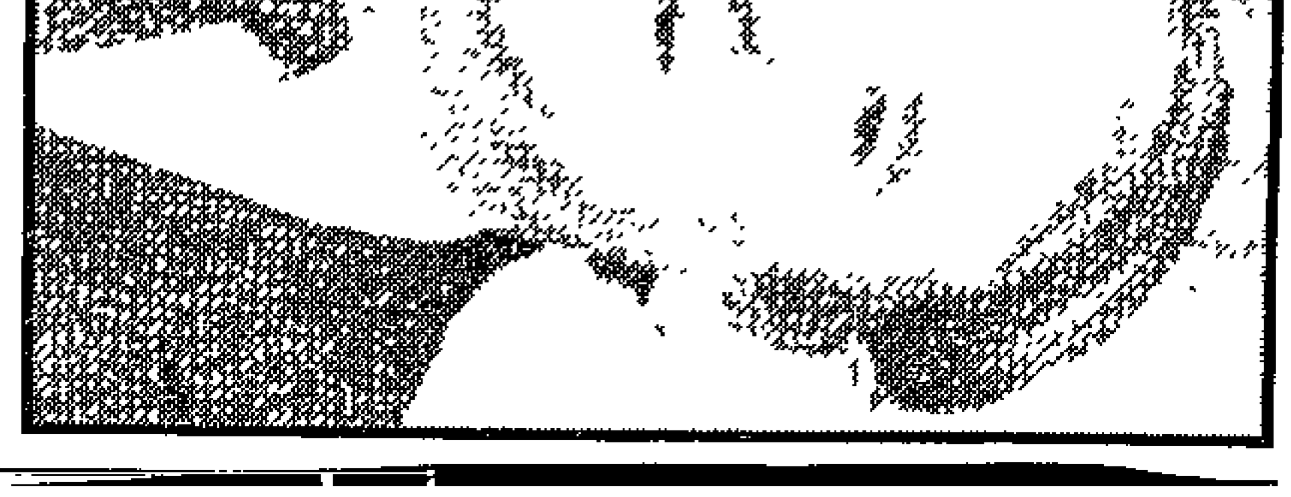
"Unless additional funds are forthcoming, this Province will have to curtail services dramatically during this present financial year."

Mr Meiring acknowledged that cutbacks were "traumatic and not without daunting moral and ethical dilemmas".

He also said further rationalisation was necessary "as there are still too many role players to provide an effectively co-ordinated service".

The CPA had developed a strategic plan to work out the most effective service. The Province's end-of-the-century goal was to provide "affordable, accessible and appropriate" health care to everybody in the province.

●See page 4.



Mr Kobus Meiring

Activists protest over Koeberg's safety

56 (8)

ABOUT 40 members of Earthlife Africa held a protest outside the Koeberg Power station yesterday to highlight secrecy in the country's nuclear industry.

Dr Greg Knill, spokesman for Earthlife Africa's Cape Town branch, said they were concerned about the possibility that Koeberg had not checked whether cracking had occurred in its nuclear power reactors.

He said Earthlife Africa was also concerned about the phenomenon of vessel head penetration cracking (VHPC). This is the degradation and cracking of the huge pressurised vessel that holds the burning nuclear core.

Under certain circumstances a major breach of the container could occur without warning, exposing the nuclear fuel and causing a meltdown, Dr Knill said.

Despite the potential for a major nuclear disaster and no one's being able to explain the origin of the cracking, nuclear authorities had played down the risk, he claimed. CT 6/4/93

Koeberg spokesman Mr Don Murray said: "The Council for Nuclear Safety has conducted a safety analysis on the reactors at Koeberg and has said there is no cause for alarm."

Absa to sell stake in AIH to Sage

GRETA STEYN

58

IN A move widely seen as the first step towards Sage and Absa parting company, Absa is to sell its 49% stake in Amalgamated Insurance Holdings Ltd (AIH) to Sage.

Sage and Absa said in a joint statement this week that AIH would become a wholly owned subsidiary of Sage, with the following interests: Sage Life, Sage Fund and Sage Resources Fund, Sage Capital Managers, Personal Financial Planning and 11,48% of Rand Merchant Bank Holdings.

The statement added that the transaction was subject to certain conditions. A further announcement with details and the financial effects of the transaction would be made by April 22. Sage and Absa shareholders were advised to exercise caution in dealing in their shares.

Sage director Bernard Nackan said that when the group restructured last year it said it would focus on core activities; the transaction was in line with this. He added the group had also said it would dispose of non-core investments. The two objectives were not necessarily interdependent.

The statement said Sage continued to hold its stake in Absa through Universa, while Absa retained its 14,6% interest in Sage. All other relationships and board representations between Absa and Sage, and in particular the marketing agreement, and the Allied Financial Planning Services partnership, were unchanged.

A financial services analyst said Sage was waiting for the right price before disposing of its interests in Absa.

The cautionary pushed Absa's share price down 10c to 840c, but Sage was bid 5c higher at 625c.

The analyst added Absa had built up its insurance interests and wanted to concentrate on growing that part of its business.

Agents upset about scrapping of exam

Bl'fm 7/4/93.

(58)

PETER GALLI

ESTATE agents have condemned the decision by its representative body, the Estate Agents' Board, to abolish the compulsory qualifying exam for candidate estate agents.

Major industry players said yesterday they had not even been consulted about the move and that the board had received no mandate from the industry for this.

A board spokesman confirmed this, saying that, as the industry's regulatory body, it had taken what it regarded as a "pro-active move" without consultation as it did not feel this was necessary. This decision means unqualified candidate estate agents can achieve full agent status by working for a registered agency for a year and can then open their own agency.

The board spokesman said that after comprehensive consideration and extensive research it was felt the examination had "not meaningfully contributed to the increase in standards by estate agents and that persons who had passed the exam were not necessarily more ethical than those who had not".

This was clear from the increasing number of claims against its fidelity fund and the rising number of matters before the disciplinary committees, he said. The exam had to be considered hand-in-glove with the new, consumer protection orientated code of conduct. The public could be protected adequately by the ethical requirements for agents in the new code.

"Our research also indicates there are numerous informal estate agents operating in black areas and we felt it desirable to subject these informal operators to the disciplines of the new code.

"We accept that many of these people are poorly educated and consequently had little opportunity to pass the exam and it has to be acknowledged that the board is operating in a Third World situation."

It was also necessary for the board to remove the apparent misconception that it represented only white interests and it needed to exercise equal control over all agents, the spokesman said.

Seeff Organisational Holdings chairman Lawrence Seeff said: "While the industry has been trying to improve standards and improve professionalism, in one unilateral foul swoop the board has done away with all of this."

Camdons chairman Mannie Osband said the move was disappointing as industry standards had been set through the exam, which was an accepted norm in the industry. "The board will now allow less dedicated and competent people into the industry without monitoring their ability. This will lower standards across the board and result in an even poorer public perception of the industry."

Bill Rawson of Bill Rawson Estates said in the place of the exam came a strict new code of conduct, which agents were expected to observe, whether or not they had been trained. "It appears the board thinks that punishment is preferable to training as a means of upholding standards. It needs to rethink its decision and soon."

Pam Golding Properties director Ronald Ennik said the board would be faced with the "nightmare" of policing the ethics and standards of the industry through the reporting of incorrect behaviour rather than through education.

Industry standards would now deteriorate further and public perception of the industry would slide.

"The new code will not protect the public sufficiently as not all thefts and misconduct will be reported to the board. By dealing with uneducated, ill-qualified estate agents, members of the public increasingly will burn their fingers.

"But many of these people are either unaware of the mechanisms at their disposal to address this or feel the amount or misconduct involved does not justify the time, effort and bureacracy involved in going through the board channels," he said.

While all the major players canvassed supported the inclusion of underprivileged communities in the industry, they felt this should have been done in a way that did not hurt industry standards as a whole.

Payout knocks Minaco

DUMA GQUBULE

(98)

MINACO Granite & Marble reported a 39% drop in attributable earnings to R3,2m (R5,3m) in the year ended December, despite increasing sales by 38% to R41,6m (R30m). BDay 7/4/93

This was equivalent to earnings of 10,8c (16,3c) a share. The company did not declare an annual dividend.

Operating profit was up by a third to R8,1m compared with R6,1m the previous year. The group's interest bill increased sharply, to R3m from R156 000, and pre-tax income was down 15% to R5m.

After-tax income rose to R4,7m (R5,6m). But a new entry on the income statement, an R855 000 payment to an outside shareholder, was the main reason for the drop in attributable earnings to R3,2m.

At the interim stage, the company said financing of off-shore business and large local contracts were the reasons for the higher interest payments.

The group had commenced investigations into the provision of trade finance.

GuardBank unit trusts outstrip JSE indices

ANDREW KRUMM

(58)

BDay 7/4/93

ALL FOUR GuardBank unit trusts outperformed comparable JSE indices in the year ended March 31 1993, with the best performances coming from Guardbank Industrial and GuardBank Income funds.

A spokesman said the GuardBank family of unit trusts reported "satisfactory to excellent" results. The year-old GuardBank Industrial Fund notched up a 25,85% return for the year (including capital appreciation and dividend reinvestment), bettering the financial and industrial index (7,24% return) by a large margin.

Fund manager Liberty Asset Management (Libam) said although the industrial fund remained small, it grew 29% during the March quarter due to a strong investment inflow, ending at R15,05m in market value in March (R11,64m December 1992).

Its sibling the GuardBank Income Fund continued to attract investment as interest rates dropped and rose to R175m in market value in March, against R153,6m in December. The income fund gave investors a total return of 19,51% over the period.

The flagship GuardBank Growth Fund, which ranks among the larger unit trusts on the JSE, notched up a "highly satisfactory" 14,22% total return for the year. The fund more than regained the market value it lost in August last year, to finish the March quarter valued at R1,644bn (R1,498bn December). Libam said acquisitions were concentrated in the mining sector during the quarter, with a new holding in Amcoal, and additions to the Rusplats and Rand Mines holdings.

Meanwhile, the GuardBank Resources Fund gave investors a 6,23% total return, outperforming the various mining indices, with the exception of the booming gold index.

Libam said the outlook for the share market would depend largely on the durability of the US economic recovery, and prices on Wall Street. The behaviour of the gold price, and the outcome of multiparty negotiations would significantly affect local market sentiment in 1993.

RB, banks review exchange controls

Own Correspondent

CT 7/4/93 (58)

JOHANNESBURG. — The Reserve Bank, with the help of a committee of bankers, is reviewing the nuts and bolts of foreign exchange control regulations, bankers said this week.

Bank exchange control GM John Postmus confirmed there was a committee looking at exchange control issues.

"We have an ongoing liason committee which studies issues arising out of the administration of exchange control regulations. The main purpose is to ensure a level playing field. We want to be sure the rules are applied in the same way by everyone."

Bankers said the committee was focusing its attention on new, sophisticated financial instruments.

The exchange control implications of these instruments were not always clear and consensus had to be reached. Currency options, foreign exchange swaps, futures and forward rate agreements were under the spotlight.

The Bank's decision to ban foreign participation in Transnet's Equity-Linked Fixed Interest (Elfi) investment had been a result of the monitoring of the "spirit and letter" of exchange control. High coupon gilts and zero coupon bonds were also under the spotlight.

Bankers said it was possible further action could follow the Elfi move, although Postmus emphasised the idea was not to tighten controls, but to ensure consistent application.

Star 8/4/93

Way open for life office merger

(58)

By Stephen Cranston

The way is now clear for a takeover of the Sage group, perhaps by RMB Holdings, now that Sage Life is becoming a wholly owned subsidiary and its chairman Louis Shill is becoming the Minister of Housing.

The Sage group recently bought Absa's 49 percent in Amalgamated Insurance Holdings, which holds Sage Life and its unit trusts, thereby making a merger with another life office more feasible.

A senior financial services analyst says that Shill is good at keeping deals quiet, so details are unlikely to be leaked.

But Shill is now 63 and might be looking to retirement, and will be bailing out when he can get a good price for his shareholding.

Though Sage's management structure will be unchanged, and, according to its statement, has satisfactory management in place, Shill is seen as the guiding light and he has no obvious heir apparent, he says.

The economies of scale in the industry would support an amalgamation of Sage Life and, most logically, Momentum Life.

The Sage group already holds a 26 percent stake in Momentum's holding company, RMB Holdings.

Sage has several options to fund the deal.

The 49 percent stake is expected to cost R160 million to R180 million, predicts Davis Borkum Hare banking analyst Graham Baillie, and as much as R240 million, according to broker Dawid Meades of Meades, De Klerk.

Sage executive director Bernard Nackan says that the group intends to dispose of non-core investments over time.

The most logical route would then be to sell Sage's effective 5,25 percent of Absa, which is worth about R250 million.

But Absa's share price of 840c, on a 7,4 P/E has room for improvement.

Sage might rather plump for a rights issue, which looks reasonably attractive on its 12,2 P/E ratio.

This would leave the 26 percent RMB Holdings stake intact to form the basis of favourable terms for a Sage Life/Momentum merger.

A spokesman for Momentum Life could not be reached for comment last night.

Saambou probe into bond approvals

ST 8/4/93

JOHANNESBURG. — Saambou has instituted an internal probe into alleged irregularities surrounding the granting of 140 bonds valued at about R13m for properties sold by a Johannesburg estate agency.

Saambou MD Johan Myburgh confirmed yesterday that the bonds had been withdrawn following alleged irregularities involving its Braamfontein branch manager.

The bank had found that the purchase prices for certain of the properties — mainly in the inner city area — were "blown up" and that the property values were insufficient security for the loans. "The (branch) manager was suspended after we found that he had approved all of these bond applications, at the selling price, without having the properties valued."

All the properties had now been valued. If sufficient security was found the bonds would be reallocated, he said.

The agency involved, Wizards Estates, said the bank had issued all buyers with official bond grant letters but had then withdrawn them. About 300 families — both buyers and sellers — were involved.

Wizards Estates MD Ian Lockyer denied that the property prices had been inflated.

Standard's Extra Income Fund posts 15,1% return

BDay 8/4/93

(58) (222)

ANDREW KRUMM

STANDARD Bank unit trusts continued to enjoy strong sales during the March quarter, attracting about R148m in new investment, Standard Bank Fund Managers MD Derek Finlayson said yesterday.

"Gross sales for the March quarter were 35% up on 1992 levels and were dominated by a move into the Extra Income Fund, where sales rose 90%."

Finlayson said net inflows into the equity-based funds had held up, despite a lacklustre stock market, which registered "barely positive" returns for the year to end March.

The lower-risk Extra Income Fund was the top performer in the bank's unit trust stable, posting a 15,1% return for the 12-month period, as interest yields were enhanced by capital gains on convertible debentures and gilts.

It was closely followed by the larger Mutual Fund which reported a 13,4% return for the year — compared to the meagre 3,8% return on the JSE All Share Index for the period — while the Gold Fund gave investors a 9,1% return.

The two other Standard unit trusts, the International Fund and the Industrial Fund, did not post returns, as both were less than a year old.

Finlayson said the Mutual Fund, worth R649m in market value at quarter-end, had adopted a conservative approach and maintained liquidity at a high 37%. Similarly the Industrial Fund kept liquidity at 57%, which saw the total return on the industrial index fall to 1,3%.

The Gold Fund, though, benefited from the 50% surge in the JSE All Gold Index during the quarter, and embarked on an active buying programme with purchases in Harties, SouthVaal, VaalReefs, and Beatrix, among others.

"This reduced the liquidity level in the Gold Fund from 29% to 14%, with further reductions likely on share price weakness as the fund moves to a more fully invested position."

However, as poor economic growth prospects were unlikely to provide a fillip to company earnings in 1993, and given the overvalued share prices, the Mutual Fund would continue to hold a conservative equity exposure in the next quarter.

Finlayson said interest rates were likely to remain at higher levels in 1993. "Gilt market rates have not followed the inflation rate all the way down, and real rates have opened to their widest level in about 23 years.

"This reflects investor concerns that single digit inflation is not sustainable, and that future borrowing requirements to be sourced from the capital market are likely to keep rates high," he said.

Fedgro unit trust posts 12-month return of 8%

BDay 15/4/93

AT THE end of the first quarter of 1993 Fedgro unit trust posted a 12-month return of 8%. (58) (222)

Fedgro's asset base grew from R39m to more than R44m during the quarter.

Fedgro said that during the quarter a cautious strategy was followed, "while the portfolio manager continually looked for opportunities where value for unitholders was perceived over the medium to longer term".

"The portfolio had minimal exposure to gold producers — less than 2% — while having a substantial holding of 18% in the more stable mining financials.

"The exposure of 15% to the financial sector was quite appropriate as the financial index improved by 24% over the past 12 months, leading the growth in the unit price," Fedgro said.

While equities were seen as the long-term growth component of the portfolio, liquidity was carefully managed to the current level of nearly 17%. The total equity component constituted 71% of the fund, leaving the balance of 12% in fixed interest securities.

"During the last quarter one new counter was added to the portfolio. Fintech, the new addition, provides Fedgro investors with greater exposure to the high-growth electronics sector.

"At the quarter end the largest holdings by market value were FNB, Anglo American, Stanbic, Fedsure and Richemont," Fedgro said. — Sapa.

NOTICE 301 OF 1993

ADMINISTRATION: HOUSE OF DELEGATES

DEPARTMENT OF LOCAL GOVERNMENT, HOUSING AND AGRICULTURE

APPOINTMENT OF MEMBERS OF THE SLUMS CLEARANCE COURT

It is hereby notified for general information that the Minister of Housing in the House of Delegates, in terms of sections 4 (2) (a) (ii) and 4 (2) (b) of the Slums Act, 1979 (Act No. 76 of 1979), and under and by virtue of the powers assigned in terms of section 26 of the Republic of South Africa Constitution Act, 1983 (Act No. 110 of 1983), appointed the undermentioned persons to be members of the Slums Clearance Court for the consideration of matters relating to the Indian population group. The term of office of such members is from 1 April 1993 to 31 March 1994.

Chairman:

Mr S. J. Mundhree.

Members:

Mr D. Naicker.
Mr H. N. Marsh.

Alternate member:

Mr W. W. Walsh.

(8 April 1993)

KENNISGEWING 301 VAN 1993

ADMINISTRASIE: RAAD VAN AFGEVAARDIGDES

DEPARTEMENT VAN PLAASLIKE BESTUUR, BEHUISING EN LANDBOU

AANSTELLING VAN LEDE VAN DIE SLUMOPRUIMINGSHOF

Dit word vir algemene inligting bekendgemaak dat die Minister van Behuising in die Raad van Afgevaardigdes ingevolge artikel 4 (2) (a) (ii) en 4 (2) (b) van die Slumswet, 1979 (Wet No. 76 van 1979), en kragtens die bevoegdheid verleen in terme van artikel 26 van die Republiek van Suid-Afrika Grondwet, 1983 (Wet No. 110 van 1983), die ondergenoemde persone aangestel het as lede van die Slumopruimingshof vir oorweging van sake wat op die Indiërbevolkingsgroep betrekking het. Die dienstermyn van die lede is vanaf 1 April 1993 tot 31 Maart 1994.

Voorsitter:

Mnr. S. H. Mundhree.

Lede:

Mnr. D. Naicker.
Mnr. H. N. Marsh.

Alternatiewe lid:

Mnr. W. W. Walsh.

(8 April 1993)

NOTICE 302 OF 1993

SOUTH AFRICAN LAW COMMISSION

The South African Law Commission hereby releases its working paper entitled "THE USURY ACT AND RELATED MATTERS—New credit legislation for South Africa". In the working paper South African consumer credit legislation is thoroughly investigated with a view to possible law reform. The legislation includes the Credit Agreements Act, No. 75 of 1980, the Usury Act, No. 73 of 1968, and the Lay-by Regulations made under the Price Control Act, No. 25 of 1964. This legislation plays a vital role in the economy. It affects every individual who wishes to borrow money or who wishes to buy goods on instalment, who has a debit balance in a cheque account or a credit card, who wishes to borrow money to buy a house, who hires goods or who obtains services on credit. There are few private law enactments that have a greater effect on consumers and traders than credit legislation. If legislation in this field does not function effectively it could seriously disrupt the economy.

The investigation has been conducted on behalf of the Commission by the Centre for Banking Law of the Rand Afrikaans University. The research team concludes in the working paper that existing legislation in this field is in many respects inadequate and new legislation is proposed to rectify this position.

The Commission invites all interested persons and bodies to comment on the working paper in question or to make suggestions for the development, improvement, modernisation or reform of this branch of the law.

KENNISGEWING 302 VAN 1993

SUID-AFRIKAANSE REGSKOMMISSIE

Die Suid-Afrikaanse Regskommissie stel hiermee sy werkstuk getitel "DIE WOEKERWET EN VERWANTE AANGELEENTHEDE—Nuwe kredietwetgewing vir Suid-Afrika" vry. In die werkstuk word die bestaande Suid-Afrikaanse verbruikerskredietwetgewing grondig ondersoek met die oog op moontlike regshervorming. Die wetgewing wat ter sprake is, is die Wet op Kredietooreenkomste, No. 75 van 1980, die Woekerwet, No. 73 van 1968, en die Bêrekoopregulasies uitgevaardig ingevolge die Wet op Prysbeheer, No. 25 van 1964. Die betrokke wetgewing speel 'n baie belangrike rol in die ekonomie. Elke individu wat geld wil leen, 'n saak op afbetaling wil koop, 'n oortrokke tjekrekening het, oor 'n kredietkaart beskik, geld wil leen om 'n huis te koop, 'n saak huur, of dienste op afbetaling bekom, word deur dié wetgewing geraak. Daar is min privaatregtelike wetgewing wat 'n groter invloed op verbruikers en handelaars het as kredietwetgewing. Indien wetgewing op dié gebied nie na wense funksioneer nie, kan dit die ekonomie ernstig ontwrig.

Die ondersoek is namens die Kommissie gedoen deur die Eenheid vir Bankreg aan die Randse Afrikaanse Universiteit. Die navorsingspan kom in die werkstuk tot die gevolgtrekking dat bestaande wetgewing op die betrokke gebied in baie opsigte gebrekkig is en nuwe wetgewing word voorgestel om die posisie reg te stel.

Die Kommissie nooi alle belangbehebbende persone en instansies uit om kommentaar te lewer op die onderhawige werkstuk of om voorstelle te doen vir die ontwikkeling, verbetering, modernisering of hervorming van hierdie faset van die reg.

It would be appreciated if written comments or suggestions could reach the Commission by **31 May 1993** at the address given below.

58

The working paper is obtainable free of charge from the Commission on request.

The Commission's offices are on the Eighth Floor, NG Kerk Sinodale Sentrum, 228 Visagie Street, Pretoria. Correspondence should be addressed to:

The Secretary
South African Law Commission
Private Bag X668
PRETORIA
0001.

Telephone: (012) 322-6440 (Mrs P. Kotze)

(8 April 1993)

Dit sal waardeer word indien skriftelike kommentaar of voorstelle die Kommissie teen **31 Mei 1993** by onderstaande adres bereik.

Die werkstuk is op aanvraag gratis van die Kommissie verkrygbaar.

Die Kommissie se kantore is op die Agste Verdieping, NG Kerk Sinodalesentrum, Visagiestraat 228, Pretoria. Korrespondensie moet asseblief gerig word aan:

Die Sekretaris
Suid-Afrikaanse Regskommissie
Privaat Sak X668
PRETORIA
0001.

Telefoon: (012) 322-6440 (Mev. P. Kotze)

(8 April 1993)

NOTICE 304 OF 1993

DEPARTMENT OF TRANSPORT

AIR SERVICE LICENSING ACT, 1990
(ACT No. 115 OF 1990)

Pursuant to the provisions of section 15 (1) (b) of Act No. 115 of 1990 and regulation 8 of the Domestic Air Services Regulations, 1991, it is hereby notified for general information that the application(s) details of which appear in the Schedule hereto, will be considered by the Air Service Licensing Council.

Representations in accordance with section 15 (3) of Act 115 of 1990 in support of, or in opposition to, an application, should reach the Air Service Licensing Council, Private Bag X193, Pretoria, 0001, within 21 days of the date of publication hereof.

SCHEDULE

APPLICATIONS FOR THE GRANT OF LICENCES

(A) Full name and trade name of applicant. (B) Full business or residential address of applicant. (C) Class of licence applied for. (D) Type of air service to which application applies. (E) Category of aircraft to which application applies.

(A) Michau Malan Huisamen, Icom Aviation. (B) P.O. Box 2150, North End, Port Elizabeth, 6056. (C) Class II. (D) Type N1 and N2. (E) Category A4.

(A) Bell Air Charter (Pty) Ltd, Bell Air Charter. (B) P.O. Box 198, Empangeni, 3880. (C) Class II. (D) Type N1 and N2. (E) Category H2.

(A) Bell Air Charter (Pty) Ltd, Bell Air Charter. (B) P.O. Box 198, Empangeni, 3880. (C) Class III. (D) Type G3, G4, G7, G8, G10 and G15. (E) Category H2.

(8 April 1993)

KENNISGEWING 304 VAN 1993

DEPARTEMENT VAN VERVOER

WET OP DIE LISENSIËRING VAN LUGDIENSTE, 1990 (WET No. 115 VAN 1990)

Hierby word ingevolge die bepalings van artikel 15 (1) (b) van Wet No. 115 van 1990 en regulasie 8 van die Regulasies vir Binnelandse Lugdienste, 1991, vir algemene inligting bekendgemaak dat die Lugdienslisensiëringsraad die aansoeke waarvan besonderhede in die Bylae hieronder verskyn, sal oorweeg.

Vertoë ingevolge artikel 15 (3) van Wet 115 van 1990 ter ondersteuning of bestryding van 'n aansoek moet die Lugdienslisensiëringsraad, Privaat Sak X193, Pretoria, 0001, binne 21 dae na die datum van publikasie hiervan bereik.

BYLAE

AANSOEKE OM DIE TOESTAAN VAN LISENSIES

(A) Volle naam en handelsnaam van aansoeker. (B) Volle besigheids- of woonadres van aansoeker. (C) Klas lisensie waarom aansoek gedoen word. (D) Tipe lugdiens waarop aansoek betrekking het. (E) Kategorie lugvaartuig waarop aansoek betrekking het.

(A) Michau Malan Huisamen, Icom Aviation. (B) Posbus 2150, Noordeinde, Port Elizabeth, 6056. (C) Klas II. (D) Tipe N1 en N2. (E) Kategorie A4.

(A) Bell Air Charter (Edms.) Bpk., Bell Air Charter. (B) Posbus 198, Empangeni, 3880. (C) Klas II. (D) Tipe N1 en N2. (E) Kategorie H2.

(A) Bell Air Charter (Edms.) Bpk., Bell Air Charter. (B) Posbus 198, Empangeni, 3880. (C) Klas III. (D) Tipe G3, G4, G7, G8, G10 en G15. (E) Kategorie H2.

(8 April 1993)

Saambou backtracks from 'inflated' bonds

PETER GALLI

SAAMBOU has instituted an internal probe into alleged irregularities surrounding the granting of 140 bonds valued at about R13m for properties sold by a Johannesburg estate agency. BDM 8/4/93.

Saambou MD Johan Myburgh confirmed yesterday that the bonds had been withdrawn following alleged irregularities involving its Braamfontein branch manager.

The bank had found that the purchase prices for certain of the properties — mainly in the inner city area — were "blown up" and that the property values were insufficient security for the loans.

"The (branch) manager was suspended after we found that he had approved all of these bond applications, at the selling price, without having the properties valued."

All the properties had now been valued. If sufficient security was found and there was no evidence of any irregularity, the bonds would be reallocated, Myburgh said.

The agency involved, Wizards Estates, said the bank had issued all buyers with official bond grant letters but had then withdrawn them. About 300 families — both buyers and sellers — were involved.

Wizards Estates MD Ian Lockyer denied that the property prices had been inflated, saying bonds were being obtained from other institutions, at the same prices, following Saambou's withdrawal. While the agency was trying to place all the bonds elsewhere, this was time-consuming and in some areas little bond finance was available. "Many of the families will now have their lives disrupted," he said, adding that while the bank was entitled to withdraw bonds, buyers and sellers might be eligible to institute damage and negligence claims.

58

UCT forms links with Holland

THE University of Cape Town and the University of Leiden in Holland are to co-operate in academic education and research. ST 8/4/93

The universities will also promote the exchange of academics to lecture students, give general lectures, participate in academic discussions and serve on examination commissions.

An exchange of post graduate students is also envisaged, although financial constraints may limit this since the Dutch students are fully subsidised, said UCT's *Monday Paper*.

Two post graduate students from Leiden have already registered in the Faculty of Law.

According to Deputy Vice Chancellor Professor Martin West, UCT has had inquiries about co-operation from numerous universities, including the University of Austria, Leuven University in Belgium, the University of Seville in Spain and the University of Lumbumbashi in Zaire.

Mountain 'a disgrace'

TABLE MOUNTAIN was in a disgraceful state, the MP for Constantia, Mr Roger Hulley, told Parliament yesterday.

(86) CT 8/4/93

The mountain, which was meant to be a showcase for fynbos, had in many areas become infested with exotic vegetation.

One of the reasons why Table Mountain was being infested "all over the place" by exotic plants was that no integrated action plan to manage the mountain existed which would allowed the authorities to deal with the area in a coordinated and scientific manner.

TAX BURDEN FM 9/4/96

The mule's share (58)

FM 9/4/93. (58)

The corporate tax rate is high, by the standards even of industrialised countries — 40% if no profits are distributed — but it is individuals who increasingly bear the main brunt of the tax load. The contribution to the fiscus from corporate income has dropped to an estimated 14% this fiscal year, from 24% 10 years ago; while the contribution of personal income tax is expected to rise to 42% from roughly 31%, with most of the hikes occurring over the past five years.

This is because company profits are more closely related to economic cycles and are more volatile than wages and salaries, says Simpson McKie economist Graham Boyd. It is also because the formal sector is shrinking in real terms, under the impact of three recessions in the past decade, says Wits University academic Henry Kenney.

Individuals have had to make good the shortfall. Nedcor Bank chief economist Edward Osborn says not only have nominal tax rates risen but nominal salary increases have pushed taxpayers into a higher tax bracket — fiscal drag — while rebates have not risen in line with inflation

Though fiscal drag affects all taxpayers, in this year's Budget the hardest hit are those in the R30 000-R60 000 range, according to Ernst & Young tax manager Graham Williams. This is because the marginal tax rate changes dramatically between these levels. For instance, for a married couple the marginal rate jumps from 28% to 36% when a taxpayer's salary moves above R40 000.

A comparison of SA's personal income contribution with those in developed countries, where personal income contributions are generally higher than in SA, is not appropriate. In the UK for instance, where personal income tax accounted for over 40% of total revenue in 1991, there are significant social benefits including a health and pension infrastructure. In SA few of these benefits are available (and taxpayers are receiving ever fewer as more and more funds are set aside for redistributive purposes).

There is an economic cost to the high tax burden on individuals. Historically, consumer demand plays a critical role in the economy and the increasing burden on individuals is impeding economic recovery.

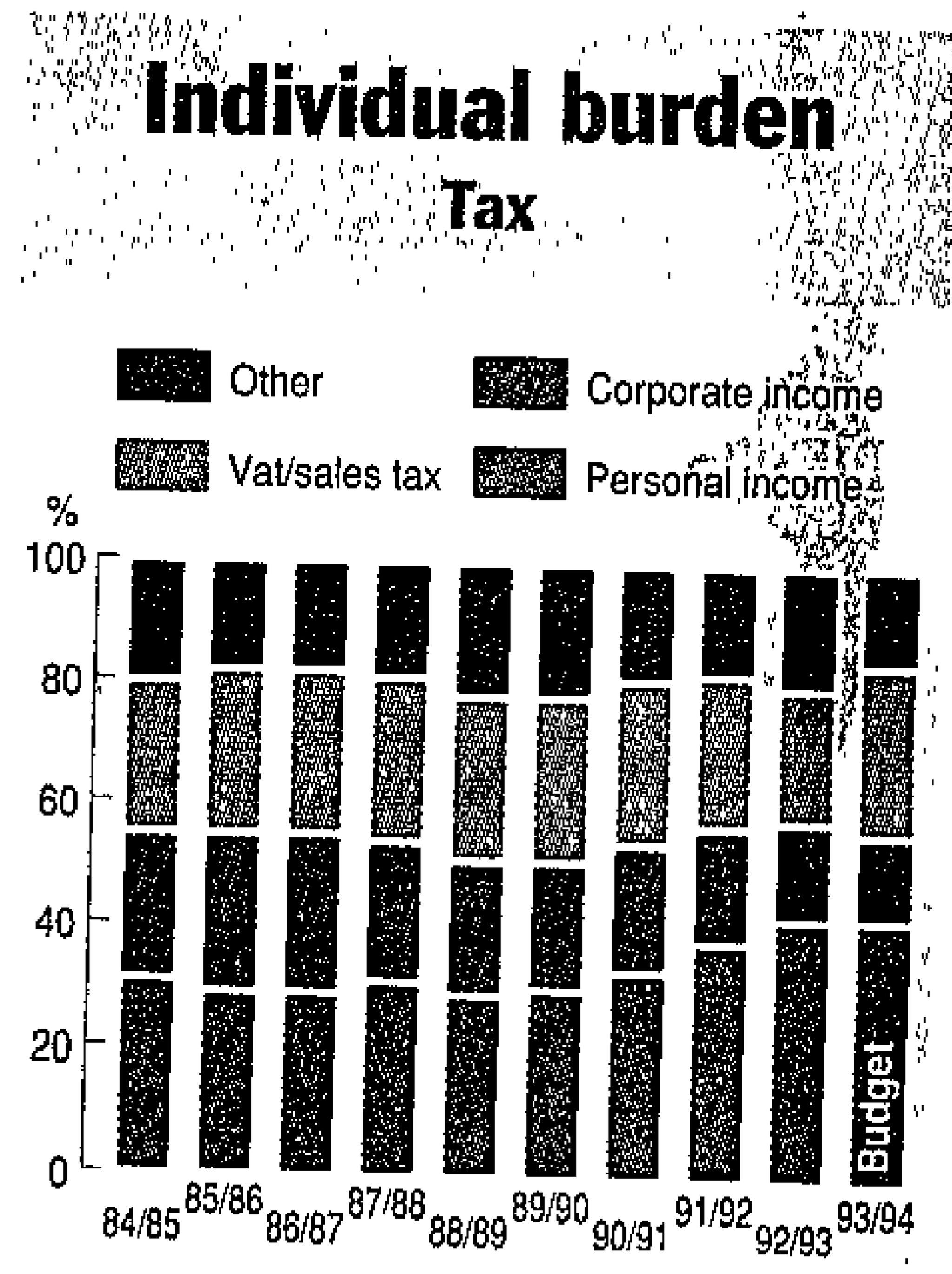
By eroding real income, it has also affected the savings rate, says Davis Borkum Hare economist Jos Gerson. "Savings can be encouraged by switching to indirect (expenditure) taxes, expanding the scope for real fixed investment."

If the programme generated by the Normative Economic Model is implemented, individual taxation will be reduced — the top marginal tax rate will fall from the current 43% to 40%. And adjustments will be made to offset fiscal drag — presumably by increasing tax thresholds by a rate equivalent to the inflation rate

As the higher personal contribution has offset the drop in the corporate contribution, the ratio of direct (personal and corporate income) to indirect taxes has not changed over the past 10 years.

However, if the programme outlined is implemented, the share of direct tax in total tax revenue will fall from 55% in 1992 to 50% by 1997. An explanatory document released with the details of the model explains: "Indirect taxes discourage consumption in favour of savings. They also do not tax effort to work harder."

Osborn disagrees with this interpretation. "They do nothing of the kind. They simply erode savings through the transfer of disposable income to Revenue. The objective of indirect taxes is to spread the burden of financing government, and not for some arcane economic reason."



A start was made in last month's Budget with an increase in the Vat rate, fuel levy and excise duties. The increase in Vat is expected to generate R24,8bn. According to Budget estimates, the Vat hike, and the increase in the fuel levy and excise duty will reduce the relative contribution of direct tax from 58% last fiscal year to 56% this year

Gerson says, in practice, the reduction will be greater as he predicts the corporate tax take will probably be lower than the Budget estimate.

There is little scope for increasing the take from individuals who, of course, share in the indirect tax burden, says Kenney. "Without economic growth the authorities have reached the limits of taxable capacity." ■

FM 9/4/93

(58)

SA EAGLE FM 9/4/93. (58)

Still a long way to go

Activities: *Short-term insurance.*
Control: *Bat Industries Plc (through Eagle Star Insurance) 58%.*
Chairman: *F N Haslett; MD: P T Martin.*
Capital structure: *12,2m ords. Market capitalisation: R610m.*
Share market: *Price 5 000c. Yields: 3,9% on dividend; 7,8% on earnings; p:e ratio, 12,8; cover, 2,0. 12-month high, 5 300c; low, 3 300c. Trading volume last quarter, 24 000 shares.*

Year to Dec 31	'89	'90	'91	'92
Total assets (Rm)	—	948	1 168	1 275
Solvency ratio (%) ..	93,4	82,6	90,1	93,3
Underwriting prof (Rm)	20,6	(36,8)	(0,8)	11,2
Investment inc (Rm)	52,5	52,4	54,7	63,3
Pre-tax profit (Rm) .	69,8	11,1	47,7	70,8
ROE (%)	9,9	5,0	5,3	6,7
Earnings (c)	392	199	287	391
Dividends (c)	190	150	165	195
Net worth (c)	3 842	4 001	5 366	5 860

SA Eagle's underwriting results showed a welcome return to profit in 1992 but, like the rest of the short-term insurance industry, there is a long way to go before the super profits of 1988 are seen again. The 1992 profit of R11,2m reflected a R12m turnaround from 1991. Even accepting that R10,2m accrued in the second half, annualised results for the July-December period would still fall well short of the R38m earned from underwriting four years ago.

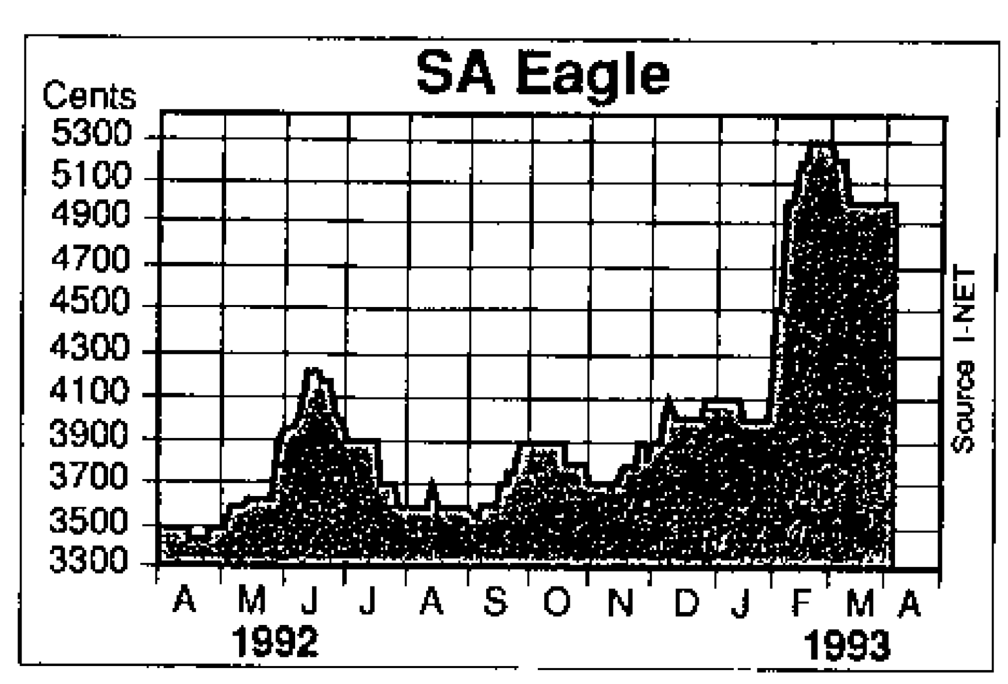
Still, the turnaround, with the resumption of meaningful growth in investment income, enabled the board to declare a record dividend total of 195c a share though earnings were still about 6% off best. From a distribution standpoint, 1992 marked a full recovery from 1990 when, contrary to trends elsewhere in the industry, a cash squeeze saw dividends cut from the peak of 190c to 150c.

There are still question marks over the risk profile and, consequently, the quality/sustainability of earnings. Two specific concerns are the progressive reduction in the degree to which SA Eagle's overall risk exposure is reinsured; and the continued rapid rise in operating costs.

Dealing first with risk exposure, reinsurance premiums last year, at R141m, were almost R16m down on 1991, and showed a net increase of only R2m compared with 1990. Apart from the fact that reinsurance premiums, expressed as a proportion of gross premium income, have declined from 19,1% two years ago to only 15,6%, the sharp increase in reinsurance rates (reflecting the parlous state of the London insurance market) suggests a more marked volume-based contraction in business where risk is spread beyond SA Eagle's front door.

In the absense of major natural disasters (like those of last year), leading to abnormally high claims, a policy of cutting back on reinsurance should benefit results. The 1992 saving for SA Eagle exceeded the turnaround in its underwriting results.

Chairman Fred Haslett notes that with a solvency ratio of 93,3% and record reserves and provisions, the company has the ability to "avoid unnecessary reinsurance without endangering its solvency." While nobody would deny the strength of the balance sheet,



this begs the question of whether limiting reinsurance adds to the volatility of underwriting results; and, if it does — remembering that SA Eagle was the only listed short-term insurer which cut its dividend when huge losses were incurred by the industry in 1990 — whether the policy is in the best interests of shareholders.

On the question of volatility, a comparison with Guardian National is of interest. Accepting that the situation can be affected by the mix of business, Guardian is reinsuring 34% of its total risk exposure as measured by gross premium income (against SA Eagle's 15,6%) SA Eagle's underwriting profit of R11,2m last year was almost double Guardian's R6,6m, but the opposite picture emerges from comparison of aggregate underwriting results over a longer period.

Over the past four years, Guardian has earned a net R3,4m from underwriting against SA Eagle's net loss of R5,8m. Also notable is the relative flatness of the profile of Guardian's results which, in the period in question, have moved within a R23m band against R57m in the case of SA Eagle.

The other area of concern (not confined to SA Eagle) is that of rapidly rising costs.

Total expenses last year, including those applicable to claims administration, rose 18%, again ahead of inflation. Over the past two years the escalation has been 49%, far outstripping the 30% growth in the net premium income, and causing the ratio of expenses to premiums to climb from 12,4% in 1990 to 14,3% now. This trend cannot continue indefinitely and it is to be hoped that the cost benefits expected from the company's ambitious computerisation programme — Eagle 2 000 — due for completion this year do materialise.

Shares of short-term insurers have had a good run SA Eagle has jumped from R37 in November to R53 before easing to R50. The yield, at 3,9%, is still attractive, and there could be further appreciation if interim results indicate (as they should) a continuation of the underwriting recovery. *Brian Thompson*

ABSA/SAGE FM 9/4/93.

When lovers part (58)

It looks as though slow and amicable divorce proceedings have started between Absa chief Piet Badenhorst and Sage Group's Louis Shill. Monday's late announcement that Sage is buying back full ownership of Sage Life from Amalgamated Banks of SA (Absa), by acquiring the bank's 49% holding in Amalgamated Insurance Holdings (AIH), signals the start of separation.

Ever since Sanlam became a shareholder in Absa through the Bankorp merger just over a year ago, it seemed logical that the bank would shed its insurance interests. Also, Absa has made it clear it is not keen on investments it does not control.

The AIH disposal fits both criteria and follows the pattern set last year when Absa sold its 30% of Momentum Life to RMB Holdings. It seems the bank is interested mainly in the insurance interests it consolidated under Absa Financial Services, which concentrate on mortage lending business.

While the deal, still subject to "certain conditions precedent," must suit both parties, Badenhorst surely won't sell cheaply.

No firm figures are available but early speculation puts the value of AIH's portfolio, which, apart from Sage Life, contains Investors Mutual Funds, Sage Capital Managers, FPS and 11,5% of RMB Holdings, at around R500m. Market rumours are that Absa will make a clear profit of about R100m.

Of course, that raises the question of where Sage will get the money. At its March 1992 year-end, long-term liabilities and provisions stood at R124m. More borrowings

FM 9/4/93.

would strain the balance sheet. (58)

Even the most amicable divorce can be expensive.

Shaun Harris

CENTRAL BANK GOLD SALES

FM 9/4/93

Liquidity preference

Any rally in the gold price prompts bulls to predict a reversal in the bear trend that has been firmly in place since the metal went over US$400/oz late in 1990, soon after Iraq's invasion of Kuwait. But it seems likely that central bank sales will cap a price rise in the foreseeable future.

The Union Bank of Switzerland's latest *Precious Metals Outlook* says currency upheavals over the past six months have "raised the precautionary demand for liquidity."

FM 9/4/93

And it suggests that, in the medium and long terms, "liquidity would remain at a premium" as European countries attempt to achieve full monetary union.

Central banks are likely to sell gold holdings to ensure they have enough currency at hand to defend agreed-upon exchange rates. The publication considers sales likely in the second quarter of this year.

It argues that the sale of 400 t of gold by the central bank of the Netherlands last year marked a turning point in the perception of gold in financial markets, because it was not a case of domestic distress. The Dutch central bank governor said: "We had 17 000 t and came to the conclusion that was more than necessary in view of world conditions."

Central banks with holdings of more than 35 000 t hold the equivalent of 17 years of mine production. And having been net buyers during the Eighties, they have now become net sellers of 105 t in 1991 and an estimated 650 t in 1992. The 1992 sales at least equalled the output of SA mines which, including Bophuthatswana, says Chamber of Mines chief economist Francois Viruly, was 614 t.

The reason for the shift in central bank marketing policy, says Bank of Lisbon International's *Economic Focus*, is the growth of international agencies such as the International Monetary Fund and the Bank for International Settlements. These organisations provide short-term assistance when countries are faced with external financial difficulties — which reduces the need for gold reserves.

However, *Focus* points out: "Central bank sales have been carried out carefully to prevent any major impact on the market." There is a natural brake on their sales; by flooding the market, they would depress the price and reduce the value of remaining holdings.

The identity of recent buyers of central bank holdings is crucial to the future of the price.

Economic Focus says the gold was reportedly bought by the Bank of China and the Singapore Monetary Authority. "Some analysts are arguing that there will be a gradual transfer of gold from European and North American central banks to the newer central banks and especially those in the Far East." It argues that what might emerge is an active inter-central bank market in gold "with no negative consequences for the free-market price."

Precious Metals Outlook puts forward another possibility — that the gold was purchased to become the "first building blocks of a European Monetary Institute (the half-way house to a common central bank) which is due to begin operating in the second phase of monetary union from January 1 1994." But it describes this more bullish theory as "improbable."

If the gold is not in safe hands, it will start to leak back into the market. This, along with holdings of other central banks, will continue to restrain the market. ■

INSURANCE FM 9/4/93.

GA tackles solvency

58

Short-term insurer General Accident made a loss of R17,6m in the year to December, due mainly to reinsurance problems. A rights issue is planned.

The insurer's results contrast with large profits by most of the industry. After a 23% increase in gross premium income last year, the company's solvency ratio (net assets:net premiums) is just over 20%. Though above the statutory 15%, this is well below the recommended 25% which means there is little room for new business.

MD Clive Dean says that, like the rest of the industry, General Accident made healthy profits on personal lines of business. But, like the rest of the insurers, it had poor experience with commercial business, both in claims volume and the rates at which this business was written.

"In our case, this was compounded by our reinsurance arrangements. Historically, we have not placed much reinsurance in the local market. Being controlled by General Accident Fire & Life (the Perth), one of Europe's largest insurers, we made international arrangements."

In retrospect, he says, that was wrong, partly because such reinsurance treaties are not recognised by the Financial Services Board when measuring solvency margins. In addition, General Accident largely used excess of loss (paying the first R2,5m of commercial claims) instead of entering proportional loss arrangements (in which the brunt of all commercial claims would have been shared by the reinsurers).

General Accident thus retained, for its own account, up to four times as much of its potential exposure as that carried by even its largest and strongest competitors. By contrast, proportional reinsurance reduced one competitor's gross R50m of losses on commercial business to about break-even.

New reinsurance arrangements are in place, says Dean. These include far greater use of the local market and lower retentions for the insurer's own account. This, coupled with the proposed rights issue, will strengthen its solvency margin. Dean thinks the SA market has an unnatural preoccupation with solvency margins — "in the case of a multinational group, the margins of a subsidiary operation here can hardly affect claims-paying ability, which is what insurance is about." Multinationals, he adds, tend to look at their local operations as branches and as a result have never seen a need to over-capitalise them.

In this case, the Perth seems to have bowed to the Financial Services Board desire for higher margins. General Accident chairman Blitz Bieber says he has discussed a rights issue with the parent company and with First National Bank and Southern Life, which hold, between them, 49%. He believes all will follow their rights. With the new capital, he wants to see the insurer working on an average solvency margin of 35%-40% which would give it capacity for steady business growth.

Two years ago, General Accident received a capital infusion of R21m. Dean points out that large sums were needed to build up the contingency reserve and also to install R40m of computer systems, which will pay for themselves by their greater efficiency.

Market talk recently suggested the company is interested in merger possibilities. Dean says this is definitely not the case and that it never was considered. ■

STANDARD BANK INVESTMENT CORP

Interest margins past the peak

FM 9/4/93. 58

Activities: *Banking and financial services.*
Control: *Major shareholders are Liberty Life 37% and SA Mutual 21,9%.*
Chairman: *C B Strauss; MD: E P Theron.*
Capital structure: *119m ords. Market capitalisation: R10,6bn.*
Share market: *Price: R89. Yields: 2,1% on dividend; 6,7% on earnings; p:e ratio, 15; cover, 3,2. 12-month high, R89; low, R60,75. Trading volume last quarter, 821 600 shares.*

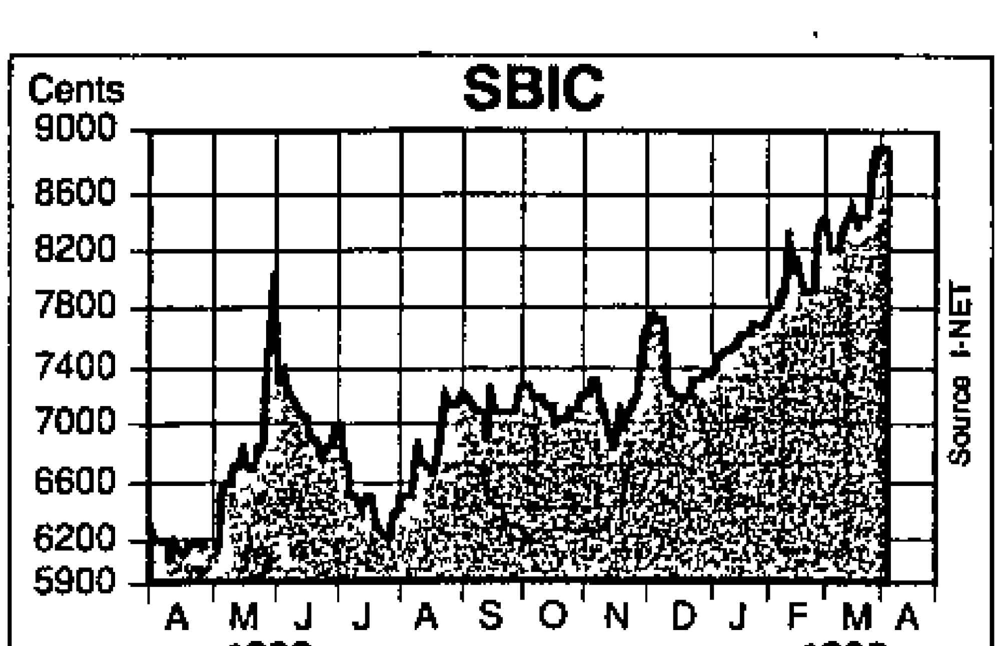
Year to Dec 31	'89	'90	'91	'92
Total assets (Rbn)	39,8	45,5	50,4	63,9
Total advances (Rbn)	30,2	35,3	40,9	49,2
Total deposits (Rbn)	34,2	38,2	43,6	54,5
Return on assets (%)	0,86	0,93	1,04	1,00
Return on equity (%)	17,8	19,0	19,4	16,3
Net income (Rm)	342	424	523	638
Attributable (Rm)	333	413	511	625
Bad debt provisions (Rm)	156	215	379	381
Earnings (c)	340	422	507	593
Dividends (c)	112	133	160	187
Net worth (c)	1 925	2 247	2 609	3 239

Along with other major banks, Standard Bank Investment Corp (SBIC) will remember 1992 as the year of wide interest margins. As a bank with some of the biggest volumes it reaped the benefit of high liquidity and an easing cost of funds.

This helped to drive up net income growth by nearly 22%, though CE Eddie Theron notes that the favourable yield on assets and a 21% increase in loans, advances and acceptances played its part too.

Interest margins are probably not going to be as favourable this year, while bad debts are expected to peak and demand for credit is unlikely to pick up. Under normal circumstances that would spell a tough year ahead for banks. But SBIC did not have a normal 1992 and, though it is forecasting, in its conservative way, a lower rate of increase in earnings for 1993, it is well positioned for weakening market conditions.

For one, it still has a lot of cash left from last year's R648m rights issue. Together with cash conserved from its scrip dividends offer — only R7,7m was paid in cash last year (half the amount paid in 1991) while R167m was taken as scrip, (35% more than 1991) — the bank was very liquid at year-end, with cash funds of R6,7bn. The scrip dividend offer has been withdrawn but it still



SBIC's Strauss ... *culmination of a strategy*

leaves a comforting cash cushion, which will also help the interest turn, even if margins decline this year.

The bank will also benefit from the recently announced dual rate tax system. While it probably has the highest effective tax rate among the big four, about 41%, estimates suggest it will fall to about 34% this year. Roughly, if the new tax system had been applied in the 1992 financial year, EPS (which grew 17%) would have been about eight percentage points higher than the reported figure.

One also can't help but suspect that 1992's growth in EPS pushed the borders of conservatism. Apart from the diluting effect of the rights issue and shares issued for the ANZ Grindlays acquisition, SBIC has a talented management team which must have foreseen a difficult year ahead. Having a little extra tucked away will help to smooth long-term earnings growth.

Chairman Conrad Strauss says one of the most important events of the year was the granting by the Bank of England of authority for SBIC to open a banking subsidiary in the UK. This was the culmination of a strategy which now sees SBIC with flags stuck in many corners of the world besides London, including Zurich, Hong Kong, Taipei, Jersey and the Isle of Man.

The more recent ANZ Grindlays acquisition gives SBIC a presence in 10 African states; the latest thrust is an interest in a bank in Madagascar.

Global diversification has not come cheaply. During 1992 the bank invested R227,7m in its UK operations and R165,7m in African banks, the latter also adding more than 1 000 new employees to the group. But the acquisitions helped to swell assets, contributing about R3bn to SBIC's R13,5bn increase in assets.

The biggest boost to assets came from home loans (R3,9bn) in SA. A breakdown of net income (see table) shows the strong contribution from Standard Bank SA, particularly commercial banking activities. It might be a while before profits start to flow from the offshore operations, but it's hard to question their strategic importance.

COUNTING THE CASH

SBIC's net income breakdown

Subsidiaries	1991 (Rm)	1992 (Rm)
Standard Bank		
— Commercial	309,3	419,6
— Stannic	75,6	86,2
Standard Merchant Bank	35,6	43,1
Standard Bank London	—	(7,5)
Standard Bank Jersey & Isle of Man	—	0,2
Standard Bank Bop	26,0	25,7
Standard Bank Namibia	10,1	14,6
UnionBank Swaziland	—	2,0
UnionBank Botswana	—	(0,3)
Associates		•
Liberty Life anniversary dividend	—	35,7
FIT dividend in specie	62,3	—
Other	53,1	39,8
Net income	523	637,5

Just a year ago, SBIC's share seemed overpriced on a yield of 2,7% and p:e ratio of 11,5. Both have hardened, with the share clearly the best rated among the big commercial banks. It is expensive but the price continues to rise.

Shaun Harris

PALABORA MINING

High yield stock

FM 9/4/93

Copper has been the most resilient commodity amid the downtrend in base metals markets, and Palabora Mining (Palamin) has generally been a resilient investment. The 1992 year was somewhat disappointing when viewed against Palamin's overall track record: while the average copper price received was roughly maintained at R6 596/t (1991 — R6 557/t), earnings dropped 18,6%; the dividends fell by a tenth.

Main culprit was again the bottleneck in the smelter. This has affected Palamin's throughput for several years, as the operation has been unable to work to the capacity of its refinery.

The refinery can produce 137 000 t/year of refined copper cathode. Last year Palamin

→ Cont'd

Bank charges buffet the poor

Star 10/4/93

REAL and hidden bank charges are likely to drive already disadvantaged low earners right out of the formal banking system, BRUCE CAMERON reports.

58

SOUTH Africa's major banks have introduced a wide range of higher service charges which will squeeze low-income earners out of formal banking services.

In the process, the banking system has increased the existing bias which already prejudices the poor.

The trend was started more than five years ago by United Bank, when it was still the United Building Society, which introduced a wide range of charges, forcing closure of thousands of accounts. Other banks have followed suit as a strategy to cut costs.

Banks argue they cannot afford to carry accounts of people who deal in very small amounts and make numerous transactions.

Almost every month, new and increased charges are being introduced on services.

Low earners and the poor now have to pay proportionally more for operating bank accounts. People at the lower end of the market already have to pay more in interest on borrowings.

The cost of borrowing money for the high-risk informal business sector was spotlighted in the Government's recent economic model with a recommendation that the private financial sector should pay more attention to how they can fund the lower end of the market at more reasonable rates.

In most cases, clients with larger balances are excluded from many of the charges, which range from making a balance inquiry at an automatic teller machine to monthly charges on inactive accounts below a fixed minimum balance.

Many of the banks are extremely tardy in giving full details of the charges. In some cases, charges are made on savings accounts with balances below the minimum amounts.

But in South Africa the poor are forced to deal with a world-class retail banking system designed to meet the needs of a highly industrialised, rich society.

Many low earners are forced into situations where they have no option but to pay proportionally high minimum transaction charges which have been introduced because wages are being paid directly into bank accounts or because they have been paid with crossed cheques, which cannot be cashed.

New SA: 'No need to pack your bags'

Star 10/4/93

BRUCE CAMERON

CAPITAL gains, wealth and land taxes are all possible in the new South Africa but they should be no worse than in many other Western countries, the Board of Executors (BOE) concludes in an analysis of three future scenarios.

The particular target would be high-net-worth individuals, but BOE Cape executive director Tom Boardman says there is no cause for fear "and packing your bags". The team did not believe there would be personal tax changes even assuming "the low road" option of high government spending.

New taxes could be levied on capital, including: capital gains, which could probably be levied at a lower rate than income tax, be inflation index-linked, extend to second and other dwellings and vacant land, have a net worth threshold, and could have a progressive or flat rate; land taxes, which could piggy-back on municipal rates; and a wealth tax, which could target high-net-worth individuals and could be based on registerable assets.

Another area of higher taxes would be estate duties, with donations tax being increased in tandem.

... had a winning combi- | ... more I spluttered and | Most stutterers are men, and ... generally in-

Public cash not state's 'problem'

(58) ARG 10/4/93

■ All financial institutions should be brought under a single regulatory body, but investors cannot expect the government to shoulder all risks, says the Melamet Commission.

BRUCE CAMERON
Business Staff

IN the wake of the Masterbond debacle a government-appointed commission has recommended all financial institutions be brought under a single regulatory body.

But the Melamet Commission has warned investors that they should not expect the government to take the responsibility for all risk and pay compensation for losses.

"It is up to the public to protect itself through independent advice, due diligence etc."

But its recommendations include measures to bring greater control to the financial sector and put a halt to the public being hoodwinked with misleading information about investments.

The report of the Melamet Commission of inquiry into the supervision of financial institutions, financial services and deposit taking institutions has recommended that all financial services be brought under a new body to be called the Financial and Investment Services Commission (FISC).

The comission's report was released in Cape Town by deputy Finance Minister, Dr Theo Alant, this week for public comment.

In a statement Dr Alant said the government hoped to introduce legislation in the current session of Parliament "improving and extending the supervision of financial services . . ."

The report recommends that the existing financial regulatory bodies be put under single control to close the existing gaps in philosophy, practices and areas where there was no proper control.

The gaps between the regulators were labelled by the Jacobs committee, which undertook the first Masterbond inquiry, as a major reason for the debacle in which investors lost millions of rand.

The commission which was chaired by Mr Justice D A Melamet spelt out a 19-point mission statement for the proposed FISC. The points included:

■ All people involved in activities where funds of the general public were deposited, invested or deployed in financial services should be subject to FISC supervision;

■ All financial intermediaries should be managed by "fit and proper" people;

■ FISC should concentrate on protecting the interests of non-professional investors and users of financial services; and

■ Actively inform the public that while it would attempt to reduce risks in investment it could not give guarantees against risk;

■ FISC should ensure the nature and extent of risks involved in any financial transaction were effectively disclosed in intelligible language;

■ It should co-operate closely with the Reserve Bank in dealing with systematic risk in the banking system to protect the payments mechanism;

■ Ensure proper capital adequacy levels from all financial intermediaries;

■ Ensure activtities of financial intermediaries were supporrted by adequate systems and resources;

■ Require proper assessment and management of risk by financial intermediaries;

■ Consult to ensure that supervision was effective, cost-efficient and not unduly intrusive;

■ Work closely with professional bodies, such as accountants, actuaries and attorneys;

■ Promote self-regulation where appropriate;

■ Undertake active enforcement of regulations;

■ Secure sufficient enabling legislation to be able to act promptly in public interest;

■ Address the needs of a country in transition; and

■ Employ the best people for the job in FISC.

Shill goes amid talk of split (58) with Absa

S/Times [BUSS]

By ZILLA EFRAT

SAGE Group chairman and managing director Louis Shill will leave the financial group he founded more than 20 years ago at a time when it is in a state of flux. 11/4/93.

He has been appointed Minister of National Housing and Public Works.

It is believed that Sage and Absa are about to part ways. The first signal was this week's announcement that Sage would buy back Sage Life by acquiring Absa's 49% stake in Amalgamated Insurance Holdings (AIH).

Players in the insurance industry say this could herald a link with another group before Mr Shill joins the Cabinet in June.

Sage is believed to have had discussions with Fedsure and Anglovaal Insurance. There is also talk that Sage and Momentum could combine their life-assurance operations.

Analysts say Sage does not have the "critical mass" needed for growth and a logical move for it would be to find a partner to share adminstration costs.

They wonder where Sage will get the money to finance the AIH deal.

Sage executive director Bernard Nackan says speculation about negotiations with other firms, as well as a separation form Absa, is without foundation.

Election

He says Sage would have made an announcement if its was involved in any discussions. All other arrangements with Absa continue as before.

Mr Shill will resign from all his Sage positions. He says: "Sage will prove that it manages quite well without me. The co-ordination of the company is mostly a board function and the new deputy chairman will prove valuable."

Replacement Gerard Steinmetz, who recently retired as a senior executive director of Rembrandt Group, is seen as a "caretaker".

This is because Mr Shill expects to be in the Cabinet only until the next general election and has shown no signs of nominating a second in command at Sage.

Several analysts believe his departure may be good for the group. They say Sage has many capable and long-serving executives who will now be able to get on with running the show.

There is concern, however, that Mr Shill may find it hard to take a back seat and may try to run the group in absentia.

Mr Shill, long known for his enthusiatic support of the National Party, is another Cabinet member to be chosen from the private sector. His university friend, Finance Minister Derek Keys, is in President de Klerk's Cabinet.

Mr Shill is the first Jew in the Cabinet since the Smuts Government fell in 1948.

Gold price's outlook improves

BDM 11/5/93

JONO WATERS

THE prospects for higher gold prices in the coming year will improve enormously if central bank selling and producer hedging does not cap the recent bull run.

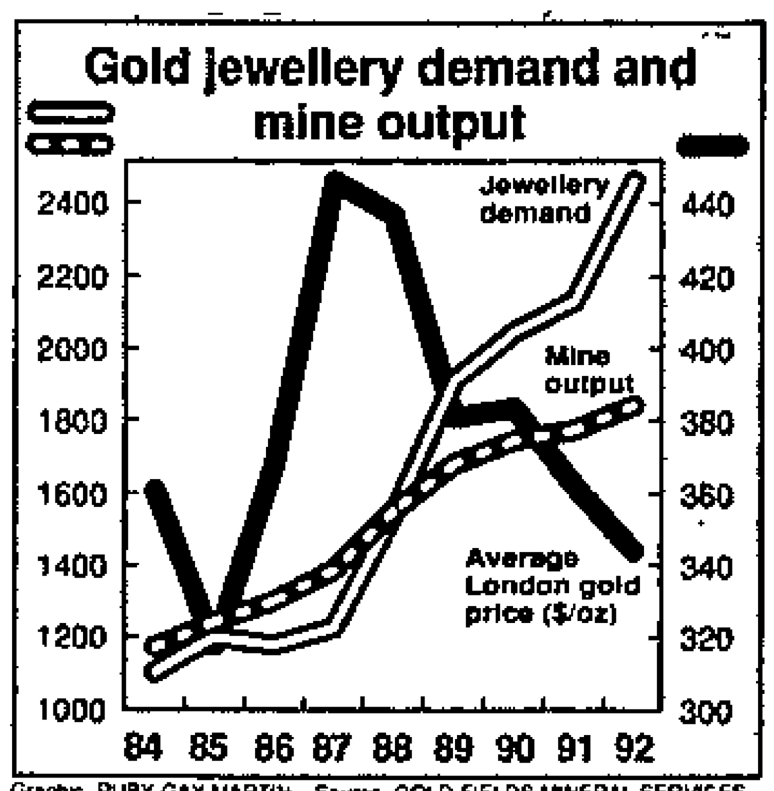
Gold Fields Mineral Services says in its yearly review of the gold market: "If the price does start to improve some time this year from what is increasingly regarded as a cyclical low, the subsequent trend may thus be determined by the reaction of the official sector and hedging activities of the producers."

The group's Gold 1993 report, released worldwide yesterday, said net disposals of 599 tons of gold by central banks was the highest since 1968.

Had the Asian banks not purchased the greater portion of the 400 tons released by the Netherlands' central bank last year, prices at year end would have been even lower. Gold prices averaged \$343,95 in the year, compared with \$362,26 the previous year.

Mine production continued to rise, increasing by 66 tons to 1 841 tons. Sales from the former eastern bloc countries fell to 66 tons from 222 tons. Overall supply, which included gold production, official sales, scrap, gold loans, forward sales and option hedging, amounted to 3 182 tons — 12% above 1991's level.

The report said that while average prices continued to fall, the gold market in 1992 clearly underlined the strength of physical gold demand. Jewellery demand increased by 329 tons to 2 461 tons — the third largest increase in the past 25 years.



Graphic: RUBY GAY MARTIN Source: GOLD FIELDS MINERAL SERVICES

"Consumption of the metal may rise further if the economic recovery in the US is consolidated and if Europe and Japan escape a full-scale recession."

Chinese consumption, one of the biggest areas of growth, looked to remain strong, but the possibility of the authorities trying to deal with inflation by introducing austerity measures might result in a sharp drop in demand.

Reuter reports that some of the largest gains seen on the world market were:

- Italy — official imports increased to just under 380 tons, the second highest to date;
- Turkey — sales into the domestic market by the central bank increased to 130 tons from 112 tons the year before;
- Dubai — imports leapt to a record 280 tons, surpassing the previous peak of 259 tons in 1970;
- Saudi Arabia — imports substantially exceeded the 1991 level of 118 tons;
- India — official imports by non-resident Indians expected to reach 130 tons this year, up from 93 tons last year;
- Singapore — bullion imports surged 57% to 414 tons;
- Hong Kong — imports increased 15% to 340 tons;
- Taiwan — official imports jumped 65% to 174 tons;
- Vietnam — the leading market in Indochina. Consumers buying as a hedge against inflation and reported imports at Ho Chi Minh city airport were 35 tons, but supplies through other channels had to be added to this; and
- Cambodia — the State Bank issued the first official import licence in November 1991, and since then gold had been arriving in Phnom Penh to satisfy strong local demand, and the country had emerged as a significant market.

SA's cash costs fell to \$286/oz (\$292/oz) and remained the second most expensive major producer after the Philippines.

Trans-Natal sees few prospects for growth

BDM 11/5/93

JONO WATERS

TRANS-Natal Coal Corporation would achieve real earnings growth only through acquisitions, MD Dave Murray said yesterday.

"Capacity constraints at the Richards Bay Coal Terminal (RBCT) and weak domestic demand provided the corporation with little scope for growth based on existing operations.

"The coal producer is SA's largest exporter with a 21% share in RBCT. However, international coal prices are weak — current prices are the same in nominal terms as they were in 1986 and the depreciating rand does not fully compensate for this dollar price standstill.

In an interview yesterday, Murray said demand in the domestic market was decreasing, Eskom had stopped building new power stations and Trans-Natal was already exporting its total entitlement of nearly 11-million tons.

Murray said the possibility of an overseas acquisition was not likely at this stage. Trans-Natal's attempt to buy Australian producer Oakbridge last year was blocked by the Reserve Bank.

"Oakbridge was a sound company, but it is not the only one out there," Murray said.

He said the corporation could fund any acquisition through the issue of shares or cash but there was nothing Trans-Natal was seriously considering at the moment. He ruled out the possibility of Gencor helping its subsidiary.

"We don't want to go to Big Brother," he said.

The capacity of RBCT in theory was capable of expansion to 65-million tons from 53-million tons but was unlikely.

Boland Bank predicts growth

BDM 11/5/93 (58)

LINDA ENSOR

CAPE TOWN — Boland Bank has adopted a bullish view on interest rates, predicting another one percentage point drop within the next three months.

The bank's group economist, Louis Fourie, believed the economy would grow marginally this year, with growth possibly rising to 3% next year if there was political progress and a pick-up in foreign growth.

"The economic downturn is slowly starting to bottom out and the basis for the next upswing is slowly establishing itself, notwithstanding sporadic setbacks.

"The most positive factors which form part of this basis are indications of an improvement in the country's foreign reserve position, the positive effect of a declining rand on export earnings and an improved agricultural season. A breakthrough in the negotiating process is necessary to give these factors an extra boost."

Fourie's optimism came despite the recent political turmoil which had knocked business confidence. He believed foreign reserves would improve from the second quarter, mainly as a result of an anticipated more favourable trade surplus.

An improvement in reserves would enhance the chances of a cut in Bank rate, especially where the prime rate of 16,25% exceeded the inflation rate by a comparatively high 6,55 percentage points compared with the 10,4% annual increase in credit extended by monetary institutions.

Fourie said increases in indirect taxes and the depreciation in the exchange rate would push up the inflation rate by about two percentage points during the next 12 months. He forecast an average inflation rate of 11,5% for 1993 and 12,5% for 1994.

Mortgage reallocation proposed for SA housing

BDAY 11|5|93

CAPE TOWN — A modest reallocation of mortgage portfolios to the black community could have a substantial impact on the distorted housing conditions created by apartheid, World Bank executive Stephen Mayo said yesterday.

Opening the 21st World Housing Congress, he presented research statistics identifying policy shifts needed to achieve a well-functioning, fair and self-sustaining SA housing sector.

Mayo, of the World Bank's Urban Development Division, used figures reflecting trends in 1990 in the PWV area, compared to a sample of 52 cities across the world.

These figures showed stark contrasts in the performance of SA's housing sector with housing conditions far worse than should be expected for its level of economic development, and far worse for the black population.

Housing investment was extremely low relative to GNP because effective demand was low. In the white population this was because incomes and population growth were static. Among the black population, apartheid policies had squeezed household budgets, and created insecurities and expenses that cut motivation to spend on housing improvements.

"Thus the housing sector is serving neither the interests of the black population nor the economy as a whole," he said.

"Against these impressions of an under-performing housing sector are other impressions of a high degree of institutional development and considerable resources which, if reallocated toward the black community, could do much to stimulate demand for housing, increase the quantity and quality of their housing, and contribute importantly toward economic growth."

The level of outstanding mortgage credit and the annual new volume of credit created were striking for a country at SA's level of economic development.

"Only a modest reallocation of mortgage portfolios toward the black community could have a substantial and immediate impact on housing conditions," Mayo said.

At the same time, some of the considerable resources currently being spent on residential infrastructure in white areas could be diverted to servicing existing and new black townships. This would improve service quality and provide incentives for residents to undertake complementary improvements to their dwellings.

Finding ways to energise a powerful latent demand for better housing represented one of the most important challenges for housing policy in SA.

"This will require policy changes on both the demand and supply sides of the market, but, in particular, a profound commitment to changing the framework of property rights and the spatial distortion of the apartheid city." — Sapa.

De Beer pins hopes on De Loor report

CAPE TOWN — The apartheid pattern of urban development was not going to go away quickly or easily, DP leader Zach de Beer said yesterday.

Speaking at the World Housing Congress in Cape Town, De Beer pinned future hopes for the housing industry on the publication of the De Loor report, and the launching of the national housing forum.

BDAY 11|5|93

"For the first time in half a century there is an approach to housing which is united, including both authorities and communities together, recommending sensitive and understanding approaches."

The report, which recommended a single nonracial national housing department with jurisdiction over the entire country, was a breath of fresh air blowing away the "cobwebs of apartheid".

Only the emergence of a new social contract, involving the state, financial institutions, building industry and political leadership in the townships, could mobilise the existing vast resources necessary to meet the housing shortage. — Sapa.

Is your banker taking you for a costly ride?

C/PRN 11/4/93

58

By SIPHO KHUMALO

A COMPANY of Natal business consultants is claiming that banks are fleecing clients of millions of rands by overcharging interest on overdrafts and hire purchases.

Wespro Business Consultants, based in Richards Bay, has already submitted more than R30-million in claims for clients of banking institutions.

"The claims arose out of interest overcharged on overdrafts and hire purchases of which clients seldom, if ever, receive a written or verbal notification," says Wespro executive head Jaap Spelt.

He said several million rands had already been paid back to clients, adding clients had been requested in writing by some of the banks not to make the information known. The back payments to clients are often done as "a goodwill gesture without prejudice of the law". Spelt, who also runs a financial consultancy in Pretoria, dismisses this as "a bluff".

Spelt, a former banker who has developed a computer program that enables customers of banks to check if there has been any interest overchanging on their accounts, has for three years been crusading against breaches of the Usury Act.

"The fact that Volkskas Bank decided as recently as last month to plead guilty at Warrenton to three acts of infringement of Article 10 (6) of the Usury Act is only the tip of the iceberg," he said.

Volkskas paid R600 in admission of guilt fines for contravening a section of the Usury Act. The bank failed to notify a client within a stipulated time of a change in interest rate applicable to his overdraft. Spelt's company had helped in formulating the case.

More than 200 outstanding and pending complaints of interest malpractice and alleged abrogation of the Usury Act have already been carried over to the Department of Finance, he said.

Twenty-four cases that have been reopened are presently receiving attention, Trade and Industry deputy minister D de Villiers Graaff told parliament on February 16.

Graaf said members of the public had lodged 122 complaints, 13 of which had been referred to the SA Police.

Spelt said in his discussions with the Consumer Council and political parties there was strong support for the professional investigations into the alleged overcharging of interest and violations of the Usury Act.

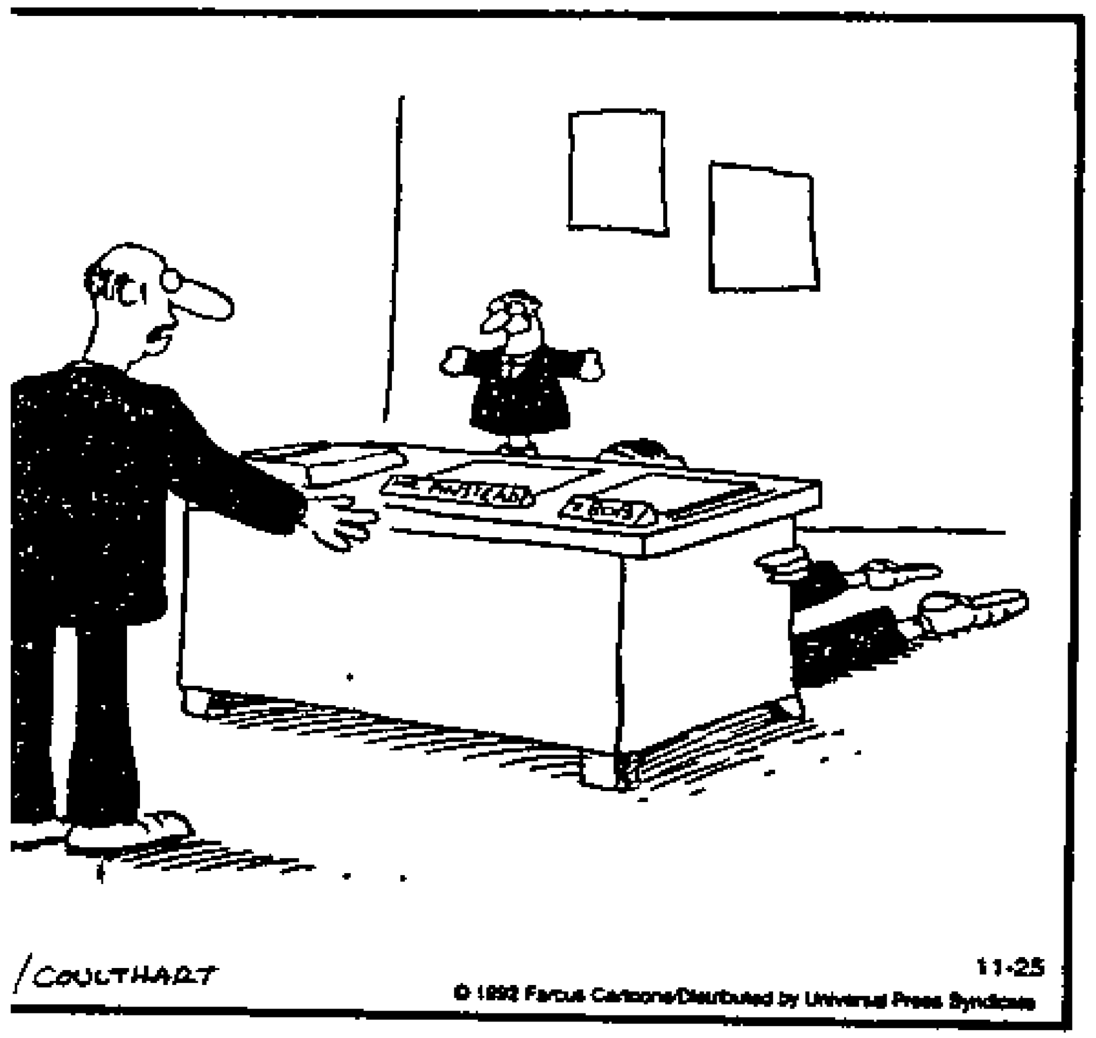
He said of the 2 560 clients whose bank statements and hire purchases his company has investigated, more than 90 percent of them had faults.

"Many repayments, even as high as R230 000 in a single case, have already been made," he said, adding a countrywide petition aimed at formulating alterations to the law and preventing possible abuse by financial establishments had been launched.

"Thousands of users, especially those that make use of overdraft facilities, support the case. It is specifically on the public insistence that we have decided to go ahead," he said.

cus

by David Waisglass
Gordon Coulthart



. . Are you trying to tell me I'm fired?

He has our cash, claim charities

Star 12/4/93.

38

By June Bearzi
Star Line

A former manager of a Hillbrow "vice den" has climbed on the help-the-needy bandwagon and raked in large sums for himself by using "charity" missions as fronts.

These charges have been levelled against Gherto Tanzarello by several former colleagues, who describe him as a gifted musician and Jimmy Swaggart-type evangelist "with a silver tongue".

Last year Tanzarello joined the Shepherd's Flock mission — a Venterspost organisation which shelters the destitute — to help raise money.

However, Shepherd's Flock founder Margaret Jones said Tanzarello was dismissed from the organisation within a few months as he had failed to hand over funds collected from the public.

After his dismissal, Tanzarello apparently established his own "charity" operation, Bread-for-Life, in Westdene, Johannesburg. According to sources, he also failed to channel the Bread-for-Life funds into organisations that assisted the needy.

Three years ago Tanzarello was live-in manager at the Quirinale Hotel in Kotze Street, Hillbrow. The hotel was labelled at the time as a "vice den".

Messages left for Tanzarello have not elicited a response.

Star 12/4/93

Angolan peace talks spark fresh hope

HARARE — Representatives of the Angolan government and the armed opposition Unita movement are set to meet today in the Ivory Coast capital Abidjan amid hopes for an eventual truce after five months of vicious renewed civil war in Angola

Both sides have expressed desire for a ceasefire. Angolan presidential spokesman Valdemiro da Conceicao said an end to the fighting was the basic aim of the talks, while the UN mission in the country said the foes were willing to discuss a ceasefire.

Two attempts earlier this year in Addis Ababa to get the two sides to stop fighting failed.

At the first meeting in the Ethiopian capital, government and Unita representatives could not agree; and the second time, Unita negotiators failed to turn up.

Fighting has been raging in much of the country. An estimated 20 000 people have been killed, many more thousands wounded and 2 million displaced during the past five months.

That civil war which started soon after Angola's independence from Portugal in 1975 formally ended in the 1991 Bicesse peace accord.

But it resumed after Unita, led by Jonas Savimbi, lost last September's UN-supervised general elections to the ruling MPLA party.

While the Angolan government, which is seeking its recognition by the US government, has accepted Unita's offer for the resumption of talks in Abidjan, it has rejected its demand for the formation of a new, interim government.

Unita's decision to meet with the MPLA government came after the UN Security Council called for a resumption of dialogue at the highest level between the two sides.

Among the government's terms are a reaffirmation of the Bicesse peace accords, signed on May 31 1991, as still valid.

It also wants Unita to accept the September election results, which Savimbi maintains were fraudulent.

But this round of talks is not expected to bring about an immediate ceasefire. Unita's Abidjan-based secretary for African affairs, John Marques Kakumba, reportedly said they would take several stages, with both sides consulting their leaders back home in Angola. — Sapa-AP.

to show an increase in earnings a share for the next five months.

nificantly to the results, achieving major sales and consolidating its position in the financial services sector.

The company's networking divi-

the year were Outsourcing and 60%-owned Persetech Botswana, established to market group products there as part of an expansion into Africa.

Broker system to beef up JSE surveillance capacity

BDM 12/5/93

MERVYN HARRIS

SURVEILLANCE capacity of the JSE would be enhanced from the end of this month when all broking firms would be using the broker deal accounting system, executive president Roy Andersen said yesterday.

In the most comprehensive annual address yet delivered to members, he said the number of firms using the system increased from 14 to 43 during the financial year to end February. The remaining five would have the system by the end of May.

The surveillance department had been strengthened by a recruitment drive and the use of more sophisticated techniques to identify unusual or abnormal transactions.

The enhanced capability of the system was reflected in the successful identification and correction of uncovered short sales by two brokers.

Turnover on the equity market increased to R23,1bn from R22,7bn the previous year, but the number of deals declined from 560 000 to 455 000. Liquidity remained constant at 4,3%.

Capital raised mainly through rights issues totalled R11,6bn, below the record R14bn raised the previous year but well above the R5,7bn raised two years ago. Andersen said a feature was the return of foreign investors as net buyers. Turnover in the gilt market was a record R621bn compared with R251bn the previous year with the highlight being the SA Breweries R1bn bond issue.

The Traded Options Market (TOM) experienced a disappointing year. As a result, the JSE wrote off the balance of unamortized development expenditure. TOM was now being run by a skeleton staff pending implementation of a restructuring of the market and introduction of new derivative members.

The JSE's R709 000 loss during the year was in line with budget, but the TOM write-off lifted the total loss to R14m.

The JSE took a stronger line on companies meeting reporting requirements by raising listing criteria from January 1. During the year 38 warnings had been issued to companies. Thirty-five had responded and three suspended. The listing of one company had been terminated.

Goals for the new year included a harmonising of listing requirements with international standards which would mean additional disclosures by companies at time of listing but more flexibility in raising capital.

Low demand hurts Protea

LINDA ENSOR

CAPE TOWN — Low consumer demand for insurance, higher levels of policy lapses and fierce competition had continued to affect Protea Assurance in the first quarter, chairman Denis Fletcher said at the group's AGM yesterday.

Business had also felt the effects of the high crime rate. BDM 12/5/93

"On a more positive note, weather-related losses — which are often experienced during this period — have been minimal, and this is despite the worst storm experienced in the Cape for many years."

Protea suffered a gross loss of more than R4m as a result of the fire at the Duncan Dock Cold Store on January 1, but the net loss was much lower after recoveries from reinsurers.

Last year Protea converted the R6,8m loss suffered in 1991 into an attributable profit of R22,8m.

Pinched reserves point to rise in interest rates

Business Staff

A SHARP RISE in short-term foreign borrowings by the Reserve Bank in March — coupled with seriously depleted gold and foreign exchange reserves — signals that interest rates will rise in the months ahead.

The SA Reserve Bank announced at the weekend it had increased its short-term foreign borrowings to R2,1bn in March from R1,4bn in February.

And the Bank said in an earlier statement that gross gold and foreign exchange reserves shrank by R818,5m — almost 10% — to R7,5bn in March from February.

The combined reserves fell 5,6% or R490,1m in February to R8,30bn. In January total reserves slid to R8,79bn after a drop of R1,46bn in December to R9,10bn.

Reserve Bank governor Chris Stals said in March that the continued deterioration in the country's foreign reserves would prohibit a cut in interest rates — despite the lack of inflationary pressures in the economy as evidenced by the subdued growth in the M3 money supply which has stayed below the central bank's guideline range for the past two months.

(58) CT 12/4/93

Going up

And chief economist of the Reserve Bank, Ernie van der Merwe, stated as early as February that if the outflow in reserves were to continue, interest rates would have to rise again by the end of this year.

The sharp fall-off in March was attributed to an 18% drop in foreign reserves to R2,3bn from R2,8bn.

Eskom recently repayed R600m in foreign loans, necessitating swift action from the Reserve Bank to shore up its reserves.

The Bank said it had increased its short-term foreign borrowings from R1,4bn at the end of February to R2,1bn at the end of March.

Gold reserves declined by 7% to R5,2bn from R5,5bn. Physical gold holdings dropped from 5 922 296 fine ounces to 5 462 305 fine ounces.

The only positive note in the announcements was the expected higher gold price, which increased by R21,74 per fine ounce to R953,03 per fine ounce — off a low of R911,24 in January. This has prompted the Reserve Bank sales of bullion — a mixed blessing given Stals' preferred position of higher gold holdings "providing the comfort of a usable international reserve asset, produced locally, which does not represent the liability of another country."

Cape bid irks parks chief

CAPE TOWN. — The possibility of the Parks Act being modified to let the Cape Provincial Administration administer national parks has been met with dismay by National Parks Board chief executive director Dr Robbie Robinson. 56 CT 12/4/93

He was responding at the weekend to an announcement by Cape Administrator Mr Kobus Meiring that he was going to make a formal request that Table Mountain be managed by the CPA as a national park.

Dr Robinson said that if the Peninsula's protected natural environment — which included Table Mountain — was to comply with international criteria for a national park, the Parks Board should manage it. — Sapa

Few takers lured by cheaper credit

GRETA STEYN and JOHN DLUDLU 58

CUTS in interest rates have failed to stimulate credit demand as companies and consumers continue to feel the pinch of the recession. BDAY 13/4/93.

Reserve Bank figures show credit extended to the domestic private sector fell in January to R209,46bn from R209,49bn in December. Economists said an actual decline in credit between two months was unusual. On a year-on-year basis, there was an increase of 8,36% in January, down from 8,73% in December. The previous year, credit was growing at an annual rate of more than 15%.

Bankers said there was no evidence yet of a turnaround since January, although pre-VAT buying had led to some uptick in loans extended.

Absa credit GM Kevin Gibb said blue chip corporate customers were still cash flush and there was no sign yet of a revival in demand from that sector. As far as consumers were concerned, people were "in over their heads and battling to survive". From readvances on the mortgage side, it was clear individuals were consoli-

□ To Page 2

Credit BDAY 13/4/93.

58 □ From Page 1

dating their debt by switching into mortgage credit from other, more expensive forms of credit.

Reserve Bank figures confirm that a switch is taking place as mortgage credit is increasingly being used to finance non-real estate related spending. The sharp fall in other loans and advances in January to R71,8bn from R73,9bn was offset by an increase in mortgage lending, from R82,3bn in December to R83,6bn in January. The Bank's figures also show that mortgage finance is outstripping real estate transactions — further evidence that home loans are being used for consumer spending.

First National Bank group GM Norman Axten said Wesbank had seen a pick-up in business this year, but it was probably an aberration related to the VAT increase.

Standard Bank senior GM for risk management division Ian Gilbert said banks were feeling the effects of the recession on lending volumes.

Gilbert was pessimistic about an upswing in the demand for corporate credit this year. "I think the demand will follow the economic recovery. If the economy reaches a breakeven point at the year's end, the demand for credit will follow thereafter. This situation, however, depends largely on the political settlement."

Nedbank's divisional director Jack de Blanche agreed that the money lending institutions were in a gloomy state. "We have found credit demand to be static in both the personal and corporate markets. On the card side the increase in demand has hardly beaten the inflation rate."

De Blanche noted that any recent increase in credit business had been the result of people switching from one institution to another rather than new demand. Until a political settlement was found, the uncertainty would remain — resulting in people consolidating existing credit rather than overspending.

Comment invited on financial services report

THE Deputy Minister of Finance, Dr Theo Alant, has invited comment on the Melamet Committee of Inquiry report into the feasibility of a holistic approach to the supervision of financial services.

(58) CT 13/4/93

Dr Alant said the government wished to submit legislation in the current Parliamentary session that improved and extended the supervison of financial services.

Comment should be sent by May 3.

● Free copies of the report are available from the Menlo Park Financial Services Board.

Melamet recommends a financial services watchdog

Star 13/4/93

By Bruce Cameron

CAPE TOWN — In the wake of the Masterbond debacle, a government-appointed commission has recommended all financial institutions be brought under a single regulatory body.

But the Melamet Commission has warned investors that they should not expect the Government to take the responsibility for all risk and pay compensation for losses.

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But its recommendations include measures to bring greater control to the financial sector and put a halt to the public being hoodwinked by misleading information about investments.

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Comment

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Reason

The gaps between the regulators were cited by the Jacobs Committee, which undertook the first Masterbond inquiry, as a major reason for the debacle in which investors lost millions of rand.

The commission chaired by Mr Justice DA Melamet spells out a 19-point mission statement for the proposed Fisc. The points include:

- All people involved in activities where funds of the general public are deposited, invested or deployed in financial services should be subject to Fisc supervision;
- All financial intermediaries should be managed by "fit and proper" people;
- Attention should be paid to protecting the interests of non-professional investors and users of financial services;
- The public should be informed that while Fisc will attempt to reduce risks in investment, it cannot give guarantees against risk;
- The nature and extent of risks involved in any financial transaction should be effectively disclosed in intelligible language;
- There should be close co-operation with the Reserve Bank in dealing with systematic risk in the banking system to protect the payments mechanism;
- Proper capital adequacy levels from all financial intermediaries should be ensured;
- Fisc should ensure that activities of financial intermediaries are supporrted by adequate systems and resources;
- Proper assessment and management of risk by financial intermediaries should be required;
- Fisc should consult to ensure that supervision is effective, cost-efficient and not unduly intrusive;
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- It should promote self-regulation where appropriate;
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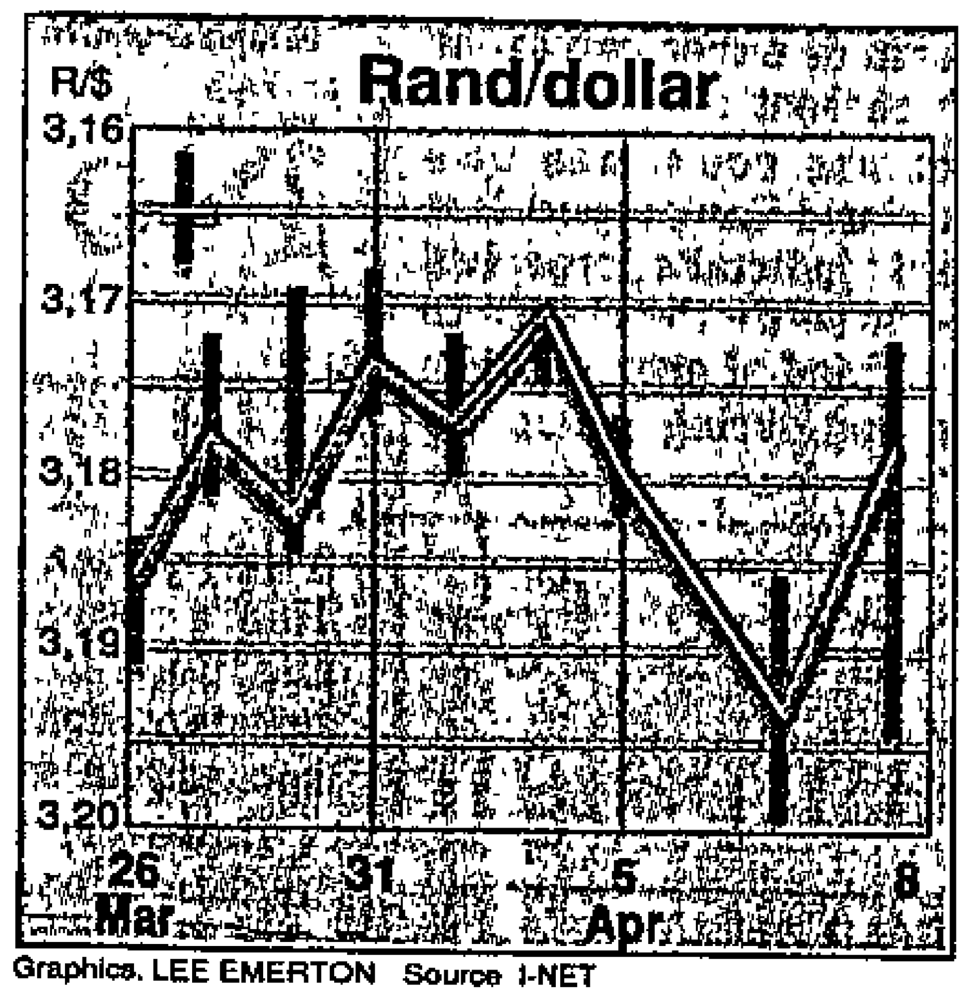
- It should employ the best people for the job.



Graphics. LEE EMERTON Source I-NET

Depreciating rand slides further

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GRETA STEYN

THE rand has depreciated by almost 4% against a trade-weighted basket of currencies since October last year when the currency first came under pressure.

The Standard Bank's index of the rand exchange rate to the currencies of SA's major trading partners shows accelerated depreciation in April. The index was 36,8095 on Thursday, from 37,1848 at the end of last month and 38,2429 on average in October.

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The rand shed 1,8% in the first week of April on a trade-weighted basis as it failed to benefit fully from dollar weakness.

Economists said depreciation against the basket of currencies was evidence of rand weakness — a reflection of SA economic fundamentals rather than the result of international currency market trends.

Standard Bank foreign exchange dealer Dave Collett said the rand had been "living on borrowed time. The chickens are coming home to roost and the rand did not benefit much from the recent dollar weakness. There is a perception that the foreign exchange reserves situation is worsening and that the Bank does not have the currency to protect the rand."

Simpson McKie economist Graham Boyd said falling foreign exchange re-

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Rand

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serves were indicative of pressure on the rand. Capital outflows and the drought's effects on the current account balance had so depleted reserves that the Bank was experiencing difficulties in supporting the currency. However, he believed the effect of the weak rand on inflation would be muted as the Bank's tight clamp on money supply would make it difficult for importers to pass on price increases.

The weak rand would also provide a boost to exports, which would lead to an improvement in the reserves situation and ultimately to a strengthening of the rand.

Since mid-February, the rand has weakened considerably against the Japanese yen and the British pound, while the losses against the dollar have been less severe.

Dealers said the Reserve Bank stepped in decisively on Thursday to protect the rand, pushing the exchange rate against the dollar to R3,1780 from R3,19.

Tight liquidity may boost rates

(58) BDAY 13/4/93

THE money market shortage leapt to a record R5,7bn on Thursday, leaving most treasurers taking the view that it was better to sit out this round than try to outguess the market.

The rising shortage has been blamed on dwindling reserves and people drawing money for the long weekend.

Borrowing money from the Reserve Bank is a costly business, particularly when the shortage gets so high. Banks start having to dust off lesser-quality assets — which attract higher interest rates — to hand in at the window as collateral.

But stop for a moment and suppose — as some market players suggest — that the Bank wants to see interest rates higher. What better way to do this than by keeping the clamp on liquidity?

Certainly, capital outflows and the like are draining liquidity — but so is selling government debt.

Why would the Bank choose to sell more than R2bn debt into an illiquid market?

There may not be anything sinister in this — it may have sold the debt simply to take advantage of opportunity. On the other hand, it could be that the Bank is keen on nudging the banks to up interest rates without it having to resort to pushing up Bank rate to achieve the same effect.

Hiking Bank rate would destroy any remnants of positive sentiment in the market. So it may feel it is better to prod the banks into "doing the right thing" by charging market-related interest rates.

This was one of the spinoffs of scrapping liquid bankers acceptances. The Bank apparently felt that the paper was being abused and firms were borrowing money too cheaply.

Seen against that action, there could be some truth to the theory that the shortage might reflect a programme to boost interest rates.

Melamet report could serve as 'world model'

(58) BDAY 13/4/93.

LINDA ENSOR

CAPE TOWN — The recommendations of the Melamet committee report in support of the comprehensive regulation of financial services would, if implemented, give rise to a unique system of regulation which could become a model for other countries.

This was comment by financial regulatory systems expert Prof David Llewellyn of Loughborough University in the UK.

The committee proposed that a super-regulatory body, the Financial and Investment Services Commission (FISC) be established to guard against systemic risk and promoting reasonable investor protection through the regulation of all activity in the financial services sector. The report was released last week for comment.

In comment included in the report, Llewellyn said he strongly supported the proposals and institutional arrangements which represented "a unique approach at addressing the problems of regulation, supervision and the optimum structure of regulatory institutions that are common to all financial systems".

"It has the potential of serving as a model," he said.

"A properly co-ordinated, planned, directed and resourced holistic regulatory structure for SA is a very real need," the report said, referring to the conglomeration of the financial sector and the emergence of multifunctional structures.

The report recommended that the present Financial Services Board Act be used as legislative basis for the new dispensation. Later a comprehensive Financial Services Act could be promulgated.

The Financial Services Board (FSB) would become the FISC and its jurisdiction would be broadened to incorporate the supervision of banks, building societies, companies and close corporations.

It was necessary to include companies as this was where much of the public's savings were mobilised for high-risk investment. However, the Securities Regulation Panel, which regulates the conduct of mergers and takeovers, would continue to operate as an independent statutory body within the framework of the FISC.

Insofar as the Reserve Bank was responsible for protecting the banking system from systemic risk, the new legislation would make statutory provision for a close relationship between the FISC and the Reserve Bank. A senior Bank representative would sit on the FISC policy board and the FISC would be statutorily obliged as the Bank's agent to consult with the Bank.

The committee did not consider it appropriate for the Bank to retain its supervision of banks and building societies as this would mean there would have to be a system of co-ordination between separate supervisory institutions. The committee said this would undermine the holistic approach to regulating the financial services sector and emphasised that what was required was a central, "top-down" structure having authority and responsibility.

In terms of the proposed structure the FISC would be governed by a policy board, responsible to the Finance Minister, consisting of mostly private sector members.

Of cardinal importance would be a distinction drawn by the FISC between prudential supervision aimed at protection against systemic risk and supervision of business conduct to protect investors.

The FISC would be self-funded, deriving its funds from levies or licence fees on financial institutions. Great emphasis was placed on cost-effectiveness.

A basic operating principle of the FISC would be a reliance on the efficiency of markets. Consultation with the market, rather than unilateral imposition of its views would be its modus operandi. The emphasis would be on self-regulation.

However, the FISC should have statutory powers to act quickly in the public interest. But, the committee said, the role of protecting the public interest should not be construed as an official guarantee of the safety of a financial activity.

The FISC would, however, require good disclosure so that financial service users and investors could identify the nature and extent of their risks.

Outsider moves in as Eskom favourite

Own Correspondent

JOHANNESBURG. — A rank outsider has emerged as the new favourite to succeed Eskom CE Ian McRae.

Sources at Eskom's Megawatt Park head office said at the weekend that the controlling Electricity Council had earlier this month given sales and customer services director Allen Morgan an 8-7 vote to succeed McRae ahead of finance and services director Mick Davis.

Morgan was previously not considered to have enough "political" clout within Eskom to take over from McRae who is scheduled to vacate his CE's seat in March next year, two years ahead of schedule.

Davis was previously considered the strong favourite, largely because of the backing he is known to enjoy from Eskom chairman John Maree. It now appears, however, that Morgan is being supported by McRae.

Morgan has been closely involved in negotiations with township councils and residents' associations which have led to Eskom taking over direct supply to hundreds of thousands of black consumers.

He has also played a leading role in the electricity forum, which is tasked with defining a new electricity policy and is due to be formally launched next month.

Watchdog proposals welcomed

Star 14/4/93

By Derek Tommey (58)

The Government's proposals to prevent a repeat of the Masterbond and Supreme debacles have been generally welcomed by the financial services industry.

But there is feeling that care will have to be taken to ensure that the proposals do not lead to a cumbersome or bureaucratic structure and that they do not result in some losing their livelihood.

The proposals, submitted by the Melamet Commission, call for a watchdog to oversee all financial services, to be known as the Financial and Investment Services Commission (Fisc).

Its duty will be to protect the interests of non-professional investors and users of financial services.

But the commission makes it clear that Fisc must inform the public that it cannot give any guarantees against risk.

David Alston, editor of the insurance magazine, Cover, who has many years' experience in the financial services industry, says that while Fisc should provide investors with greater protection, it will not protect them from their own folly.

They must still take care and examine all the facts carefully when they make an investment.

It appears from the commission's proposals that Fisc will oversee several financial sectors, including banks, building societies, unit trusts and the insurance industry.

He says the authorities might find it difficult to define what a "fit and proper" person is (those who have to supervise intermediaries such as brokers and agents) without making the description so onerous that no one can comply with it.

He believes there may have to be a "grandfather" clause in any regulations that might be prescribed so that existing intermediaries who not not comply with the regulations are not debarred from carrying on their occupations.

He welcomes the call for self-regulation by the the parties concerned, but hopes that financing the body will not add a heavy burden to a financial services industry that is already paying large levies to existing supervisory organisations.

Star 14/4/93.

Old Mutual unit trust payouts

(58)

Old Mutual's Investors Unit Trust will pay out R68 million in distributions for the six months to March.

A distribution of 62,6c per unit has been declared for the six months, making a total distribution payout of R68,2 million.

The Industrial Fund has declared a distribution of 6,39c per unit, making a total payout of R2,1 million.

The Income Fund has declared a distribution of 3,65c per unit for the three months to end-March, making a total distribution payout of R4,3 million. — Sapa.

GuardBank Industrial turns out tops

15/4/93 (58) Bus Day

ANDREW KRUMM

GUARDBANK Industrial Fund confounded market trends by becoming the top performing unit trust for the year to end-March despite a lacklustre share market in its specialist sector on the JSE.

According to a University of Pretoria quarterly unit trust survey, the industrial fund reported a 23,61% return for the period, far outperforming the meagre 1,27% return on the industrial index.

The Metboard Income Fund again took second spot, with a 21,83% return for the year, while previous top performer UAL Gilt Unit trust came third, reporting a 20,85% return.

Pretoria University Graduate School of Business's Prof Hugo Lambrechts said the GuardBank Industrial Fund not only stood out in the industrial sector, which was characterised by low returns, but beat all other JSE equity indices as well.

The closest performance among equity funds came from the UAL Selected Opportunities unit trust, with a 19,25% return for the year, he said.

GuardBank fund managers Liberty Asset Management (Libam) attributed the performance to investing in quality financial and industrial shares, and a defensive liquidity position (28,3% of portfolio value at the end of March).

Libam deputy MD Dave Golembo said the year-old unit trust's top 10 holdings included Liberty Holdings, Metropolitan, FNB, Richemont, Sasol, Nampak, Reunert, SAB and Stanbic. "We also did quite a bit of buying during the quarter as a strong investment inflow saw the fund grow 29% to R15,05m."

Lambrechts said "gilt and income funds made small capital losses during the quarter as medium-dated gilts performed rather badly."

A UAL fund manager said interest rates had held at December 1992 levels during the first two months of 1993, but jumped sharply in March. The rise was particularly evident in medium-dated stock, he said.

However, "the 12-month performance figures still reflect a sharp drop in interest rates in the second and third quarters of 1992, which effectively buoyed gilt unit trust returns for the year to end-March 1993."

The fund manager added bond traders believed interest rates would be lower at the end of 1993, as a rise in rates in March 1993 was largely a result of once-off phenomena.

Lambrechts said the greatest swing in unit trust performance during the quarter had come from the gold funds. Previously bad performances had changed dramatically as the Gold Index rose more than 50% during the quarter.

This had allowed funds like the Old Mutual Gold Fund, which closely tracked the gold index, to turn a -28,36% return for the year to end-December into a 12,05% return for the 12 months to March, he said.

The boom in gold shares had a spinoff effect on mining and resources unit trusts, which also exhibited swings in performances, but not to the extent seen in the gold funds.

Managed Fund stands out in UAL's modest showing

THE performance of UAL's unit trust funds was modest to weak for the quarter ended March 1993, although its two-month-old Managed Fund unit trust stood out in attracting R40m in investments.

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The Managed Fund trust purchased its core holdings in the quarter and aims to achieve an investment spread of 48% equities, 30% gilts, 14% money market and 8% property during the next quarter.

The Selected Opportunities unit trust achieved a return of 19,25% for the year to end March 1993. The distribution for this fund for the half-year to end March was 33,16c a unit.

BDAM 15/4/93

The UAL unit trust recorded relatively stable growth in line with the JSE all share index with a return of 7,45% for the year. A distribution of 23,07c a unit was declared for the first quarter of 1993.

The fund experienced a modest inflow during the quarter and the exposure to long bonds was increased. The market value of the portfolio, which showed a 20,95% return for the year, stood at R466,6m at March 31 1993.

The Mining and Resources unit trust performance reflected the generally poor performance of this sector.

Despite an annual return of -4,53% and a declared distribution of 3,46c a unit for the quarter, UAL fund managers remain confident it is well positioned to benefit from a sustained world economic recovery, anticipated towards the end of the year. — Sapa.

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AML to endorse deal

THE Association of Mortgage Lenders appears set to endorse at a council meeting next week an agreement reached with the SA National Civic Organisation to establish an unemployment bond insurance scheme and "new procedures" for handling arrears, defaults and repossessions.

REPORTS: Business Day Reporter, Sapa, Own Correspondent.

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FNB acquires Hong Kong bank

GRETA STEYN

FNB has acquired Hong Kong-based bank Midlantic (Asia) Ltd for $15m in a cash deal that completes the SA bank's overseas expansion drive.

FNB senior GM Viv Bartlett said the East Asian bank, which had an asset base of $75m, was profitable. It concentrated primarily on trade finance and its focus in this area would naturally shift more towards SA trade finance than had been the case in the past. Midlantic was formerly a wholly owned subsidiary of the Midlantic National Bank of Edison, New Jersey.

Bartlett said the deal was done through the financial rand with finrands that had been accumulated. The FNB ownership takes effect immediately and the operation's name and corporate identity will be changed to reflect its SA parentage.

The acquisition follows FNB's purchase of Henry Ansbacher in London and the establishment of an FNB branch in Zurich.

Bartlett said the latest purchase completed the bank's current overseas acquisition drive. Asked whether opposition to foreign expansion by the SA National Civic Organisation (Sanco) had played a role in decisions, he said the banking group believed it would be doing SA a disservice by not expanding overseas.

It was also announced yesterday that Eddie Keys would be the MD of the new operation. Keys was FNB's representative in Hong Kong in the early '80s.

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GUARDIAN NATIONAL

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Short rations

(58)

Activities: *Short-term insurance.*
Control: *Guardian Royal Exchange (51%).*
Chairman: *D Gordon; MD: K Nilsson.*
Capital structure: *10,1m ords. Market capitalisation: R556m.*
Share market: *Price: 5 500c. Yields: 3,4% on dividend; 9,8% on earnings; p:e ratio, 10,2; cover, 2,9. 12-month high, 5 500c; low, 2 800c. Trading volume last quarter, 8 000 shares.*

Year to Dec 31	'89	'90	'91	'92
Total assets (Rm)	518	589	718	873
Solvency ratio (%) ..	72,7	66,0	73,6	61,6
Underwriting prof (Rm)	9,2	(14,0)	1,6	6,6
Investment inc (Rm) .	36,2	44,9	50,8	61,1
Pretax profit (Rm)	45,5	30,8	52,4	61,6
ROE (%)	15,3	12,3	14,1	15,7
Earnings (c)	301	266	410	537
Dividends (c)	110	130	155	181,5
Net worth (c)	1 962	2 154	2 916	3 418

By the nature of the short-term insurance industry, there is little potential for any company to buck the trend of the underwriting

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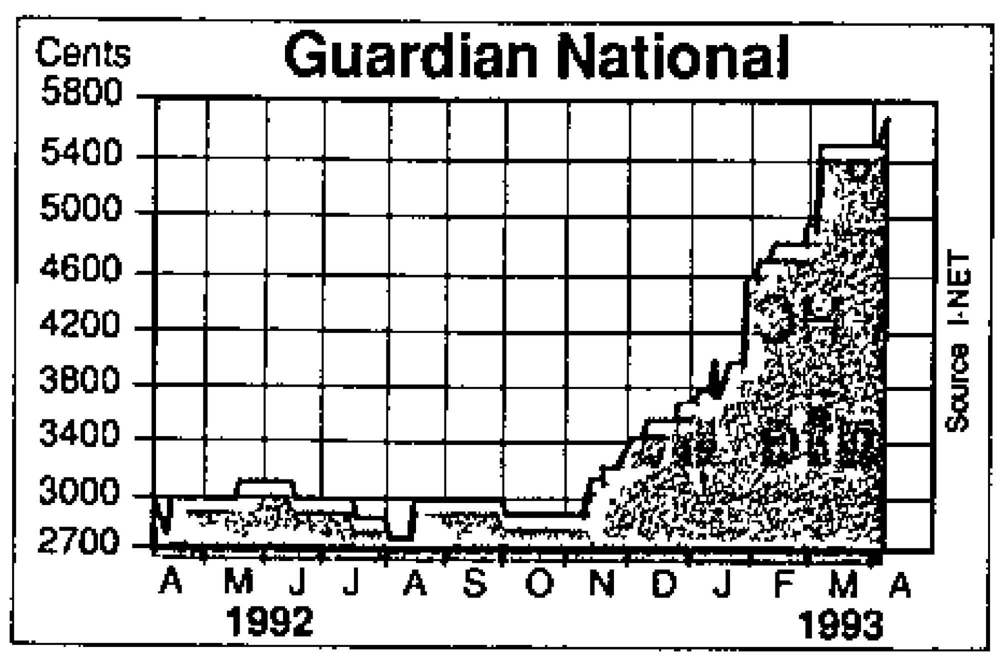
cycle which peaked in calendar 1988, bottomed out (with losses across the board) in 1990 and is now on the mend with moderate profitability restored.

Immediate reasons for the recovery have been two relatively disaster-free years, coupled with effects of substantial rate increases implemented at the trough of the cycle.

While all companies have followed basically the same pattern in underwriting results, it is interesting to note the different approaches by individual companies. Whereas SA Eagle (*Companies* April 9) seems to be content with its existing level of business, judging by growth in premium income of under 3% last year, Guardian National has aggressively sought market share. Success here is reflected in the increase in net premium income (after reinsurance) at a compound 28% since 1988, with the 1992 gain in line with this.

Which course is likely to yield the best results can be judged only over the long term. However, Guardian shareholders have little cause for complaint, despite the ups and downs of the underwriting cycle. Again using 1988 as a base, it has achieved an annual 21% compound growth in earnings, while the corresponding improvement in dividends has



been 20%.

One of the more remarkable aspects is the consistency of dividend growth. In 1990, when EPS fell 12% as a result of an underwriting loss, distribution was still increased by 18% and did not differ materially from the established growth pattern.

Growth at this pace does not come without strain. In particular, with net premium income increasing by 28% a year, there is an obvious problem in maintaining corresponding growth in shareholders' funds to preserve the solvency ratio, which measures the equity base against net premiums.

Despite a relatively conservative payout policy, which normally sees dividends covered 2,5 to three times by earnings, growth in the equity base has lagged somewhat with a 25% average annual gain. The solvency ratio has thus slipped from 75,4% in 1988 to 1992's 67,6%. Even at its lower level, this ratio is not to be sneezed at. But it's well below SA Eagle's 93,3% and Guardian stops short (unlike SA Eagle) of claiming its balance sheet to be among the strongest in the industry.

In rand terms, expenses accelerated sharply last year, with the composite figure of R54,1m (including expenses relating to claims administration) up 23% on 1991. This was not out of line with the expansion of business and in proportion to net premium income was in fact down slightly to 10,6% (1991: 11%) and looks satisfactory while the company remains in a rapid growth phase.

Given the vagaries of the short-term insurance industry, Guardian's record is sound and the recent rise in the share price to a record high of R55 is not unjustified. However, the share is almost impossible to buy. With Guardian Royal Exchange (UK) and Liberty Life between them holding more than 96% of the small issued capital, there are simply not enough crumbs to go round. How has the JSE allowed this to develop?

Brian Thompson

INSTITUTE OF ESTATE AGENTS

A new broom sweeps clean

(58) FM 16/4/93

Dissatisfaction among members of the southern Transvaal branch over the running of the Institute of Estate Agents of SA appears to have been behind the recent resignation of members of the organisation's executive committee.

The chairman of the southern Transvaal branch's commercial and industrial division, Max Braude, says that, in the circumstances, the election of a new committee is the best move the institute could have made.

Apparently the former committee's decision to accept a loan of R300 000 from the Association of Mortgage Lenders, to eliminate the institute's projected R475 000 deficit, and the conditions attached to it were the final straw.

After the executive committee's 5-2 vote in favour of taking the loan, the southern Transvaal branch called an emergency meeting of the national council to propose a vote of no confidence in the committee. This was defeated 10-9. President Ian Taylor promptly resigned in disappointment at the lack of support for what he saw as his rescue efforts.

He was joined in his walkout by first vice-president Reg van Selm, former president Trevor Downing and second vice-president Willie Marais. Long-serving treasurer Derek Smith declined to stand down. Marais was the only executive committee member who opposed the loan.

The committee co-opted two national council members for the vote, one of whom was new national president Colin Sidelsky, who joined Marais in voting against the loan. Sidelsky, MD of Rand Realty and a former chairman of the southern Transvaal branch, believes the loan should be used only as a last resort but voted against it because of the conditions attached to it.

Chief among these is that the R300 000 loan would be subject to interest at prime plus 3% after 12 months, the appointment of two Association of Mortgage Lenders nominees to the institute's finance committee and the institute's cancellation of its business link with computer listing service Comprehensive Property Services (CPS). The association's members include Absa, which has its own computer listing service MLS, while CPS is owned by non-Absa banks.

Sidelsky says he does not oppose severence of the organisation's link with CPS as he believes the organisation would be better off as an independent body. "But being told to take such action by another party constitutes interference in the institute's own administration."

The loan has been put on hold. Meanwhile, Sidelsky says the body's actual cash deficit — currently R37 000 — is far lower than the reported budgeted deficit and "is being diminished daily" Last month R100 000 was received in donations and soft loans from members and a further R150 000 came in through membership renewals.

But the question which still needs to be posed is; does the institute have a future, especially in view of the more strident role now played by the Estate Agents Board? Sidelsky and others like the institute's head of the industrial and commercial brokers association, Munro Donen, are adamant that it does.

"The fact that our membership has grown steadily from 4 700 in 1987 to 6 250 is indicative of the need for such an organisation. Furthermore, most of the big property deals in the country are written by our members," says Sidelsky.

Agents need a professional body of their own to: settle their disputes internally in preference to resorting to civil action through the courts; to provide and promote an ethical code of conduct as well as render free financial and legal advice; to provide representation at Estate Agents Board level — an initiative the institute is endeavouring to set up; advise on the effect of legislation or lobby government on issues pertaining to them; and to set standards for tariffs or education.

They argue that these needs have never been more acute since the Estate Agents Board revised its role to favour the public.

"It was through the institute's lobbying of government that the Estate Agents Board was established to administer agents' fidelity funds and discipline agents. The composition of its board is largely as a result of the institute's nominations and the exams it holds follow from the three courses we established and run with the Perm through the National Property Academy. These are a basic course, the board exam course and an advanced course."

In future, Sidelsky says, more specialist courses will be offered by the institute through the academy, such as the new course for commercial and industrial brokers.

The body is also looking at restructuring to make its divisions more meaningful to members.

Sidelsky sees the imminent scrapping of the board exam by the Estate Agents Board as a positive move as it allows the institute to regain its position as the leading player in the field of education. Estate agents who wish to improve their knowledge can take any of the many courses offered through the aegis of the institute and, in place of the board exam course, can earn a certificate from the Institute of Estate Agents and carry the CIEA initials behind their names.

"What the Estate Agents Board is requesting is that agents train for a year as an 'agent in training' before they qualify," says Sidelsky "Hitherto, all they had to do to practise was obtain a fidelity certificate. Thereafter, to qualify, they had to write the board exam. Now this will force agents to gain experience, which is something we have always favoured." ■

REGULATION

FM 16/4/93 (58)

The most controversial of recommendations submitted by Judge David Melamet to Deputy Finance Minister Theo Alant last week is the merging of the Companies Act with other legislation relating to financial services.

This is an attempt to regulate the issue of debentures by companies, following the collapse of Masterbond whose unscrupulous fund-raising schemes fell outside the ambit of legislation.

However, while the banking and insurance sectors fit comfortably within one comprehensive piece of legislation, the inclusion of companies in the same framework raises the question of whether it is desirable to attempt to supervise the operations of companies. Fund-raising forms only a fraction of their activities.

Copies of the report are available from the Financial Services Board. Comment is invited.

REINSURANCE FM 16/4/93

Business beware

(58)

Reinsurers are taking a tough line towards treaty renewals and facultative business because they — not the direct insurers — have taken the brunt of losses incurred in the commercial and property sectors of insurance.

The reinsurer pays a commission to the direct insurer for business introduced and, at the same time, takes a cut of the premium income in proportion to the amount of risk accepted. Because direct insurers have been using their current good profits on personal lines to subsidise the commercial rate war, they are penalising the reinsurers when they lay off commercial risks.

SA Reinsurance Offices Association feels its members have been battered by the rate war, though the companies which caused it have emerged largely unscathed. Most, in contrast to the reinsurers, have been reporting good profits.

Because reinsurers need to use their capacity, they have been accommodating: until now. The direct insurers have been told bluntly that they will not get reinsurance support at the rates they have been negotiating. Reinsurance companies say they will alter, firstly, the commissions paid to direct insurers for introducing business. If that does not effect a cure, direct insurers could find that reinsurers will be "unable to support" them — a euphemism for suggesting the business goes elsewhere.

So commercial insurance rates could rise sharply.

SA claims for amounts in excess of R250 000 totalled R388m in 1992. The previous year, the total was R155m.

If reinsurers do close ranks, it has far-reaching implications. To protect their solvency margins, insurers need to use the local reinsurance market. Going overseas might buy an umbrella of reinsurance but the Financial Services Board will not take this cover into account when calculating solvency. In any case, international reinsurance capacity has contracted, with several well-known companies closing their doors to this business: the result is both lower capacity and much tougher rates.

Swiss-SA Re MD Lenz Keel details reinsurers' experience with six SA direct insurers (which he will not name) in industrial property treaties:

- ☐ In 1992. Premiums written, R205m. Loss for reinsurers, R32,6m;
- ☐ Over three years — premiums written, R539m. Loss for reinsurers, R47,4m;
- ☐ Over six years — premiums written, R1,028bn. Profit for reinsurers, R1,3m; and
- ☐ Over 12 years — premiums written, R1,588bn. Loss for reinsurers, R91,2m.

Keel says there are now many cases where Swiss Re can no longer support the market with facultative reinsurance (on specific risks) and capacity has been withdrawn. SA, he adds, has been spared major natural catastrophes recently but "sooner or later we shall face such an event and this makes it all the more imperative that we increase rates and build up adequate reserves." ■

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LIBERTY LIFE GROUP

Donny doodle dandy

Activities: *Long-term assurance, pension fund management, and related financial services in SA and through strategic investments, abroad.*
Control: *Liberty Holdings 53%. Ultimate control rests with Liblife, held equally by Liberty Investors and Standard Bank Investment Corp.*
Chairman: *D Gordon; MD: A Romanis*
Capital structure: *228,8m ords. Market capitalisation: R13,5bn*
Share market: *Price: R59. Yields: 2,2% on dividend; 2,6% on earnings; p/e ratio, 38,2; cover, 1,2 12-month high, R69; low, R39,80. Trading volume last quarter, 1,9m shares.*

Year to Dec 31	'89	'90	'91	'92
Total assets (Rbn)	19,20	28,14	34,52	35,68
Net premium and annuity inc (Rbn)	1,78	1,93	2,27	2,98
Investment inc (Rbn)	1,19	1,52	1,66	1,88
Total income (Rbn)	3,0	3,47	3,94	4,85
Life funds (Rbn)	15,05	16,60	20,76	23,01
Investments (Rbn)	18,29	25,36	31,20	33,58
Net taxed surp (Rm)	181	218	275	353
Earnings (c)	84,7	102,1	127,0	154,6
Dividends (c)	63**	86*	108‡	132†

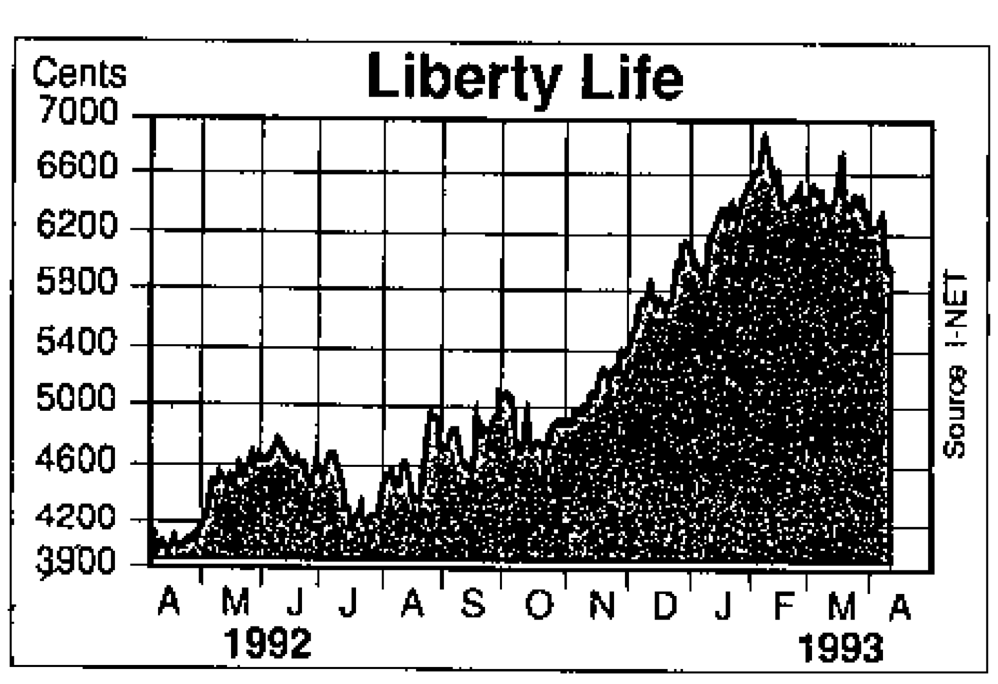
† Excludes special anniversary dividend of 100c per share.
‡ Excludes dividend in specie equal to 199,2c per share
* Excludes special dividend of 50c per share.
** Excludes special cash dividend of 96c per share in lieu of bonus capitalisation shares.

First International Trust

Year to Dec 31	'89	'90	'91	'92
Income before interest and tax (Rm)	111	87	104	97
Attributable inc (Rm)	52	66	54	50
Earnings (c)	37	48	36	28
Dividends (c)	18	20	20	20

Chairman Donald Gordon has been talking to influential people on Wall Street over the past couple of weeks. That will no doubt fuel speculation that he's about to buy a US insurer — one of his three declared goals for the next few years. Rather coyly, Gordon emphatically denies a specific deal is contemplated.

"I'm looking at opportunities all the time, all over the place, and that includes SA. That's my job," he says. Shareholders know that, of course. But while he issues disclaimers it won't stop them conjecturing that another substantial offshore acquisition for the Liberty Life Group might take place this



Donny Gordon . . . *New York is where he wants to be*

year. Certainly, Gordon is considering foreign investments, while back home the core life assurance business — which contributes 77% to group profits — continues to turn out solid growth in earnings and dividends with almost boring consistency.

As well as a US assurer, Gordon also wants to increase Liberty's exposure to the UK property market, possibly through another acquisition, and is looking at buying into another UK or European life company. Interestingly, one of the UK's largest building societies reported this week that house prices improved last month by more than 1% — the largest increase for years, and another indication, however slight, that UK property may be on the edge of restoration.

Recent years have seen many milestones for Liberty. In 1991 it held an international share placing and with French insurer UAP gained the controlling interest in the UK's Sun Life. Last year Capital & Counties (Capco) was merged and became a wholly-owned subsidiary of TransAtlantic (TA), which was listed in the insurance sector of the London Stock Exchange. This year's significant events could well encompass another large foreign acquisition.

But while analysts are hard pressed to deny the strategic importance of Liberty's UK investments, performance so far — as reflected in results from First International Trust (FIT) — have been disappointing

Gordon puts this down to what he calls the abysmal performance of the UK property market, but believes the worst is now over. "We realised we would have problems last year. Part of this was bridging the period at Thurrock Lakeside (Capco's main property investment) between when we could capitalise interest and replace it with rental income. All of that is looking a lot better now."

He says Thurrock has about 95% occupancy, and with signs that the UK property market is improving feels "pretty relaxed" about the investment. Gordon also points out that after TA's indifferent listing last year, the share price has gained about 73% since its November low to an all-time high of 285p.

In SA, Liberty Life's 21,7% growth in earnings and 22,2% increase in dividends were what the market expected, maintaining the average increases of more than 20% set for the past 35 years. Strong performances from non-life assurance interests Guardian National, Guardbank, Liberty Life Properties and Liberty Asset Management gave immediate holding company Libhold an even better year, where earnings and dividends advanced by 26,4% and 26,8% respectively.

Liberty's policy of distributing at least 85% of net taxed surplus ensures consistently generous dividends, often spiced, as the table shows, by special payouts. The only real question is at which level of the Liberty chain to pitch an investment.

One record Gordon might not want to see repeated this year is Liberty's 36% increase in new business written in 1992, to R1,7bn. That represents increased market share, but putting this sort of volume on the books (under Liberty's accounting policies the cost of new business is absorbed in year one) is expensive.

"Ultimately, that affects the bottom line. It's good to have strong increases in new business now and again, and we have the capital base to meet it, but an average of about 15% in new business is what we would normally like to see."

Gordon says he will be happy if Liberty keeps earnings and dividend growth above 20%, as he expects this year. It goes without saying that will also give him space to continue looking for new acquisitions abroad

Shaun Harris

Sanlam biannual payouts increased

(58) CT 16/4/93

SANLAM Industrial Trust produced another top performance over the three-year period, averaging an annual growth of 18,4%.

In this period the JSE Industrial Index showed an annual return of 17,6%.

Payouts were increased in the two trusts now making their biannual income declarations — Sanlam Trust 27,2c (25c) per unit, and Sanlam Dividend Trust 11,4c per unit.

Results of Sanlam's four other unit trusts over three years: Sanlam Dividend Trust 14,5%, Sanlam Index Trust 5,5%, Sanlam Trust 8,7% and Sanlam Mining Trust -6,9%.

Liquidity levels were increased in all five unit trusts during the quarter. As at March 31, compared with December 31, the levels were:

Sanlam Trust 26,1% (24,8%), Sanlam Index Trust 24,4% (23,5%), Sanlam Industrial Trust 24,1% (23,6%), Sanlam Mining Trust 28,9% (24,6%), Sanlam Dividend Trust 37,3% (36,7%).

● Sanlam announced Nel van Niekerk as portfolio manager of the five Sanlam unit trusts from this quarter.

Syfrets funds (58) bypass inflation

CT 16/4/93

JOHANNESBURG. — Syfrets's Growth Fund performed strongly in the quarter to end March as the market value of the fund was boosted from R746m to R883m.

The fund achieved a total return of 14,4c which compares favourably with the inflation rate and a rise of 3,4% in the Overall Index.

The fund declared a quarterly distribution of 3,58c per unit pushing the total distribution for the year to 12,65c per unit.

The Trustee Fund posted a return of 4,7c and a quarterly distribution of 1,13c per unit was declared making an annual total of 4,66c per unit.

The Income Fund registered a return of 16,3c for the year to March, which outperformed inflation but was below the all-bond index's rise of 24c over the same period.

The Gilt Fund's 18,3c return also failed to outperform the all-bond index, but its return of 18,3c was ahead of inflation.

Unit trust marketing manager Kevin Hinton said the approach to equities was cautious and the funds had increased liquidity.

Solid performance from Southern funds

58

CT 16/4/93

JOHANNESBURG. — The performance of Southern Life's unit trust funds was largely solid in the March quarter in the face of a poor investment climate.

Southern's equity based funds maintained relatively high levels of liquidity in the quarter.

The Equity Fund achieved a return of 14,6% for the year, compared to an official inflation rate of about 9% and an Overall Index of less than 4%.

The Mining Fund benefited from a recovery in mining shares, and all gold shares, and the fund grew to R21,6m.

Southern said the Pure Fund continued to perform strongly, but it did not present any indicators illustrating this.

The Income Fund attracted over R13m in its first quarter and remained largely liquid due to the uncertainty around the Budget.

An income distribution of 3,90c per unit was declared on the Equity Fund, 3,29c per unit on the Mining Fund and 1,71c per unit on the Southern Pure Specialist Fund. — Sapa

DISA HOMES FM 16/4/93

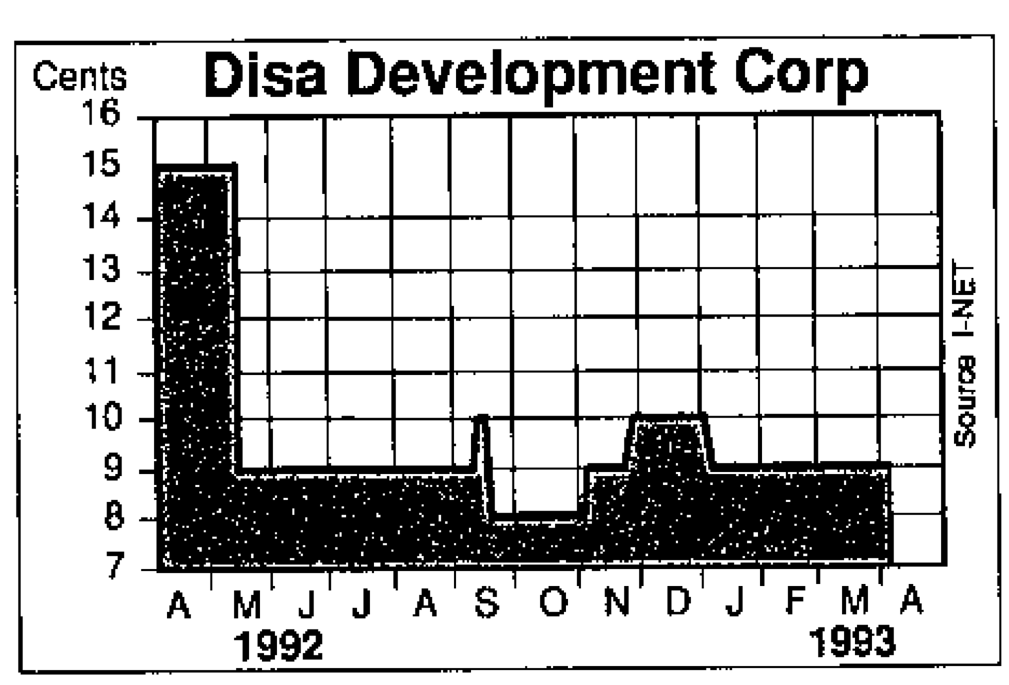
A fate narrowly avoided

Activities: *Property project managers.*
Control: *Directors 82,1%.*
Chairman & MD: *T Stergianos* (58)
Capital structure: *30m ords. Market capitalisation: R2,7m.*
Share market: *Price: 9c. Yields: 12-month high, 10c; low, 8c. Trading volume last quarter, 29 000 shares.*

Year to Aug 31	'89	'90	'91	'92
ST debt (Rm)	0,3	1,8	7,5	8,7
LT debt (Rm)	nil	nil	nil	3,4
Debt:equity ratio	0,03	0,19	1,22	5,35
Shareholders' interest	0,56	0,60	0,37	0,13
Return on cap (%)	31,2	7,1	nil	nil
Turnover (% of previous year)	147	73	55	101
Pre-int profit (Rm)	4,6	1,1	(2,9)	(2,2)
Earnings (c)	14,8	5,9	(11,5)	(12,6)
Dividends (c)	4,5	2	nil	nil
Net worth (c)	27,8	31,7	20,2	7,5

This company narrowly avoided a fate which the JSE has become keener to hand out to defaulters: termination of listing. At the beginning of March, property-listed Disa was in trouble for not publishing its financial year-end report on time.

It just met the deadline. But the accounts, published last week, again show operating losses and increased interest payments.



Net interest paid almost trebled to R1,6m. Operating losses were R178 000. Chairman and MD Theo Stergianos says the 1991 charge of R598 000 is after capitalising R895 000 interest on projects under development. In 1992, there were no such projects.

Auditor Price Waterhouse Meyernel draws attention to a comment in the directors' report: "Based on the group's cash flow projections and in the absence of unforeseen adverse conditions in the industry, the existing banking facilities are adequate to finance continuing business." The auditor says Disa's ability to carry on operating depends on its ability to meet cash flow projections and on banks' willingness to continue granting such facilities.

Stergianos says the high debt:equity ratio (5,35) is being addressed. Disa sold some land since year-end, entered no new projects and has introduced new parties to help with existing schemes. FM 16/4/93 (58)

In his 1991 review, Stergianos was confident: "Barring further unforeseen adverse factors, profit should return to the levels achieved in previous years." However, losses increased from 11,5c a share to 12,6c. More conservative this time, he says the group should break even in financial 1993 and make profits in 1994. But the raising of Vat "is unfortunate and will affect the group, which is currently producing profits in line with forecasts."

In 1994, shareholders might see the remainder of the dividend they were promised four years ago. But, considering Stergianos (51%) and the directors together own 82% of the equity, minorities shouldn't expect too much. High gearing and negative cash flow offer little incentive to hold the stock.

Kate Rushton

Sanlam unit trusts perform poorly

BDay 16/4/93

LINDA ENSOR

CAPE TOWN — Sanlam unit trusts performed poorly in the year to end-March, keeping pace with neither the inflation rate nor the JSE indices.

The best performer in the stable was the Sanlam Industrial Trust which produced a return of 6,41% over the year. The market value of the fund increased over the last quarter to R254,4m (R247m at end-December) while liquidity rose to 24,1% (23,6%).

Over a three-year period the industrial fund has achieved an annual growth of 18,4% compared with the 17,6% average annual rise in the JSE's Industrial Index and the average annual inflation rate of 12,8%.

General equity fund Sanlam Trust produced a -0,7% return with the market value of its portfolio remaining almost static at R612m. Liquidity rose to 26,1% (24,8%) over the quarter.

The fund's biannual income declaration of 27,2c per unit brought the total for the year to end-March to 52,2c. Over three years Sanlam Trust has produced an average annual return of 8,7%.

The Sanlam Dividend Trust produced a 5,13% return in the year to end-March and an average annual return of 14,5% over three years. Market value of its portfolio stood at R130,2m (R109,4m) at the end of the quarter while liquidity rose to 37,3% (36,7%). A biannual income of 11,4c was declared. (58)

The Sanlam Index Trust posted a -1,8% return over the last year and an average 5,5% annually over the last three. Its worth at end-March stood at R942,6m (R906,7m) while liquidity was up to 24,4% (23,5%).

The Sanlam Mining Trust's annual return to end-March was -7,67% and its three year average -6,9%. Total assets at the end of the quarter were R73,1m (R70,3m) and liquidity was 28,9% (24,6%).

All the funds increased liquidity levels. Former portfolio manager of all the Sanlam unit trusts, Stafford Thomas, who has been replaced by Nel van Niekerk, said the gold exposures of the funds had been reduced from their former heavy weightings More volatile industrial shares were replaced by less volatile ones and commodity holdings were lightened.

The strategy adopted was more biased towards selling than buying, he said.

Syfrets unit trust takes in 14,4%

58

LINDA ENSOR

CAPE TOWN — General equity unit trust Syfrets Growth Fund achieved a total return of 14,4%, including income and capital growth, in the year to end-March. B/Day

A quarterly income distribution of 3,58c a unit was declared, bringing the total for the year to 12,65c a unit.

The portfolio managers adopted a cautious approach to the market over the quarter and liquidity was increased 23,75% (20,4%). The sideways movement in financial markets was used to fine-tune and steady portfolios, Syfrets unit trust marketing manager Kevin Hinton said yesterday. 16/4/93

A net inflow of R100m was the highest in the industry, Hinton said, and resulted in the market value of the fund rising to R883m (R746m). No new holdings were added to the portfolio though the stake in Afrox was sold off.

The conservative Syfrets Trustee Fund posted an annual return of 4,7%, experienced a net inflow of R2m and declared a quarterly income distribution of 1,13c a unit, bringing the total for the year to 4,66c a unit. Sales were made in De Beers, Rusplat, Barlows and Liberty, while more Edgars and Sasol stock was acquired.

The Syfrets Income Fund posted a 16,3% return for the year, falling behind the 24% rise in the all bond index. A net inflow of R87,1m brought the fund's market value to R702m. A quarterly income distribution of 3,36c a unit brought the year's total to 14,5c.

An 18,3% annual return was produced by the Syfrets Gilt Fund which ended the quarter with R266m. The fund declared a quarterly distribution of 32,23c a unit and an annual payout of 132,11c.

Who needs security?

FM 16/4/93. 58

Vaughan de la Harpe is an executive director of Discount House Merchant Bank and Desmond Hudgson is a banking and insurances consultant in private practice

In the emerging commercial paper market there is a perception that investors and issuers are protected by the incorporation of costly security features:

☐ Magnetic ink character recognition;
☐ Hologram;
☐ Detailed graphic to prevent photocopying;
☐ Printed feature visible under ultraviolet light;
☐ Finish sensitive to a range of chemicals used to remove ink;
☐ Watermark; and
☐ Use of a computer program developed by Nasa to unscramble a barcode.

However, it is neither investors nor issuers who require protection but the paying bank. To justify this view we must outline the legal framework relating to commercial paper, which is traditionally a promissory note payable to bearer. Provided the paper is structured within the parameters of the Bills of Exchange Act 1964, parties can deal with each other on the basis of well-defined rights and obligations.

The question to be considered is whether an investor would be prejudiced by inadvertently acquiring tainted paper. In the case of a bearer instrument, transferred by delivery, the Act provides for statutory warranties by the transferor to the immediate transferee. That the:

☐ Note is what it purports to be (genuine);
☐ Transferor has a right to transfer it; and
☐ Transferor is not aware of any fact which renders it valueless.

If the note is tainted the investor's recourse is against the immediate transferor for breach of warranty. So security features are not essential to an investor who has dealt with a creditworthy and reputable counterparty.

Nevertheless, some potential investors may still consider the use of standardised security features desirable on the basis of the additional level of comfort which they provide. These investors should bear in mind that the use of such security features may be impractical because:

☐ Of the cost to issuers of designing and printing such paper;
☐ It is unlikely that consensus would be reached on the specific security features and, in any event, the paying bank would require unique features unknown to others to protect itself;
☐ Once all security features are known, forgery becomes easier;
☐ Each investor would need to have access to specialised equipment to verify certain security features; and


Hudgson


De la Harpe

☐ Delivery procedures would be complicated by the need to evaluate each note prior to settlement.

In addition, if investors believe that standard security features are required for commercial paper, the question should be asked why they were never a consideration in the banker's acceptance market.

Forged paper

Tainted paper is not relevant to the issuer, as the issuer's bankers are not legally entitled to pay out on forged paper — on the basis that it is not signed in accordance with their mandate. The use of security-protected paper is accordingly of no benefit to the purported issuer who does not bear the risk of payment against tainted paper.

However, issuers should consider using paper of the same standard as that used for cheques to minimise the risk of a claim for contributory negligence where, for example, the amount payable is fraudulently increased.

Where a note is stolen, the concept of negotiability, which is reinforced by the Act, protects an investor who meets certain requirements. As a result the true owner may not recover the note from the investor and must, instead, recover any loss from the thief. Similarly, payment by the issuer is as a general rule a valid discharge of the obligation. In addition, as the stolen paper is usually a genuine note, security protected paper would not mitigate the risk of theft.

As a general rule, commercial paper is payable at the issuer's bank. Should this bank pay out against forged paper it will be unable to recover the amount from the purported issuer. It is thus important to the paying bank to ensure that payment is made only against genuine paper.

As it is the paying bank that benefits, the costs of such paper should be borne by the paying bank rather than the issuer. The use of security-protected paper is appropriate for specialist banks that undertake the placing of commercial paper and act as paying banks. But it is inappropriate for a commercial bank to insist on these measures as the risk of payment against forged commercial paper is no different to the risk of payment against a forged cheque.

Risk assessment has so far focused on the problem of tainted or stolen scrip while, in our opinion, the major risk underlying commercial paper is that of credit. The Act provides that, where a promissory note is transferred without endorsement, the transferor incurs no liability. Investors who deal in commercial paper should accordingly evaluate the credit risk underlying the issuer as loss for nonpayment cannot be recovered from prior parties.

As the Act provides adequate protection against tainted or stolen scrip, investors should therefore concentrate on:

☐ Evaluation of the credit risk underlying the issuer who is the sole source of repayment in respect of genuine paper;
☐ Ensuring that the promissory note meets the requirements of the Act;
☐ Evaluation of normal counterparty/settlement risk; and
☐ Dealing with reputable and creditworthy parties against whom claims for tainted paper must be made.

Star 17/4/93

Bonanza for CC property purchases

58

AN INTRIGUING aspect of the increased transfer duty announced in the Budget is that it will encourage speculation in property using close corporations and companies as the purchasing vehicle.

Camdon's franchise chairman Scott McRae says the increase in transfer duty announced by Minister of Finance Derek Keys virtually closes the gap between the ordinary individual's transfer duty liability and that of a CC in the higher price brackets.

Keys announced that transfer duty on properties of R250 000 and more will be 8 percent from April 7 1993 for private individuals. This compares with a flat 10 percent across the board for a property bought by a CC.

Taking a R250 000 property as an example, therefore, the CC would pay R25 000 while an individual would pay R20 000. The CC would still pay R5 000 more than the private purchaser but the advantage for the CC down the line is that upon resale, only membership transfer is payable and no transfer duty is due.

"The big attraction for using the CC route therefore is that the resale attractiveness of the property is good, and the market price is therefore likely to benefit accordingly," McRae says.

"For individuals who can legitimately set up CCs and for small businesses wishing to benefit from the capital gains on purchasing residential property for business purposes, the benefits are clear.

"More for speculators, the CC route offers the prospects of a readily resaleable property — always bearing in mind that the Receiver would have to be satisfied as to your intent on selling the property, if you are to avoid being taxed on the capital gain achieved."

JSE

TRADED OPTIONS MARKET

58

Tuesday, April 13 quotations for unit trusts:

General Equity Funds:

ABSA:	139,32	130,32	5,54
BOE: Growth	155,36	145,13	2,97
Community Growth Fund	111,24	105,10	na
CUGrowth	117,98	110,15	3,77
Fedgro	127,11	118,69	4,84
Guardbank Growth	2526,49	2352,12	4,77
IGI Life:	127,16	118,99	3,41
Metfund	191,32	177,60	4,31
Metlife GE	116,94	109,25	6,41
Momentum	250,95	235,20	4,23
NBS: Hallmark	919,33	857,36	4,61
Norwich	355,18	331,62	3,66
Old Mutual Investors	2552,17	2377,68	4,05
Sage	2340,58	2183,89	3,84
Sanlam	1589,38	1489,09	3,51
Southern	203,37	190,42	3,99
Standard Bank	1177,40	1106,54	7,02
Syfrets Growth	289,55	271,21	4,66
SyfretsTrustee	114,86	107,66	4,33
UAL	2033,31	1909,29	5,48

Investing in Unit Trusts

SOUTH 17/4-21/4/93

Owning a house has fundamental implications on an individual's quality of life. A house provides the family with security, in which children can be brought up and life enjoyed together. A house is also an investment which can provide excellent long term returns.

Everybody has a desire to own property, but not everybody can can afford this type of investment. Most people need to plan ahead and save up a deposit for a house. However, depending on the home loan you are granted, you will have to pay a deposit of between 5% and 20% of the purchase price of the house. Buying a house is a long term project and it is therefore necessary to find a saving method that will provide high, long term growth.

Old Mutual Homeowners Trust is an ideal solution, providing a flexible investment means. The benefits of Homeowners Trust is two-fold: the investment has the potential to achieve inflation beating returns over the medium to long term and the investment can be withdrawn whenever the money is needed.

Old Mutual Homeowners Trust is an investment in UNIT TRUSTS, a popular savings means which has over 1 million South African investors. A unit trust is a pool of money created by many investors and used by Old Mutual's investment experts to buy a spread of top quality shares on the Johannesburg Stock Exchange. Each investor becomes the owner of units which represents part ownership of all the shares purchased. Over time the shares increase in value and so do the units.

The best thing about the Old Mutual Homeowners Trust is that you need only invest as little as R50 a month, or a minimum lump sum of R500. These amounts can be increased at any time, thereby increasing the end value of your investments.

Old Mutual Homeowners Trust is the most versatile investment - your is money is readily available and can be used to assist you in paying for a deposit on a house, paying off an existing bond, renovating or buying furniture and appliances.

For more information on this exciting investment visit your nearest Old Mutual branch or phone Old Mutual Units Trust, free of charge, on 0800-234-234.

S/Times CC (Metro)

House sales take a dive

18/4/93

(158)

HOUSE sales in the Western Cape took a dive in March after a significant rise in February.

The expected rush to buy before the much heralded VAT increases and new transfer duties, failed to materialise.

That's the latest news from Property Services, who say house sales in the Western Cape fell from 1200 in February to just 900 in March.

The total value of the sales was also well down from R220-million to R170-million.

Scams threaten insurance plan

S/Times (B455) 18/4/93.

By CHERILYN IRETON (58)

ABUSE of disability insurance, particularly as a vehicle for retrenchment, is threatening its future.

Colin Tomsett, executive director, employee benefits, at Sage Life, warns that premium rates on disability insurance may have to be increased to unacceptable levels. There has been an alarming increase in disability claims, coinciding with the recession.

The benefit under non-cancellable sickness and accident insurance schemes (known as non-can schemes) provides for income replacement if a member is temporarily or permanently disabled. Payment can rise each year to offset inflation.

Some employees find it difficult to handle productivity pressures in recessionary times and tend to regard their disability benefits as a solution to their problems at work, particularly when it is so difficult to find other jobs, Mr Tomsett says.

Employers sometimes try to use disability insurance as a way of reducing staff numbers without employees losing all their income.

The burgeoning number of claims leads to pressure for higher premiums, says Mr Tomsett. The result could be that a relatively cheap and valuable benefit provided by employers for employees could become too costly.

If premiums were to increase sharply, it is unlikely they would drop even if the economy improved.

Challenge

One possible indication that non-can claims were being used as a retrenchment vehicle at older ages was shown in an analysis done on behalf of Sage Life by Swiss SA Reinsurance Company. It showed that claims by males peaked at older ages than would have been expected — between 51 and 60.

Swiss Re says the findings are not necessarily representative.

"The challenge facing the industry is twofold — to avoid major rate increases and still meet the needs of members of non-can funds who become disabled," says Mr Tomsett.

Sage Life has introduced changes to its product to limit premium increases. The changes relate primarily to more precise definitions of benefit categories and greater circumspection with regard to claims arising in the first two years after a member joins a scheme, where the claims relate to previous illness or injury.

In addition, if a claimant is unwilling to comply with any reasonable requirements laid down by his medical attendants, it could now prejudice his claim.

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In addition, if a claimant is unwilling to comply with any reasonable requirements laid down by his medical attendants, it could now prejudice his claim.

Malaria bugs SA businessmen in search of trade

S/Times (Buss) 18/4/93

THE hidden costs of doing business with Africa are permeating through to the business community.

Dozens of businessmen venturing into Mozambique, Zambia, Kenya and Malawi have been laid low by malaria and hepatitis, forcing some companies to rerate the risk of sending executives to these areas.

Clinics in upmarket suburbs confirm an increase in the number of hospital cases of malaria. Many patients were bitten by mosquitoes while on business trips. The increase in the incidence of malaria follows good rains in Southern Africa.

By CHERILYN IRETON

A Sandton Clinic spokesman reports an increase in the number of malaria patients in the past few months. "Many people contracted the disease in neighbouring countries where there are poor controls."

If not recognised and treated within a few days, complications, including cerebral malaria, can develop, often with fatal results, says a physician.

South African Foreign Trade Organisation (Safto) spokesman Andrew Mags advises businessmen to observe health regulations when going to African countries.

Safest

"In addition to taking prophylactics against malaria it is advisable to get hepatitis shots — three over six months — and to check whether cholera and yellow fever have been prevalent in the area to be visited. In the case of malaria it is essential to continue treatment on return to South Africa."

Sales of prophylactics have risen sharply, says Anja Gruttke, manager of Wellcome's over-the-counter products division. Wellcome makes two commonly used anti-malaria prophylactics, Maloprim and Daraclor.

However, these drugs are not recommended by the Department of National Health. Daraclor is ineffectual against chloroquine resistant parasites and Maloprim's efficacy is in doubt.

But the department says chloroquine is still one of the safest, most effective antimalarials. Where there is resistance to chloroquine, a cocktail of chloroquine (sold under the brand name of Nivaquine) and Proguanil — not registered in South Africa — is recommended. Proguanil can be bought in most Southern African countries.

Maloprim, a combination of pyrimethamine and dapsone, is recommended by the Zimbabwe health authorities.

Because of the emergence of resistant strains, Wellcome advises travellers to check the best preventative medicine with the health authorities of the country they are visiting.

The Department of National Health says malaria usually develops 10 to 30 days after a bite by an infected mosquito. The period can be longer if the parasites are resistant to prophylactics.

The initial symptoms are a flu-like illness with shivering, headache, fever, muscular pains, sweating, nausea, diarrhoea and fatigue.

The World Health Organisation says 110-million clinical cases of malaria occur each year. Most cases are in sub-Saharan Africa.

How to halve cost of bond

(58)

S/Times (Buss) 18/4/93.

By TERRY BETTY

PLANNING can almost halve the cost of a property buyer's bond.

Financial consultant Faizel Mahomed says the buyer can make regular payments over 20 to 30 years, or the bond can be paid off faster than necessary.

Other options are paying only interest and taking out an endowment policy or buying into a unit trust to redeem the capital amount on maturity.

A person can redeem a R100 000 bond in 10 instead of 20 years if he pays an extra R284 a month.

The bond will cost R201 000 instead of R333 840 if only regular payments were made.

Pumping extra money into a bond is one of the best investments. To beat it, one would have to find an after-tax return of 18%. A person paying the marginal tax rate of 43% would need an investment yielding more than 32% a year.

Mr Mahomed says making only the scheduled payments is sensible if a person has a subsidised bond. It would be better for him to invest excess cash elsewhere because the bond costs less than normal.

Paying only interest on the bond and subscribing to a unit trust or endowment policy to redeem the capital amount is a popular option.

Fraught

Mr Mahomed says endowment policies are advisable in only a few cases.

The benefits are that if the policy grows faster than the bond rate, the borrower will make money or pay off the bond earlier.

But if the policy does not perform well, the investor will lose money.

Most endowment policies guarantee a return of about 5% a year and are performing at 10% to 20% a year over 10 years.

Mr Mahomed says this option is fraught with problems, mainly because it lacks flexibility.

Another option is paying only interest on the bond while contributing to a unit trust. They have generallly shown a return of 20% to 30% a year in the past 15 years.

Although they have higher historic returns, they also bear a higher risk.

The advantages are that they are flexible and contributions can be increased or decreased. They can be cashed in at any time without incurring a tax liability.

threaten
ice plan

SS] 18/4/93

LYN IRETON (58)

Tollgate: Absa will get some cash back

(58)

S Times [C Metro]
18/4/93.

ABSA Bank will recover a substantial amount of money from collapsed Tollgate Holdings, says the bank's deputy chief executive Dr Danie Cronje.

He was commenting on a report that the Tollgate Group only had assets of R18-million against liabilities of over R400-million, of which some R300-million is owed to Absa.

The report submitted by the liquidator of Tollgate Holdings to the Master of the Supreme Court this week referred to TGH, and not to Tollgate Holdings.

Mr Cronje confirmed that the assets of Tollgate Holdings were of substantial value and worth much more than R18-million.

Star 19/4/93

PTA Bank seeks closer SA links

By Sven Lünsche

(58)

The official bank of the Preferential Trade Area (PTA) for Eastern and Southern Africa, the PTA Bank, is for the first time examining ways of co-operating with South African financial institutions.

On the first official visit by a PTA executive to this country, PTA Bank president Martin Ogang expressed confidence in closer ties between the PTA and SA in the near future.

Ogang, a guest of the Development Bank of Southern Africa (DBSA), said last week the relationship between the bank and SA financial institutions was part of its corporate strategy this year.

The PTA is a trade agreement between 18 countries in Southern and Eastern Africa, which has as its long-term aim a common economic market in the region.

While the PTA itself would not admit SA as a member until a democratic government was in place, Ogang said SA businessmen were already active in most PTA member states.

"The PTA Bank wants to work at the practical level with business and this means contact with financial institutions in this country," he said.

On his visit Ogang met officials of the DBSA, Sacob and Standard Bank.

"The first step is to exchange corporate strategies so that we can discover ways and means of working together," Ogang said.

He envisaged a number of areas where the PTA Bank could work together with SA institutions:

- Co-financing of development projects.
- Joint venture capital projects.
- Cross-border capital investments.
- Exchanging management expertise.

Ogang said he had discussed the use of PTA travellers cheques in SA with local institutions and was encouraged by the reaction.

The cheques are widely in use in PTA countries and avoid the need to change money into US dollars or other major currencies.

The PTA visit came hard on the heels of one by a Southern African Development Community delegation, which announced the establishment of a resident mission in SA.

Banks see rates must rise — Stals

(58) BDay 19/4/93

LINDA ENSOR

CAPE TOWN — There was a general acceptance by the banking sector that short-term interest rates would have to be increased, Reserve Bank Governor Chris Stals said at the weekend.

He warned that the general expectation of lower rates lacked any foundation, adding that there was no room for a significant relaxation of monetary policy in the near future.

Stals stressed that the upward pressure on interest rates would not necessitate an increase in Bank rate as there was a wide gap between the deposit and lending rates charged by banks. Banking margins provided sufficient flexibility for a rise in short-term rates to occur without a hike in Bank rate.

In an interview after a University of Stellenbosch Business School conference on economic prospects, Stals said he was surprised that market rates had stayed low for so long, given the current state of the balance of payments and the government's large Budget deficit.

He felt banks had reached the limit of what they could borrow from the Reserve Bank. Two weeks ago the Reserve Bank lent about R6bn on one day to the banking sector from its discount window to maintain liquidity, compared with the R1bn a day lent about nine months ago. But banks had no underlying assets to support this lending.

While banks theoretically could borrow more, this would be at higher rates and with different collateral.

In his speech to the conference, he said the financial markets had once again been slow to react to the recent decline in foreign reserves. Whereas the average weighted value of the rand depreciated by about 6,4% from June 1992 to March 1993, the money supply had continued to rise (albeit at a lower rate), interest rates had drifted downwards and the Reserve Bank had accommodated the need for liquidity by allowing the banks more borrowings at the discount window.

But Stals said it would not be possible to shield the domestic economy against the adverse effects of a weak balance of payments "through any stunts of monetary policy".

"It will be foolish for the Reserve Bank to try and counteract the natural effects of the decline in the reserves by following an expansionary monetary policy against the tide of an outflow in foreign reserves.

"Such a policy will only extend the agony of the situation and make the unavoidable, eventual adjustment more painful. The outflow will be perpetuated by creation of more money, which will continue to flow out."

Stals forecast that the capital account this year would end at about the same level as last year, showing capital outflows exceeding the current account surplus by R6,2bn, if not more. A R4bn-R5bn surplus on the current account was predicted.

He said the government deficit left little scope for a relaxation of monetary policy. Also, it remained a matter of concern that rises in wages and salaries continued to exceed the rate of inflation in nominal terms.

Stals said it would be a long hard road to restore the confidence of international bankers and investors in SA after last week's disturbances.

He noted that the violence after the assassination of SACP general secretary Chris Hani had had an immediate effect on SA financial markets. The financial rand had depreciated, bond yields had risen and the discount gap had widened.

Stellenbosch University political scientist Prof Willie Esterhuyse said assassinations occurred in most major social transitions and SA was fortunate that the aftermath of Hani's killing was not even more violent.

Banking sector flying high

By Leigh Hassall Star 19/4/93

The banking and financial services sector has markedly outpaced the rest of the stock market since January 1992.

While the overall index has fallen by 1,4 percent, the Banks and Financial Services Index has burgeoned by 25 percent in the period to date.

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Graham Baillie, analyst at Davis Borkum Hare in a review of the banking sector dated April 1 1993, attributes this performance to the superior earnings growth enjoyed by the banks.

He says the earnings growth was underpinned largely by the generous interest rates available in the financial system in 1992.

"For the banking community, the free fall decline in deposit rates relative to the prime lending rate, came to a halt in August 1992.

"Margins appear to have stabilised at the current level of approximately 4,75 percent, slightly off their peak of 5 percent," he adds.

Baillie says these "comfortable" margins should provide for real growth in attributable earnings in the year ahead, despite the fundamental operating environment becoming increasingly more difficult.

"The impact of inflation, albeit at lower levels, on the operating costs of the banking sector, is perhaps the single greatest concern facing the industry."

He says the biggest single cost facing a bank is labour-related and comprising more than 50 percent of total operating costs. Information technology enhancement costs are also significant.

Rising bad debts from the escalating number of liquidations and insolvencies will continue to dampen the banks' profitability.

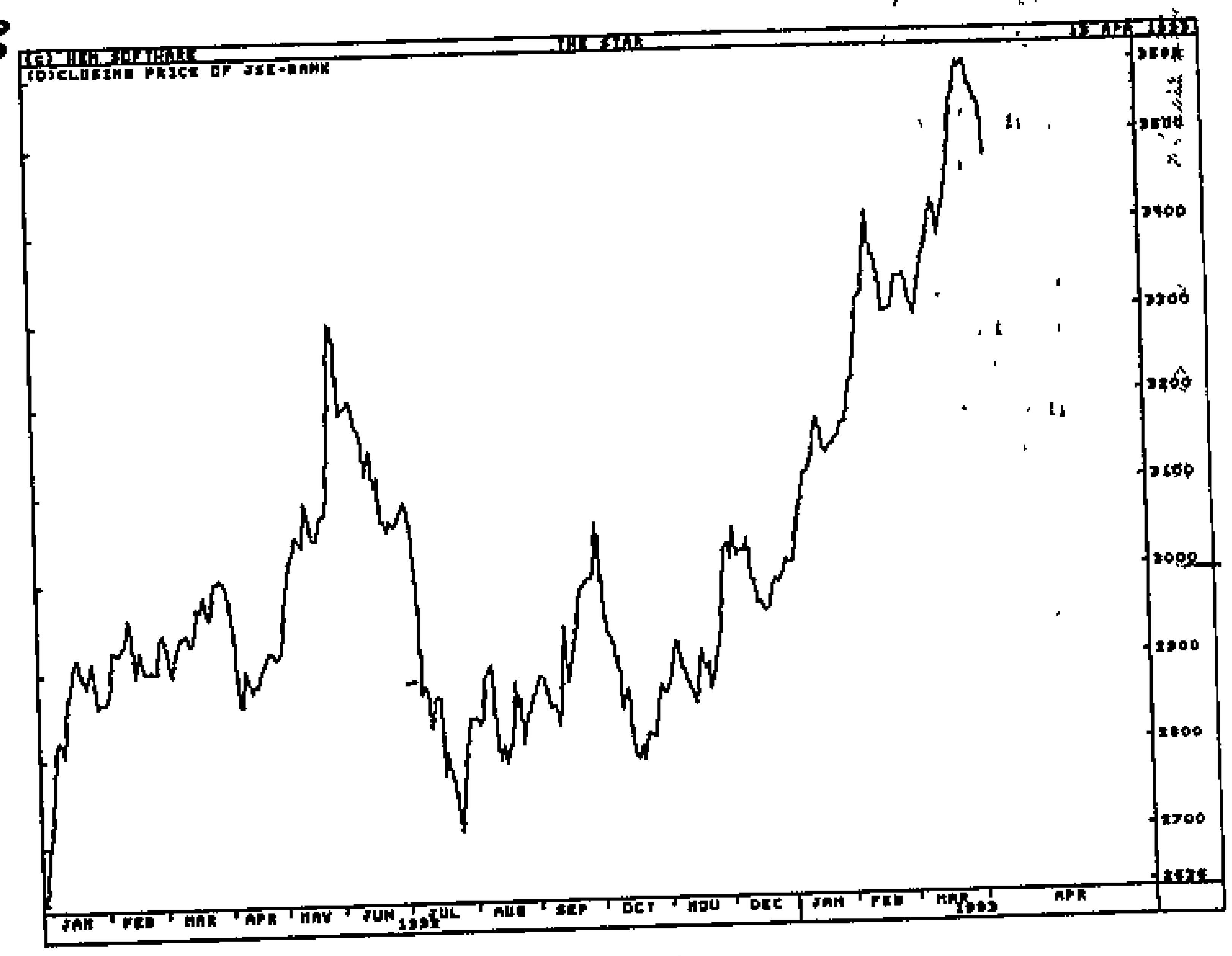
Farming debt will remain a serious concern of the commercial banks.

Slower asset growth will further squeeze profits.

Baillie says that in 1992 the underlying growth in credit extended by monetary institutions to the domestic private sector remained below the rate of inflation.

Turning to market share, Baillie says Absa maintained its dominant position.

Baillie cautions that bank shares have a reputation for being cyclical stocks and could lose their investment rating when the recovery gets under way.



Banking sector performance

Star 19/4/93

Estate agents in the clover

(58)

By Derek Tommey

SA's 2 960 estate agencies had a gross income of R746,6 million in 1990, says Central Statistical Services.

It says that R493,2 million came from commission on the sale of immoveable property, R107,3 million from commission on the letting of property and R30,2 million from management and administration fees and from marketing of insurance.

A further R17,9 million was re ceived by way of interest and R41,8 million in the form of other income.

The business gave employment to 2 451 working proprietors and family assistants and to 6 895 estate agents in full-time work. Another 3 701 people were employed full-time.

The industry employed 5 026 people part-time who received commission only. Another 748 part-timers received salary or wages.

Altogether, 16 370 people were engaged in the business in 1990, of whom 13 417 were white, 635 coloured people, 299 Asian and 2 019 black.

Biggest expense was commission, which amounted to R189,5 million. Salary and wages took R163,1 million.

Some R56,0 million went in advertising and public relations, R21,3 million in post and telephone expenses and R144,8 million in "other" expenses.

The profitable agencies earned R95,8 million before owners' drawings and before tax. However, some agencies incurred a combined loss of R15,8 million.

Star 19/4/93

Unusual losses hit insurance industry

(58)

By Stephen Cranston

Insurers are suffering from losses which would not normally occur, says SA Eagle chairman Fred Haslett.

Writing in the insurer's annual report for the year to December, Haslett says that there is an increasing number of claims arising from suspected arson, commercial fraud, hijacking of motor vehicles and violent crime in general, which are the by-products of a depressed economy.

He says these claims are an additional burden on the already strained resources of both the community and the insurance industry.

Because a considerable portion of the large fire claims is met by the international reinsurance market, there is a growing perception that the stability previously associated with the South African insurance industry is being threatened.

Haslett says that the increasing cost of providing full protection is proving too high in the present economic climate.

The result is under-insurance or no insurance, which can cause great distress, especially in the case of motor accidents involving uninsured third parties.

The results of the personal lines business have been helped by the increased security consciousness of the public.

Most dwellings and private cars have alarms and security as a priority. Insurers should be able to pass on some of the benefits to the consumer, although after inflation has taken its toll, this may only amount to the maintenance of present rates.

The troubles at Lloyd's have led to a drastically reduced capacity of international reinsurers, giving rise to substantial rate increases which adversely affect reinsurance costs.

Haslett says this has a stabilising effect on markets generally and may persuade local insurers to adopt a more sensible approach to underwriting.

SA Eagle has one of the strongest capital bases in the industry, with a solvency margin of 93,3 percent and assets exceeding R1,27 billion.

Commercial Union MD John Kinvig says the year was fortunately free from major weather-related losses, which has considerably benefited its underwriting outturn.

There was particular concern about the the increase in hijacking, with the consequent effect on the crime accounts, and on the marine and transit accounts as well.

Kinvig seconds Haslett's concern that private individuals are increasingly dispensing with insurance.

The level of crime has been instrumental in producing increased premium rates for the theft risk, but Kinvig says it's extremely dangerous for the average householder to dispense with insurance altogether.

Fire claims may force premium hikes

BIDAY 19/4/93

ANDREW KRUMM

SA Eagle was likely to increase premium rates on its commercial account as fire claims rose alarmingly in 1992, Eagle chairman Fred Haslett said.

In his annual review Haslett said the claims experience on the group's commercial account last year gave cause for concern.

"There are an increasing number of claims arising from suspected arson, commercial fraud, hijacking of motor vehicles and violent crime in general which are the by-products of a depressed economy," he said.

"These losses form a significant proportion of our overall claims payments and are an additional burden on the already strained resources of both the community and the insurance industry."

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The situation would probably not improve in 1993, he added.

"As a considerable proportion of the large fire claims is met by the international insurance market (on which SA Eagle drew heavily in 1992) there is a growing perception that the stability associated with the SA insurance market is being threatened.

"The London insurance market has a great influence on our fortunes. The disastrous worldwide results manifest themselves in the drastically reduced capacity of the international reinsurers giving rise to substantial rate increases which adversely affect our reinsurance costs."

However, this could stabilise markets and "hopefully" persuade SA insurers to adopt a more sensible approach to underwriting.

ing those who have the privilege of the ... ended.

Riot damage bill will not be too high — Sasria

BDM 20/4/93

58

ANDREW KRUMM

THE bill for last week's riot damage, caused by protest action after Chris Hani's assassination, was not expected to be too high, the SA Special Risks Insurance Association (Sasria) said yesterday.

Sasria legal manager Mike Strydom said, "We do not yet have the statistics to judge the costs involved, but indications are that it will probably not be too expensive."

He declined to estimate the cost of riot damage to SA's major centres, but said Sasria's claims pattern had not changed significantly over the past few days. "We had a very quiet period about a month ago, although claims rose in the interim. Even if claims pick up steadily in coming weeks, it's nothing we can't cope with," he said.

Strydom would not disclose Sasria's reserves — which would be used to fund the losses — but said they were "adequate". Sources believed Sasria had around R1bn in reserves.

There was usually a week's delay between unrest incidents and the receipt of claims from member companies in the insurance industry.

"We still have to hear from our members about incidents of rioting last week. The process will take a few days, and then only will a more complete picture be formed."

The incidence of damage reported in recent days did not compare with the destruction seen in the 1976 riots, and that evident during the state of emergency in the 1980s.

"I must add that we will have to treat each claim individually to determine whether or not the losses incurred resulted from unrest alone."

Criminal elements, for example, often followed minutes behind an unruly crowd, looting shops whose windows had been broken. This was not strictly riot damage, he said.

Fairfield selling

GOM 21/4/93 (58)

Business Day Reporter

ABOUT 70% of the 210 stands at Anglo American Property Services' Fairfield development in Sandton have been sold at prices from R39 000. A number of builders' packages are on offer, and a $120m^2$ home can be bought from R160 000.

School rates: Aid 'possible'

TOWN and city councils must not be compelled to assist schools in paying their rates when they become liable for these, the Geers Committee has recommended. 5b

Professor Danie Schumann reported in his CPMA presidential address that this committee, chaired by Mr PJ Geers, town clerk of Verwoerdburg, had been asked to look into councils' role in schools rates. CT 21/4/93

Mr Geers recommended that schools should pay property tax (rates), "with the possibility that a grant-in-aid (by a council) not exceeding the amount of property tax payable, could be made to a school".

New areas targeted for executive apartments

(SS) Blom 21/4/93.

PETER GALLI

H LEWIS Trafalgar is planning to expand its Trafalgar Courts executive apartments concept.

It has targeted the Johannesburg northern suburbs, the eastern Cape and Port Elizabeth as possible areas of expansion.

"Last year our occupancies never fell below 90% and averaged at about 95%. Corporate companies and embassies generated over 70% of the business," said MD Neville Schaefer.

The group, which entered the executive apartment business in 1988, now has five furnished blocks offering 237 units, which can be rented on a daily or monthly basis.

One is in Arcadia, Pretoria, one in Cape Town, one in Sandton and two in Illovo.

The group has spent more than R25m in development costs on the buildings as all units are standardised to offer the same facilities and furnishings.

"Many corporates hire units on a monthly basis for staff and visitors, and the fact that each unit has its own catering facilities is a plus," said Schaefer.

There was a shift in the tough economic conditions towards self-catering furnished apartments from traditional hotel rooms, particularly in the business market.

The furnished apartment concept has worked well in the US and Europe, and is aimed at people who travel frequently, prefer a less formal environment and can accommodate other members of their family if necessary.

The price a night ranges from R155 for a bachelor unit to R325 for a three-bedroomed unit. Five-star hotel rates range between between R300 and R500 a night.

The group has been active in acquiring other property-related interests over the past few years.

Late last year it bought five Pizza Hut franchises for more than R1m covering the Ballito Bay, Margate and Maritzburg areas. In terms of the agreement it has to open three new developments a year.

"The rationale for acquiring these franchises is that we have the management in place to run them, and they are mostly strategically placed around our timeshare resorts," Schaefer says.

The group continues to gain market share with its property administration operations that were developed to meet the standards required by the purchasers of sectional title and shareblock apartments.

This division's need for preferential insurance rates and services for its clients led to the formation of the group's own insurance brokerage division.

It also has a commercial and industrial division that focuses on the Cape Town, Port Elizabeth and Durban markets, while the sectional title division buys high rise residential apartment buildings to be individually sold under sectional title.

The residential sales division markets the sectional title conversions. Last year, the group acquired Durban-based indoor plant company Gardenaire and indoor plant supplier Airley Farms, which it believes further complements its current range of property related services.

While this operation has been restricted to Natal so far, it will be opening in Johannesburg next month.

PROPE

Political jitters hit residential market

(123)(58)

BD 21/4/93

PETER GALLI

THE instability after the assassination of SACP leader Chris Hani has had a sobering effect on the residential property market, with activity generally slowing down, leading estate agents say.

"This has resulted in many sellers at the upper end of the market again revising the asking price for their properties and considering lower offers, they say.

Pam Golding Properties director Ronald Ennik says recent developments have caused anxiety among sellers, who are concerned about the effect this is going to have on the property market.

"This has, in some cases, resulted in the seller becoming more flexible on price. Many prospective buyers are again adopting a wait-and-see attitude before committing themselves to any course of action," he says.

If the planned mass action campaign is sustained for six weeks, its effect on market activity and prices will definitely be negative.

"Before Hani's assassination the market was showing increased optimism and renewed activity, particularly at the upper end. While this has been reversed, we hope it is only a hiccup in the recovery process," Ennik says.

Eskel Jawitz of Eskel Jawitz-JHI Real Estate says recent events have had a sobering effect on the residential property market, which "has no consistency at the moment and can be described as irrational. While the market has been affected by recent developments, it is impossible to quantify this. Some areas reflected good show day attendances on Sunday, while others saw almost none."

Lew Geffen of Lew Geffen Estates says show attendances are down at homes priced at more than R300 000, but the lower end of the market remains relatively unaffected.

"The situation is volatile. Anything can happen over the next two weeks. Many sellers at the upper end of the market have decided not to put their homes on show this week as they feel this is pointless until things settle down," he says.

Camdons chairman Scott McRae says the number of prospective buyers in the market has diminished as many are leaving the country. "The others are actively looking for bargains and will accept nothing less.

21/4/93

"While we saw a good number of people at show houses on Sunday, buyers are looking for discounted properties and many sellers are accepting this and coming down in price," he says.

Seeff Residential Properties MD Bearnard O'Riain says activity is centred around the middle to lower end of the market, where "life goes on as usual".

However, deals are being concluded and foreign buyers are also in the market as the weakness of the rand and relatively low propertry prices outweigh political risks, he says.

Market slump sees rental levels falling

LINDA ENSOR

CAPE TOWN — The slump in the property market in the last quarter of 1992 saw office rentals in retreat, industrial rentals negative and a slide in flat rental growth rates, the latest Rode Report on the SA Property Market said.

Editor Erwin Rode said office rentals for most nodes and grades were down in the fourth quarter compared with the third quarter, with the exception of Johannesburg and Pretoria where rentals edged up marginally and the Sandton CBD where there was a sharp rise.

"Vacancies again tended to decline in the decentralised office nodes and to climb in the CBDs as takeup in decentralised nodes was better than CBDs," Rode said.

Industrial rentals for 1 000m² units showed negative nominal growth in most areas last year except in Durban and the Cape Peninsula. This trend continued in the fourth quarter except on the East Rand and the Far East Rand where rental levels increased slightly.

No large increases in the vacancy grade were reported, though the trend was upwards.

Regional shopping centre capitalisation rates held firm during 1992, but prime CBD office capitalisation rates had risen. There was little movement in industrial leaseback capitalisation rates.

Rode noted that lower priced houses were outperforming the middle and upper class indices. During the year to end-June 1992, the all-price class index grew 13,5%, with regional differentiation. Strong growth off a very low base was recorded in Pretoria while upper price houses in Johannesburg and medium price houses in Cape Town fared worst. Bday 21/4/93

flat rentals in the fourth quarter were up for all unit sizes in Durban and Cape Town in the previous quarter. However, small unit rentals in Johannesburg dropped whilst large unit rentals moved upwards. The opposite was the case in Pretoria.

Rode said there were tentative signs that home building activity might have bottomed out in August last year. The construction of townhouses was continuing upward.

"Non-residential building activity is still diminishing and building starts are back to 1987 levels," Rode said.

Star 21/4/93

Estate agents set to keep ties with CPS

Property Editor (58)

The Institute of Estate Agents (IEASA) is set to maintain close ties with computer network organisation CPS, despite pressure to sever the links.

This may mean that the IEASA will not take up a loan from the Association of Mortgage Lenders to help see it through its financial troubles.

There has been speculation that one condition of such a loan would be for IEASA to break its business arrangement with CPS.

The institute receives a royalty on every CPS subscription taken out by a member, in return for endorsing the CPS services.

Many members feel an exclusivity clause in the agreement prevents the institute from being neutral in its assessment of the networking services available.

However, CPS MD Stefan Swanepoel says the arrangement has benefited the institute, not only in terms of royalties received, but also because of increased membership.

"Various estate agents who wanted to subscribe to CPS but were not institute members have now joined IEASA to take advantage of the R100 a month discount members receive on a CPS subscription," he says.

Life industry's assets top R200bn

BDay 22/4/93

(200) 58

LINDA ENSOR

CAPE TOWN — Total assets managed by the life industry were worth R205bn by end-December, an increase of 19,5% over the R171,6bn for 1991, Life Office's Association chairman Neal Chapman said yesterday.

Public sector stock which was generally invested in infrastructural development represented 20% (19%) of total assets, cash 8% (8%), equity 51% (52%) and property 13% (12%), with miscellaneous assets making up the balance.

The investment income earned by the industry increased by about 12% to R13,8bn (R12,4bn), a rate of growth which Chapman said reflected the lower interest rates prevailing in 1992, especially towards the end of the year.

"One should keep in mind that this figure reflects a cash flow item. The total investment yield earned on behalf of policyholders and group scheme members is considerably higher," Chapman said.

Last year premium income from individual policies rose 27% to R21bn (R16,7bn).

Premium income from group schemes and pension funds increased by 25% to R12,4bn (R9,9bn), bringing total premium income to R33,5bn (R26,6bn). Total income rose 21,7% to R47,4bn (R38,9bn).

Expenses, tax and regional services council levies rose 12,7% to R6,2bn (R5,5bn). The industry's tax bill fell to R540m (R606m).

Benefits paid out totalled R21,9bn (R15,7bn) — about R84m per working day — which represented an increase of 39,5% over 1991.

Chapman noted that the social role of the life industry was highlighted by its benefit payments which assisted pensioners, widows, orphans and disabled workers.

While the number of new individual policies sold increased 4,3%, new premiums were 29% higher last year than in 1991.

Chapman said this reflected the adaptability of many modern policies which allowed people to increase their nominal insurance to take account of inflation without having to take out a new policy.

Additional cover or a new type of cover could in many cases be provided by adapting existing policies.

Gengold projects get go-ahead

BDAY 22/4/93

JONO WATERS

GENGOLD has earmarked R200m for smallscale capital projects at three of its mines to maintain gold output at current levels. The group has delayed several major capital projects in recent years because of low gold prices.

Reporting the group's results for the March quarter, Gengold MD Gary Maude announced the go-ahead for a new R77m decline shaft at the Free State high-grade producer Beatrix mine.

The shaft would provide replacement tonnage given the group's decision not to proceed with the mine's R450m No 3 shaft project. The No 3 shaft was difficult to justify at current gold prices, Maude said.

He said the secondary shaft would give Beatrix a breathing space before a decision had to be taken on the No 3 shaft. The decline shaft would provide the mine with five years' production with grades of about 6,8g/ton.

Maude said management had given the green light to the R74,6m "multigold" project at Buffelsfontein (Buffels), involving the treatment of the surface dump at the Pioneer shaft.

Current dump retreatment at Buffels produced only a 40% gold recovery, so the mine was effectively "throwing gold away". The multigold project, which involved the construction of dump retreatment facilities, would improve recoveries to 80%.

Buffels consulting engineer Jim Cockburn said the project would reach full production in May 1994. About 330 000 tons of ore a month would be processed at an average grade of 0,56g/t, producing 130kg of gold a month.

However, he believed higher grades could be achieved and the project would give an 18% real rate of return at conservative gold prices, with forecast costs of R17 000/kg.

The third phase of the two decline shafts at Evander mine Kinross had started, with board approval for R45,9m for the projects over the next two years.

Maude said Bracken was in the final stages of closing down. Blasting had ceased at the end of March and the plant was being dismantled. Any ore that required processing would be fed into the mill at neighbouring Leslie. The mine's grade rose to 36,1g/t (24,5g/t).

St Helena returned to profitability, albeit at a lower level following the cutback in the workforce last year, Maude said. The mine reported a profit after-tax and capex of R3,83m (R3,5m loss).

Development work was accelerating at Oryx. The shaft was equipped and commissioned and 108kg (68kg) of gold had been produced in the quarter.

There was very little control over Stilfontein's grade which fell to 1g/t (1,3g/t). However, costs fell and the dump retreatment operation turned in a bottomline profit of R3,02m (R4,4m).

Grootvlei had "done well", increasing its after-tax and capex profit to R1,69m (R1,04m). However, its costs had risen to R30 251/kg (R29 983/kg), Maude said.

Mining at Unisel was hit by low grades and a lack of immediately accessible ore on the Basal reef which would lead to a monthly fall in gold output to 400kg from 480kg, he said.

Winkelhaak turned in a good performance as the grade rose to 6,7g/ton (6,5g/ton). Maude said the benefits from the new 2A sub-vertical shaft would show only after June. Bottomline profit was steady at R5,34m (R5,57m).

Leslie was a "marvellous mine" which had gone from strength to strength. Four years ago the mine was battling to hold up a grade over 4g/ton, but now was achieving a steady average grade of 6,6g/ton. Leslie had a great deal of leverage with a higher gold price, he said.

Total capex for the group of R19,3m would be spent only on essential development.

On the outlook for the gold price, Maude believed the gold price had reached its true bottom floor six months ago. There was no doubt the price was set to rise, but he could not forecast when.

RMS Property Holdings lifts its dividend 1,6%

BDAY 22/4/93 PETER GALLI 58

PROPERTY loan stock company RMS Property Holdings posted a 1,6% increase in dividend and interest payment to 26,65c in the six months to end-March from 26,22c in the previous six months.

Net rentals rose 5,7% to R9,54m (R9,02m), but interest received fell 24% to R1,15m (R1,52m).

Director Peter Gerard said the increase in net property income was expected to continue in the present six months.

"Market conditions remained tight in the period under review, but we expect the upward trend in net property income to continue as certain one-off costs were incurred in the first six months," he said.

Debenture interest of R10,5m (R10,32m) was paid, and pre-tax income of R179 000 (R203 000) was declared. A tax bill of R72 000 left taxed profits of R107 000. Dividends of R93 000 and R14 000 in STC were paid and no income was retained for the year.

At the end of September, vacancies stood at 10,45%, which had risen to 11,94% by the end of March.

Gerard said he hoped this would be reduced by the end of the present six-month period.

"While some of our leases are coming up for renewal during this six months, many of these have already been renewed and we are negotiating with the others. Unless a major tenant goes under, we do not expect any surprises," he said.

The share reflected a buyer at 365c and a seller at 375c but was not traded. This is off an annual low of 335c reached on March 8 1993.

COMMERCIAL UNION

Exceptionally commercial

Activities: *Holding company with subsidiaries engaged in short- and long-term insurance and other financial activities.*
Control: *Commercial Union (UK), GFSA and ABSA (90%).*
Chairman: *A M D Gnodde; MD: J A Kinvig.*
Capital structure: *10m ords. Market capitalisation: R750m.*
Share market: *Price: 7 300c. Yields: 2,7% on dividend; 9,8% on earnings; p:e ratio, 10,2; cover, 3,7. 12-month high, 7 500c; low, 3 550c. Trading volume last quarter, 7 500 shares.*

Year to Dec 31	'89	'90	'91	'92
Underwriting profit (Rm)	11,5	(18,8)	5,3	25,9
Investment inc (Rm)	36,7	43,0	46,2	47,5
Life profits (Rm)	2,3	3,0	4,3	11,7
Pre-tax profit (Rm)	50,5	27,3	58,9	93,6
Earnings (c)	387	291	485	735
Dividends (c)	95	105	192	200
Net worth (c)	2 335	2 806	3 651	4 640

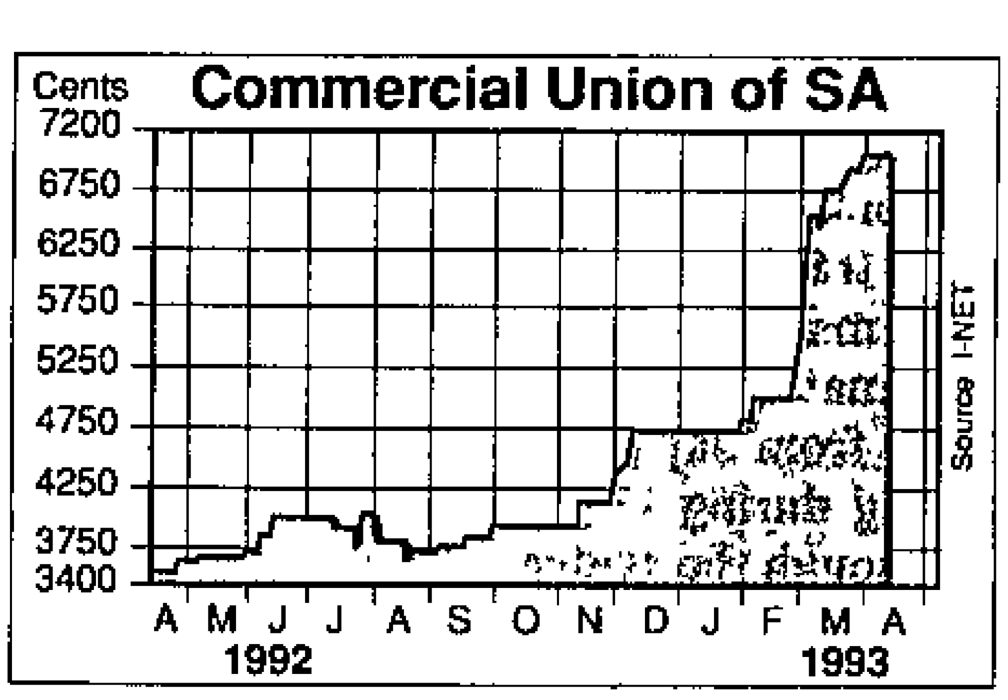
The strong recovery in underwriting profits has been mainly responsible for providing exceptional returns to investors who, a year or so ago, were sufficiently astute to enter the short-term insurance sector. But even in this context, Commercial Union's 108% share price rise is in a class of its own.

There are three basic reasons for its above-average performance. The first, a practical one, is that few shares are available outside the three major blocks (which account for all but 1m of the 10m shares in issue), with the result that any share price movement, up or down, tends to be exaggerated.

Even ignoring that, the price rise is justified by the fact that CU's recovery is well ahead of the industry norm. Its 1992 underwriting profit of R29,5m was a record, whereas most competitors remain well below the results achieved in calendar 1988.

It is the third reason, however, that may prove the most important: restructuring at the start of 1992 into separate short-term and life companies, and the related transaction giving the holding company the right to an additional 5% of the distributable profit of its life subsidiary. That brings the effective equity interest in income generated on the life side to 10%.

The significance is twofold. First, life profits are far more stable than those of short-term underwriting, so any change in the earnings mix that favours the life side automatically enhances the quality of earnings.



Second, arising out of this transaction it could be argued that in some respects CU has ceased to be predominantly a short-term insurer: it may have been this realisation that accounted for the 50% leap in the share price that followed publication of the preliminary 1992 results at end-February.

The crux is that CU Life now accounts for almost 60% of income distributed to shareholders, up from 30% in 1991 and the average of 27% for the four years 1988-1991. This meant, in 1992, that CU had to fund only 82,7c of its 200c dividend total from short-term insurance and other interests, giving an effective dividend cover applicable to these interests of 7,5 against an average of only 4,6 for the previous four years.

The implication is that, despite last year's 41% increase in distribution, CU has kept plenty of powder dry which, barring catastrophic underwriting results, should ensure continued real dividend growth for some years. This expectation is reinforced by the fact that CU Life should continue to beat inflation, leaving the holding company with the relatively undemanding task of looking after what is at present the remaining 41% of total dividend flow.

The only point likely to work against this in terms of market rating is that the EPS contribution by CU Life remains small, at under 16%. Though the proportion is likely to grow, this by itself will not prevent a decline in earnings as and when underwriting results deteriorate. In practical terms, as with most short-term insurers, a "normal" deterioration in underwriting profits should not affect dividend-paying ability (which depends primarily on investment performance), but whether this should be taken into account by investors remains to be seen.

For the moment, however, it would be difficult to argue that CU's share price rise has been overdone. In fact, if shares were more readily available, the R75 price would probably still be attractive as few investment opportunities at present offer prospects of real dividend growth.

Brian Thompson

Fidelity's rewarding niche

BIDAY 23/4/93

TIM MARSLAND

(58)

FIDELITY Bank, which caters for niche areas in the banking industry, has reported a 26% rise in earnings a share to 47,3c for the six months ended March.

The increase came despite a 62% rise in bad debt provisions to R3,159m, the Eastern Cape-based bank said. An interim dividend of 11c (8,9c) was declared.

Bank MD Jules Langeberg said the provision for bad debts was "within the norms" of his bank. The bank maintained a prudent level of reserves.

Langeberg said since the end of the 1987 financial year, when the bank was listed, total assets had grown by almost 300% to R628,5m.

ACCOUNTING STANDARDS

Into line FM 23/4/93.

58

The proposed accounting standard FRS3 in the UK will bring above the earnings-per-share line transactions which are now below it, including most extraordinary items and even unrealised gains on investments.

FRS3, put forward by the Accounting Standards Board, also calls for improved income statement disclosure. The board argues that analysts will then be able to work from a more accurate figure for earnings per share.

A company's management, in agreement with its auditors, has so far had some discretion in deciding whether extraordinary items appear above or below the line, allowing an element of subjectivity in arriving at a figure

for earnings per share. 23/4/93.

"In this standard, the board has virtually abolished the extraordinary item which has been the source of so much confusion and manipulation," says the UK board. "Ensuring that almost all transactions will be recorded above the line will relieve preparers of accounts from having to meet competitive pressures by stretching to breaking point the definitions of exceptional (above the line) and extraordinary (below the line) items."

Additonal information required in the income statement includes: 58

- Results of continuing operations (including those of acquisitions);
- Results of discontinued operations;
- Profits or losses on the sale or termination of an operation;
- Costs of a fundamental reorganisation or restructuring;
- Profits or losses on the disposal of fixed assets; and
- Extraordinary items.

SA Institute of Chartered Accountants technical director Monica Singer says this enables analysts to measure performance using various criteria such as cash flow, liquidity and solvency (assets covering liabilities).

Reduce dependence

Singer says analysts have over-stressed earnings per share. FRS3 will reduce their dependence on this, which is vital as the new guidelines will distort the bottom line. Martin & Co senior analyst Richard Jesse says it will take longer to calculate a relevant figure for such earnings.

The Institute of Investment Management & Research, the UK equivalent of SA's Investment Analysts Society, is preparing rules to help analysts calculate a price:earnings ratio, using the new guidelines. So analysts should arrive at a better earnings-per-share number to use in working out a company's share price.

Ernst & Young technical partner Ronnie Bowker agrees with the theory behind the new guidelines, but believes there would be practical difficulties implementing them in SA. He questions how much disclosure one can give in a set of financial statements regarding a particular significant transaction. And he asks whether the average SA user of financial statements has the skill to analyse the extra disclosure to decide on a company's sustainable earnings.

Singer says FRS3 is significant and "will be introduced in SA, but it will take a long time." ■

Absa sees need for better export performance

Star 23/4/93

Finance Staff (58)

A sharp improvement in export performance has taken on increased importance for the economy, Absa says in its latest Economic Monitor.

Highlighting the R6,5 billion capital outflow and the subsequent fall in the gold and forex reserves, Absa says:

"The dramatic downturn in the forex reserves situation has heightened the need for a strong export performance in the year ahead to accommodate continued capital outflows."

An increase in exports has also emerged as a crucial factor in the overall growth performance.

"On account of balance of payments developments, stimulation of consumption spending is out of the question and SA will have to concentrate on export-driven growth," Absa says.

Absa foresees a modest growth rate of 0,5 percent this year.

Nedbank's chief economist Edward Osborn is more optimistic, forecasting a growth rate of 0,75 percent this year.

Speaking at the Outlook for Trucks conference yesterday, Osborn said the economy should be lifted by a marked improvement in agricultural conditions.

The steady reduction in interest rates and inflation should also help, but the Bank Rate cut in February was likely to be the last cut for some time, because of the Budget's impact on prices, the Government deficit and foreign debt obligations.

Star 23/4/93

Fidelity Bank meets annual growth targets

By Stephen Cranston

68

Fidelity Bank lifted earnings a share by 26 percent to 47,3c and the dividend by 23 percent to 11c in the six months to March.

Its return on average assets was 1,75 percent (1,56 percent for the same period last year).

MD Jules Langenberg says all annual growth targets have been achieved or exceeded since the implementation of a long-term strategic plan in 1984.

No attempt has been made to direct resources into unfamiliar territory or to compete for market share at any cost.

Since listing in 1987, total assets have grown by almost 300 percent from the end of that financial year to R628,5 million to date.

Earnings attributable to ordinary shareholders had increased by 468 percent by the end of 1992.

The current year's interim income of R4,16 million is 44 percent higher than that for the same period in the previous year.

Provision for bad and doubtful debt has risen by 62 percent to R3,17 million, but Langenberg comments that the magnitude of bad debts was still well below industry levels.

Abcon meets forecast for unit distribution

PETER GALLI

ABCON Properties has posted a 55,89c distribution a linked unit for the year to end-February, which is just above its projected forecast of 55,76c a unit at the time of listing.

No comparable figures were available as the property loan stock company was listed on December 2 1991.

Income before debenture interest and taxation of R23,41m was reported for the year. This means income in the second half of the year was marginally higher at R11,714m than the R11,695m delared for the six months to end-August.

Debenture interest of R23,36m (55,84c a unit) was paid, giving a pre-tax income of R46 000. A tax bill of R22 000 and a R2 000 tax on dividends left dividends of R22 000 (0,05c a unit).

MD Niki Vontas said that while vacancies stood at 4,6% of the portfolio, these were covered by rental guarantees that expired at the end of November.

"In spite of the downturn in the industry, we are confident that Abcon will be able to provide investors with acceptable income growth. The net dividend yield on the issue price of 500c is 11,18%," he said.

The company had capital commitments of R18,25m at the year-end. About R18,12m had been committed to the development of three new acquisitions and R2,2m had been set aside to provide another 110 parking bays at Export House.

Negotiations had also been concluded for the sale of its two Motorcity Centres for R39m. The two developments were acquired for R34m. The sale document still had to be signed and the proceeds would be receivable over 24 months.

The share was untraded yesterday, reflecting a buyer at its listing price of 500c and a seller at 550c. The ruling price of 515c is off a February 26 annual high of 525c and June 12 low of 490c.

FEDSURE HOLD...

FM 23/4/93 (58)

Consistently sure-footed

Fedsure enters its new financial year with a vastly strengthened capital base following the share swap alliance with Investec and subsequent rights issue. Shareholders' funds have trebled to R348m and the total asset base has grown 28% to R6,5bn.

That leaves it in pretty good shape, though it'll need some of that additional capital to meet the galloping new business which subsidiary Fedlife, the life assurer which provides the bulk of income, has been writing.

Fedlife's individual annualised new business premium income grew by more than 50% last year, which compares well with the market. Group CE Arnold Basserabie says this came mainly from strong broker sup-

cont

FM 23/4/93 (58)

Activities: *Composite insurer, other financial services.*
Control: *Control pool, including Investec (24%), holds about 60%.*
Chairman: *J A Barrow; MD: A I Basserabie.*
Capital structure: *85,3m ords. Market capitalisation: R1,17bn.*
Share market: *Price: 1 175c. Yields: 3,1% on dividend; 4,4% on earnings; p:e ratio, 22,7; cover, 1,4. 12-month high, 1 260c; low, 730c. Trading volume last quarter, 641 000 shares.*

Year to Dec 31	'89	'90	'91	'92
Total assets (Rbn)	3,5	4,1	5,1	6,5
Gross premium inc (Rm)	532	684	891	1 245
Investment inc (Rm)	332	370	445	503
Taxed profit (Rm)	19,1	23,6	28,8	51,2
Earnings (c)	28,6	35,1	42,8	51,8
Dividends (c)	20,2	25	30,5	36,75

port, new products and a meaningful contribution from business partners.

But he's quick to add that growing business is not the only objective. "We also aim to constantly improve quality and this was again achieved in 1992, as shown by our low lapse ratio for individual life and retirement annuity business."

The actual lapse ratio, often a contentious issue as different life offices tend to calculate it in different ways, is not revealed, but one assumes it's comparable with 1992's 10%.

Gross premium income was up 40%. That might raise some concern about business strain, but the healthy trend in expenses, up only 22% to R125m, will allay fears. If commission and life assurance taxes are added, total outgo (R212,5m) rose by 28,5%, well below growth in premium income.

Capital may also be used for further strategic investments, at home and abroad. Since year-end Fedsure has invested R25m in EP Building Society and expanded its interest in Saambou from 36% to 41%, increasing its presence in the financial services sector.

Further acquisitions or investments could follow this year

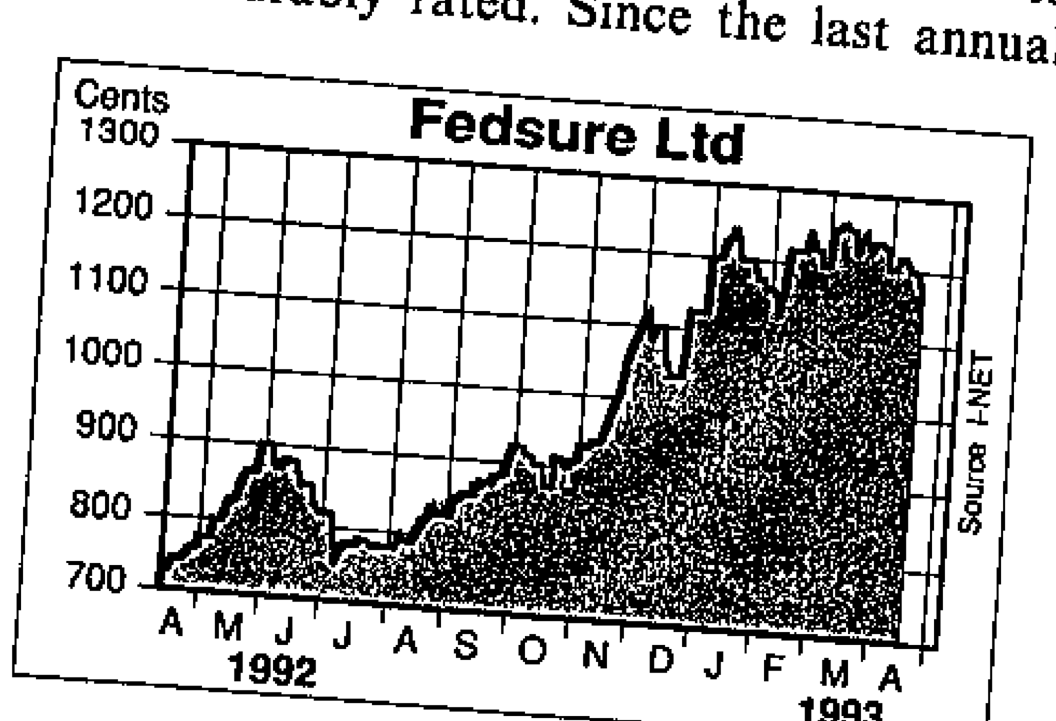
The group is keen to make an offshore acquisition if the right investment can be found, though this prospect has probably been dampened by the Reserve Bank's new policies on foreign investment.

On the short-term side, Fedgen pulled its bottom line back into the black with a net profit of R5,1m and cut the underwriting loss from R18m to R8m. Compared with leaders in the short-term industry Fedgen remains an underperformer, though results do show vast improvement.

Fedsure, on the other hand, continues to be favourably rated. Since the last annual report, the yield has firmed from 3,8% to 3,1% and the p:e ratio from 18,7 to 22,7.

While the gap has closed between Fedsure's rating and other comparable groups', it is still slightly off Southern Life's yield of 2,7% and Momentum Life's 2,2%. It's difficult to understand why, considering the consistently good results.

Shaun Harris



UNREST FM 23/4/93

Forget insurance

(58)

Businesses that lost sales as a result of the unrest days following Chris Hani's murder can expect little compensation from the SA Special Risks Insurance Association (Sasria). There will be payouts for broken windows and looting but people who, out of fear or political sympathy, decided to close shop during the turmoil cannot claim against Sasria.

FM 23/4/93 (58)

Sasria executive chairman Oosie Oosthuizen does not expect valid claims against the fund to exceed R15m, based on experience and what he has witnessed of the unrest. There could be additional claims against conventional insurance policies covering business interruption but the success of these is in doubt.

As claims against Sasria are usually made through brokers, it might take weeks before the total is known. But Oosthuizen says it seems there will be many small claims. Sasria can pay up to R250m on a single loss but has never been confronted with such a claim. It has reserves of more than R3bn.

Oosthuizen says Sasria, set up with government as underwriter of last resort, pays out claims that result from specific political and unrest events. He emphasises that there must be "an event." A march through an urban centre does not fall in this category but the smashing of shop windows during a march probably does. A restaurateur who decides not to open for business, because of politically motivated action, will not have a valid claim against Sasria.

Owners of buildings damaged during unrest events will be covered if their insurance policies are suitably worded. It is possible, says Oosthuizen, that some business losses caused in the past 10 days will be covered by special clauses in insurance contracts with the direct insurers, such as those policies covering loss of earnings.

But the opportunities for repudiation are numerous: loss of earnings clauses will usual-

FM 23/4/93

ly cover situations outside the control of the proprietor, such as flood or fire. Most insurers are likely to argue that losses caused by the proprietor's decision to close were never contemplated in the insurance contract. And diminished earnings resulting from a decision by "normal traffic" not to enter a trading area would not be entertained by Sasria and, in terms of most policies, by the direct insurers.

(58)

The issue of what constitutes unrest or politically motivated damage is not always clear though. Oosthuizen says that no claim could be made against Sasria for a car damaged by a stone thrown six weeks ago, during political calm, as that would have been a criminal incident. But Sasria would have to consider a claim for a car stoned on Monday, when tensions were high. ■

MELAMET COMMISSION FM 23/4/93 58

There is no profit in protection

No amount of regulation can remove risk

Every individual has the inalienable right to invest foolishly. Many do — then complain bitterly when the investment is less than satisfactory. Those caught in the Masterbond and Supreme debenture fiascos have been loud in condemnation of the authorities.

The truth, of course, is that as long as the two groups offered much higher returns than were available from other investments, nobody complained. On the contrary, there was a whispered admiration for whizz-kids who were able so brilliantly to defy the laws of economic gravity. The high-income returns they provided rapidly became a staple diet for pensioners.

Melamet

The crashes, when they came, were predictable and traumatic. Angry and bewildered investors accused every organisation and individual associated with company, corporate and institutional regulation of a variety of sins, nearly all of omission and all relating to perceived dereliction of duty.

What duty? Well, clearly, the responsibility for protecting individuals against the consequences of their investment decisions.

The tendency of the State to interfere in citizens' private decisions should be resisted. However, two developments in recent weeks indicate that a growing body of opinion is driving SA towards increased regulation in these areas

The first is the Standing Advisory Committee on Company Law's proposal that certain sale and purchase transactions, relating to the underlying assets of public companies, should be brought within the surveillance of the Securities Regulation Panel (SRP). The second is the Melamet Commission of Inquiry's proposed establishment of a national super-regulatory body to control all aspects of the financial services industry.

Judge David Melamet and his four-member commission unanimously recommend the establishment of a "super-regulatory" body, which they propose should be called the Financial & Investment Services Commission (Fisc) They say it should be responsible for guarding against systemic risk (any risk which challenges the financial system) and providing reasonable investor protection.

Around the world in recent years there has been increasing acceptance that the financial services business must be seen as a single industry. The Melamet report spends some time examining the need for a comprehensive approach to regulation

In the past, institutional business was easy to define: for example, a building society operated within clearly defined parameters. However, increasingly there is a conglomeration of financial services within a single group. For example, it is common to find a bank which markets insurance policies and unit trusts as well as home loans.

In circumstances such as these it is clearly

cont → P.T.O.

FM 23\4\93. (58)(180)(232)

easier for the authorities to control and regulate functions, rather than institutions.

That is the best argument for a single regulatory control system. It should, at least, avoid the imposition of different philosophies and approaches. Under the system as it exists, for example, an institution can be regulated in one area of activity in one manner and find quite different criteria applied by a separate regulatory body in another.

Norton

That's the kind of bureaucratic mess a single regulatory body is meant to avoid.

The next problem was to decide whether this proposed Fisc should co-ordinate or impose a form of direct jurisdiction. Predictably — because Melamet sees the role of regulator as an active one designed, primarily, to protect the public — the commission chose to apply jurisdiction directly.

This is the central theme of Melamet's findings. In answer to the question whether a regulator is needed at all, the commission responds that protection must be afforded in two vital areas: first, against any risk which carries with it dangers for the system. An example is that banks are so inter-related that an event which might damage or bring down one would severely affect others — a variant of the domino theory.

The second is investors' need for protection. Melamet really believes investors are a group which invites predation — they must be protected, not only against unscrupulous villains but against their own naivete. He is supported in this charming — if somewhat outdated — view by none other than ex-JSE president and SA Bankers' Council DG (soon to turn stockbroker) Tony Norton.

There are countless examples, says Norton, of the improper importuning of innocent members of the public by knavish promoters of dubious projects who use S144 of the Companies Act to disguise real intentions.

Unfortunately, the attempt to protect investors, whether against their own stupidity or the predators of the economic undergrowth, leads to inevitable conflicts.

On one hand, investors are always anxious to collect profits on their own investments — they label this the result of their own acumen. On the other, they cry foul if their investments are found to be faulty and then expect some regulatory authority to recover their money for them.

FSB's Bodenhorst

Users of the stock exchange, for example, expect the JSE's role to include protections for minorities. This is patently incorrect. The JSE is there for no purpose other than to provide an orderly marketplace; it should have no role in protecting minorities against the actions of controlling shareholders, provided these are within the law.

It is for this reason that the Standing Advisory Committee on Company Law raises eyebrows with its recommendation that action should be taken to protect minorities by expanding the surveillance code of the SRP. The SRP could become involved in making commercial judgments about the price at which company assets are sold or purchased — an area dangerously akin to a regulatory minefield.

It is not possible to regulate a bank or company into solvency. Risk cannot be removed by government fiat or regulation. The danger in creating a super-regulatory body like Fisc is that the public will come to expect precisely that; a never-never world where risk is removed and profits flow steadily. It was against this kind of misconception that the Jacobs report on financial markets delivered serious warnings — which, to be fair, the Melamet Commission acknowledges.

The commission recommends that existing regulatory bodies should be absorbed into Fisc, including the Office of the Registrar of Banks, the Financial Services Board (FSB) and the Companies Office, along with any other relevant authority.

The commission goes further: Fisc must be removed, it believes, from the ambit of the civil service. That at least makes sense. Both Melamet and Norton say SA has plenty of regulation but little enforcement.

Fisc's success — if Melamet's recommendations are implemented — will depend largely on its chairman and CE. These are not positions which can be circumscribed by civil service regulation or confined by paltry compensation packages. If Fisc is to succeed, it must be able to recruit personnel from the highest levels of commerce and industry.

However, Melamet's acceptance that the choice of individuals will be paramount in ensuring success raises other issues. It is generally accepted that society must be governed not by men but by the laws men make.

Laws become independent, acquiring lives of their own. The problem with a regulatory body with enormously wide powers — including the power to set its own policy — is that the personalities and individual predilections of the regulators assume extraordinary importance.

One critical requirement for successful corporate governance is certainty. It is in this area that the *FM* parts company philosophically from Melamet. there is a need in company regulation and legislation for flexibility — but a balance must be struck with the overriding requirement of certainty.

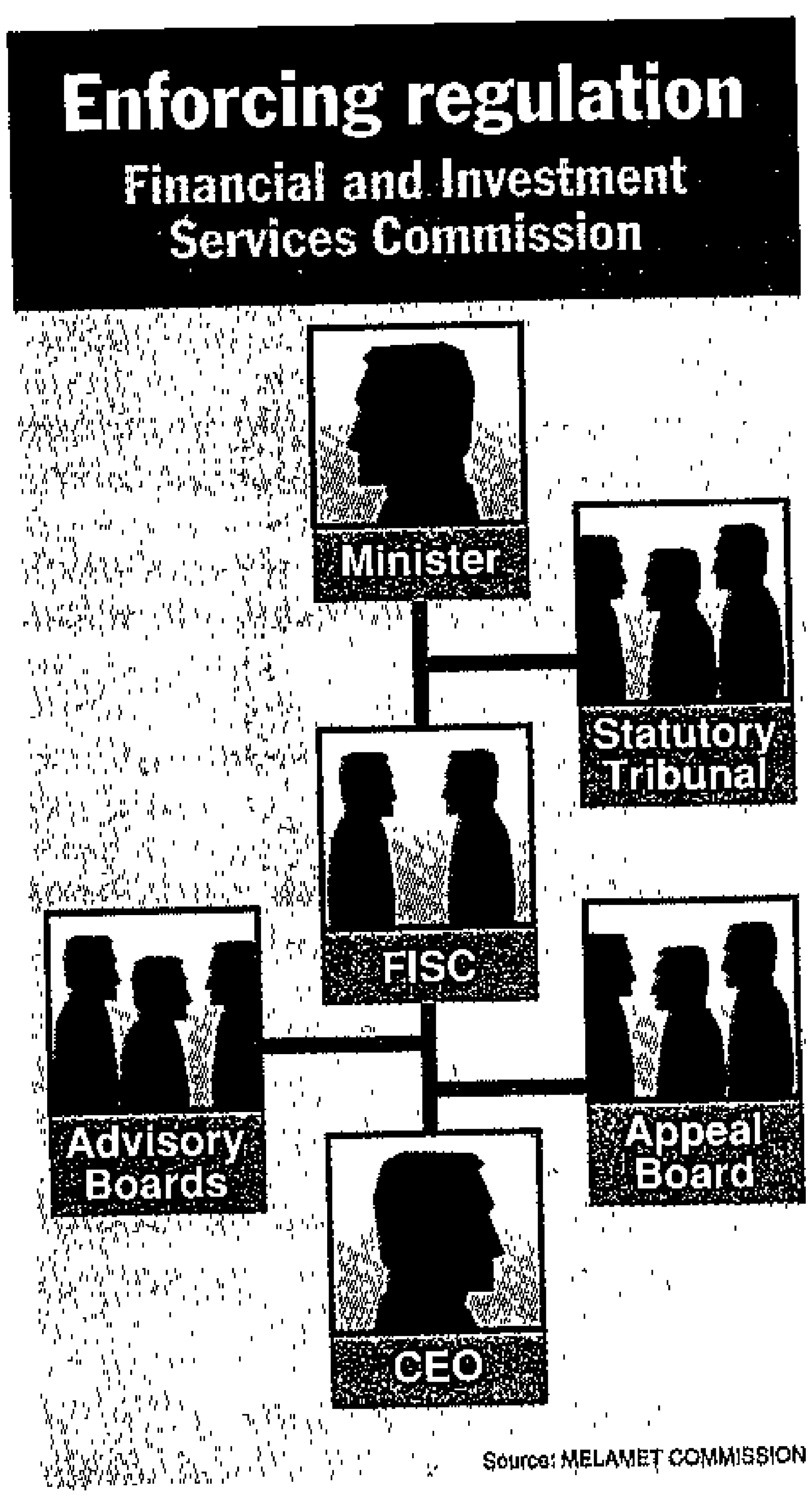
If Fisc is constructed along the lines recommended, its success will depend on the interpretations senior officers choose to emphasise. That must indicate an element of uncertainty. Melamet compounds this by telling us that Fisc must secure and maintain the confidence of government. That is like saying this commission, powerful and omnipotent in corporate governance, will have to bend and accommodate itself to the views of the government of the day.

Businessmen would be a lot happier if the legislation for Fisc were written in a manner which ensures the next government is faced with an objective structure. If that government then wants to bend the law to fit a particular philosophy, legislators will need to be persuaded accordingly.

The fact is that regulation *per se* is intrusive and should be limited. As Jacobs says: "The regulator must understand that regulation always imposes a cost and can do harm."

The extensive powers the Melamet recommendations would give Fisc leave a sense of unease. Clear limits must be placed on the ability of regulators to interfere without good cause and the freedom of different governments to impose their own social agendas must be severely curtailed.

The commissioners have produced a pragmatic report which, in many ways, is inherently sound. Nevertheless, where power is centralised, an inevitable corollary is that it is magnified and, therefore, requires to be carefully controlled. These are proposals which should not be given legislative effect without the most thorough consideration by the constituency which will be most affected — the business community. ■



FM 23/4/93

(58)

ABSA & BADENHORST

Will he survive?

He's damned if he does, and damned if he doesn't. And there is a growing ground swell of opinion that Absa CE Piet Badenhorst's reign over the banking group will be short.

He is seen as a man whose aggression sits uncomfortably in a profession characterised by understatement and calm. The apparently endless succession of actions before the Supreme Courts has resulted in Badenhorst being seen as motivated as much by retribution as by sound banking policy.

It was possible, a few weeks ago, to read on a single day of no less than three separate cases involving an Absa division and some contestant That left observers bemused. Badenhorst says none of these actions was by choice of Absa.

Nevertheless, there has been a succession of unfortunate events, all of which combine in the public awareness to produce a perception which is unflattering. Long-standing bitterness between Badenhorst and his antagonist at Allied, Kevin de Villiers, is a matter of record.

The retrenchment programmes which Absa has pursued have led to more than 5 000 employees being asked to find work elsewhere — not the kind of action that has earned Badenhorst many friends.

The Aldworth affair, which resulted in the former FNB boss fleeing SA in a welter of publicity and appeals for a more charitable approach, cast Absa — and Badenhorst — in the role of an avenger.

"That's nonsense," says Badenhorst. "What am I expected to do when evidence is unearthed of serious misdoings?"

Finally, there's the recent raid by Income Tax officials on the home of Peter Mancer following the Tytherley court case (which Absa brought — and lost). Badenhorst's son Frikkie, performing military service in the Johannesburg Receiver's office, participated in the invasion despite two applications for a recusal.

Badenhorst agrees his son's involvement was inopportune but is categorical he knew nothing of the affair till "I read about it in the morning paper."

In the end, the question is whether Badenhorst carries the support of Absa's major shareholders. Sanlam's Marinus Daling declines comment. "It's not our policy," he says. "It wouldn't be fair"

Absa's board was hastily assembled immediately after the Easter holiday to consider what action to take on the Tytherley case. The board went along with Badenhorst's view that the judgment should be appealed and, on that basis, it seems Badenhorst enjoys the directors' support.

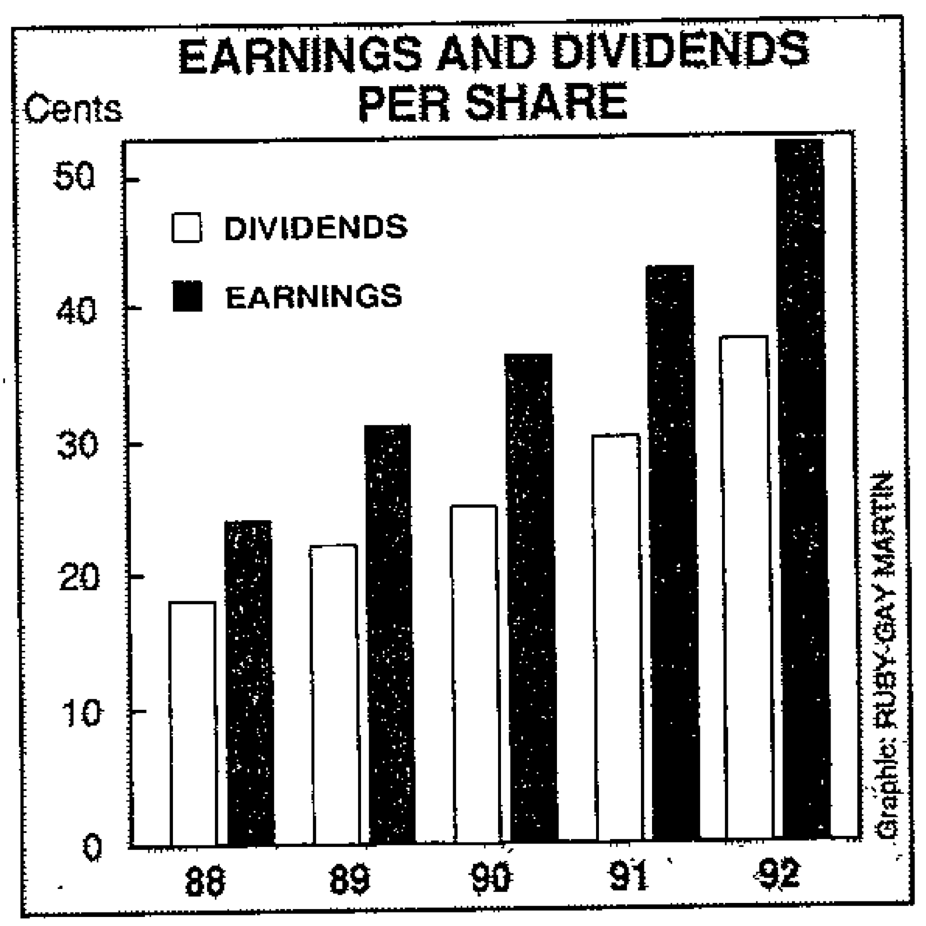
Taking on an amorphous monster like Absa can't be the easiest task. A prominent bank analyst says Badenhorst is doing a surprisingly good job "in extremely tough circumstances. I've no doubt he'll succeed."

Still, what Badenhorst will keep in the forefront of his mind is that support at board level, one moment apparently unshakeable, can mysteriously slide away like clouds on a hot day. What he needs are year-end results that confound his critics.

David Gleason

Business Day SURVEY

Fedsure Holdings has for many years been a major player in the insurance industry through its life assurance company Fedlife and its short-term insurer Fedgen. But recent strategic investments have broadened its base and it is now active in the financial services sector. ***GILLIAN HAYNE*** *reports.*



A rare person who made it to the top

FEDSURE CE Arnold Basserabie comes across as the type of person who has made it to the top in a fiercely competitive industry without losing the personal touch.

An analytical whiz who has been trained in maths and actuarial science, he understands that the biggest asset of a large organisation like Fedsure is its people.

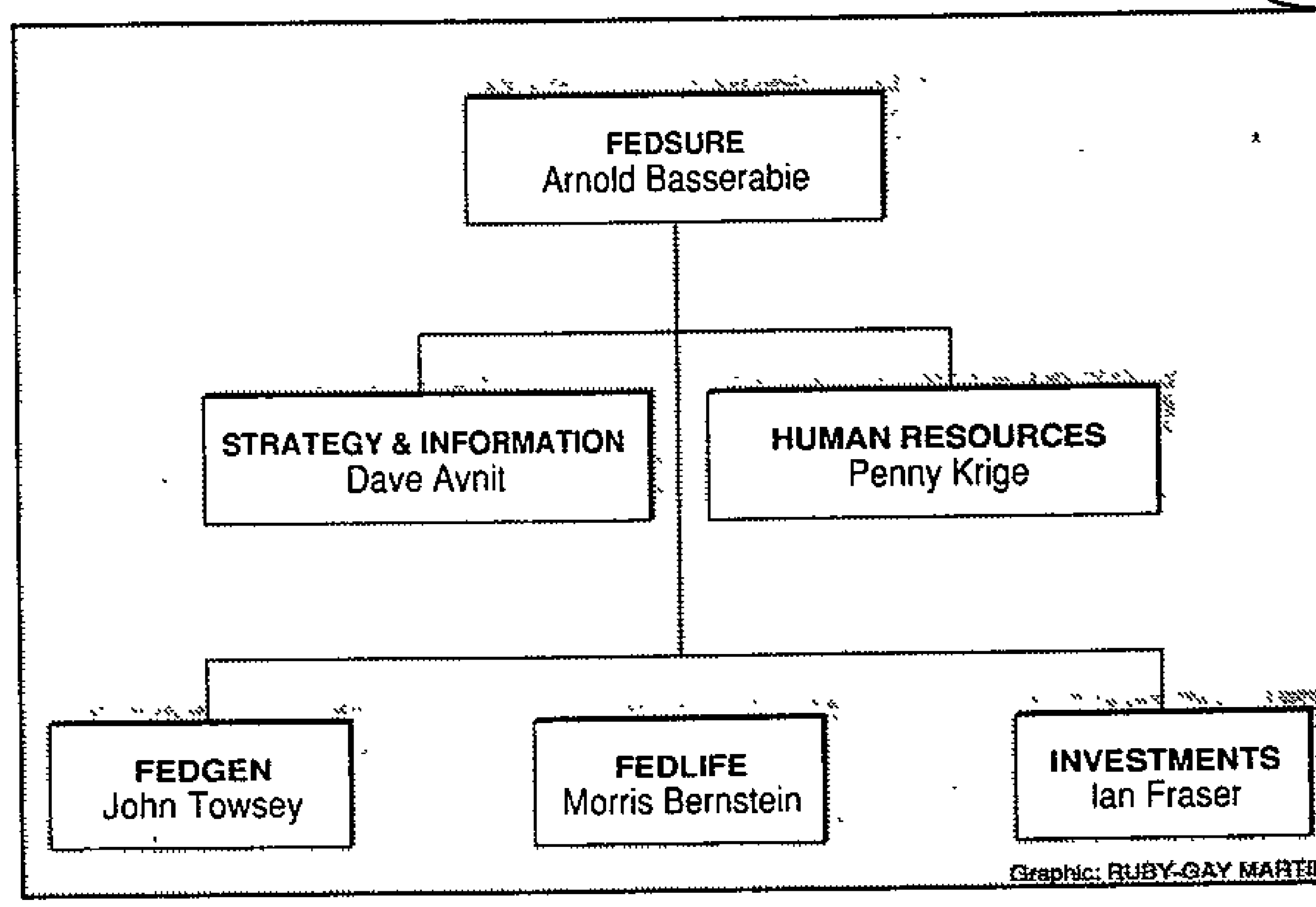
Asked about Fedsure's competitive edge in an ever-changing financial services industry, he says: "I strongly believe we are in a people-orientated business. We work hard at people relationships, which makes people want to associate with us as employees, policyholders and business associates."

He also talks of the importance of having a good team around him to help build the business.

Basserabie graduated from Wits University in 1965 with a BSc and first class passes in mathematics and mathematical statistics.

He joined Federated Insurance Company the following year as a trainee actuary. He worked full-time and studied part-time, passing all his exams first time round (a rare achievement, actuaries say) and qualified as a Fellow of the London Institute of Actuaries in 1972.

Only nine years later, at the age of 37, he was appointed MD of Fedlife. Under his leadership, Fedlife became a force in the life industry. In 1985 he was elected to the boards of the main companies within the group. He was appointed Fedsure Group CE in 1988, with overall re-



Financial services move pays off

SPARKLING results from Fedsure for the year to December 1992 are a clear indication that the insurance-based group's move into the financial services sector is paying off.

Taxed income increased by 78% to R51,2m and net income attributable to ordinary shareholders grew by 47% to R42,4m, despite a tough economic climate.

Even with the issue of nearly 18-million ordinary shares, earnings a share increased 21% to 51,8c and the final dividend of 21,50c meant an increased total payout of 36,75c (30,5c).

CE Arnold Basserabie said on the release of the results the group was pleased to have maintained a consistent record of earnings since listing of above 20% a year compounded.

During the year the group strengthened its capital base through a strategic alliance with the Investec Group.

Shareholders' funds jumped from R111m at the end of the 1991 financial year to R348m a year later.

Total group assets rose 28% to R6,5bn, having grown by 25% to top R5bn for the first time in 1991.

Fedsure's ordinary share price, which started the year at 785c, rose above 1 200c by year-end, an increase of over 50%. They are now trading at 1 200c-1 250c. The convertible shares, issued at R10 in April 1992, went up to R18,50 at the year-end and are now at R19.

Within the group's major business, Fedlife, gross premium amounted to R1,2bn, an increase of 40% over the previous year.

Recurring premiums grew by 22% to R775m, while single premiums jumped 85% to R470m.

The group's short-term arm, Fedgen, showed a turnaround in performance, transforming a R5m loss in the previous year to a R5m profit last year.

In investment performance, Fedsure maintained the improved ranking achieved in 1991.

The return on the Fedlink managed pension portfolio increased by more than 10% in the year, compared with a 5% fall in the JSE All Share index.

In equities, Fedsure substantially increased its weighting in financial counters, such as banks, and selected industrial counters.

The property portfolio performed particularly well, with average occupancy levels exceeding 97% and an aggregate return of more than 23%.

Insurance giant has humble origins

IN 1937 a number of companies in the building industry, unhappy with the deal they were receiving elsewhere, started a company to insure themselves against their liabilities under the Workmen's Compensation Act.

The company, Federated Employers' Mutual Assurance Company Limited, initially specialised in workmen's compensation insurance in the construction industry.

With the increase in demand for other forms of short-term insurance, a separate company was formed in 1944, The Feder-

assets rising to over R6,5bn from R400m in 12 years.

Fedsure Holdings Limited was listed on the JSE in October 1987 as the holding company of Fedlife. Three years later the group's expansion into the broader financial services sector began. The acquisition of a 36% stake in Saambou Bank in 1991 was followed by a strategic alliance with Investec Bank in 1992.

Increase

In 1991 Fedsure also established the Fedgro Unit Trust and Fedbond, a participation mortgage bond scheme, to further increase

The year has already seen Fedsure conclude an alliance with, and debenture investment in, EP Building Society. It has also increased its shareholding in the Saambou Group from 36% to 41%.

Change in emphasis part of international trend

ONE of the sectors in industry which has managed to show meaningful growth throughout the current recession is financial services — and Fedsure Holdings has been a leading participant in that growth.

The group has, for many years, been a major player in the insurance industry through its life assurance company Fedlife, and its short-term insurer Fedgen. But recent strategic investments in various financial institutions have broadened its base and established it as a financial services group.

Part of Fedsure's corporate vision states: "We are active in the financial services industry with insurance being our core business." The subtle change in wording from 1990s version of "Insurance is the core business of the group, which is also engaged in other financial services activities", is a clear indication of management's change in emphasis.

Fedsure CE Arnold Basserabie says the group is following an international trend of providing customers with the facility to satisfy all its financial needs.

"Fedsure's investments and alliances with other players in the financial services sector has made this possible," he says.

The success of the group's vision is evident in its performance. Since Fedsure's listing on the JSE in 1987, group assets have risen from R2bn to R6,5bn, with shareholders' funds rising from R78m to R342m in the same period.

Life assurance continues to remain its major business, with premium income rising from R503m in 1988, to R1,2bn in 1992.

Different

The group's success, however, is not being treated with complacency. Basserabie says doing business in the '90s is, and will continue to be, very different to the '80s, and if companies want to remain successful they will have to adapt to change.

For a start, globalisation is on the increase. Trade barriers are being discarded in many areas of the world, allowing the flow of goods and services to be dictated by consumer demand, rather than by government legislation.

If South African companies want to remain competitive with other companies — both locally and internationally — they will have to become market-led and be able to function on low margins. Cost-efficiency will become increasingly significant.

In a recent survey of how SA compares with 14 other newly industrialised nations (SA was ranked eighth) it was stated that SA needs to:

- ☐ Become more outwardly focussed on global markets;
- ☐ Limit government involvement in the economy;
- ☐ Strengthen its domestic economy;
- ☐ Spend much of its resources developing the skills and the quality of life of its people and;
- ☐ Create a shared vision and values for the whole country.

Basserabie says many of these criteria apply equally to a company wanting to succeed.

He sees a number of other strategic issues affecting South African companies in the years ahead. One challenge is to find the right "critical mass" (the right size) to generate adequate profits, to meet capital needs and create wealth for all stakeholders.

Secondly, companies must become more cost-effective by reducing overhead expenses and ensuring that the technologies adopted will give each organisation the ability to deliver competitive products at an efficient cost.

Thirdly, as the markets of the future evolve, companies must be able to change to satisfy their markets' changing needs.

Fourthly, in many businesses, the effectiveness of distribution channels and the influence companies have over them, will also be a key to their success.

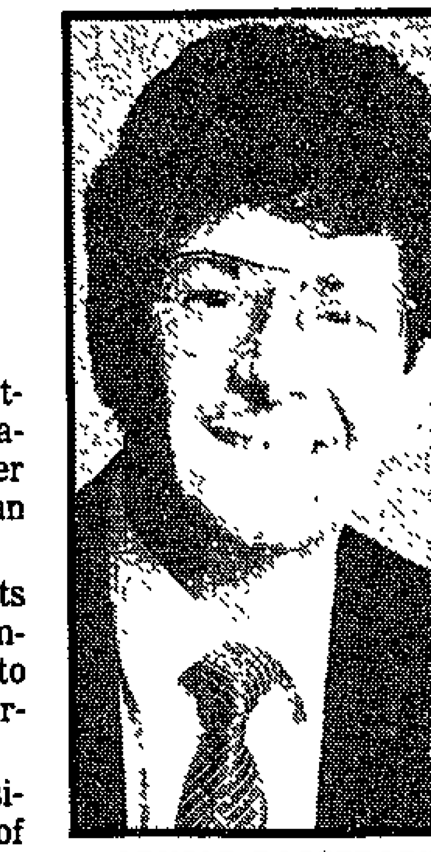
Return

Fifthly, investment return remains a key issue with life assurers because of its ability to provide a company with the competitive edge needed to attract and retain business.

Finally, the ability to recognise and adapt to ongoing, rapid change will be fundamental to success in the years to come.

At one of the group's recent strategy meetings, Fedsure's management team examined the characteristics it believes are essential for future success. The above points, as well as competent management and staff, were some of the many features identified.

The group has developed a five-year plan of strategic objectives.



ARNOLD BASSERABIE

Of great importance is to ensure that Fedsure operates within the parameters set out in its corporate vision.

Basserabie also stresses the need to strengthen the group's core business while maximising the benefits it can gain from its strategic alliances and developing further its activities in financial services.

Management recognises that within the group's diversification into financial services, it must remain focussed in its approach. "We cannot be all things to all people. We must rather attain leadership in selected business segments through outstanding customer satisfaction," Basserabie says.

He adds that the group is constantly reviewing and developing its role and positioning in the changing South African climate.

Vision is the focal point of future business plans

THE common thread throughout the Fedsure group, which holds its individual parts together, is its corporate culture. This has been crystallised in a vision statement and a statement of values adopted by the group in 1990.

Chief executive Arnold Basserabie says the need for a shared vision is essential if a company wants to manage itself, and its growth, with optimal effectiveness.

"We realised in 1990 that through the rapid growth which followed Fedsure's listing on the JSE, we were falling into the trap of managing our growth rather than the direction of the group as a whole.

"The vision was adopted to be a focal point for our future business plans — it was something we could test all our actions against to ensure they fitted into the group's future strategy. The values we accepted were to direct the activities and attitudes of staff towards achievement of our vision."

VISION:

- **☐ We are masters of our own destiny;**
- **☐ We are active in the financial services industry with insurance being our core business;**
- **☐ We attain leadership in selected business segments through outstanding customer satisfaction;**
- **☐ We attract and retain excellent staff by ensuring a challenging and rewarding work environment;**
- **☐ We participate in improving the quality of life of all South Africans.**

VALUES:

- **☐ Total professionalism;**
- **☐ Strong customer focus;**
- **☐ Strong financial discipline;**
- **☐ Sensible flexibility;**
- **☐ Performance-based employee growth;**
- **☐ Effective communication.**

insurance industry, Basserabie was voted insurance man of the year at the Multi Rand Forum in March 1988.

He holds various industry positions, including being a member of the management committee of the Life Offices' Association. He is a past president of the Institute of Retirement Funds of Southern Africa, president of the South African Retirement Association and was a founder member of the Institute of Life and Pensions Advisers. He is also an executive member of the Young President's Organisation, an international group of top business executives.

pany Limited (now Fedgen). It too grew profitably and in 1950 entered the life assurance and pensions fields. The life business also grew rapidly and in 1981 the life and short-term business was split. Federated Life Assurance Company (Fedlife) was established. It grew rapidly with

tegic investments in Unibank and Fidelity Bank.

Fedsure chairman John Barrow, the third generation of Barrows to lead the Fedsure Group, says that although the group's core business remains insurance, there is likely to be further diversification into financial services.

whole page.

Fedsure

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Sixth Schedule's end will allow a new range of products

THE four-fund approach to the taxation of life offices, which was recommended in the Jacobs report, was accepted by government in this year's Budget speech by Finance Minister Derek Keys.

The date for implementing the new scheme will be determined after consultation with life assurers. However, Keys says it will be implemented in such a way that income tax from long-term insurers will, during the first two years after implementation, remain the same as under the current dispensation.

Under this tax, an insurer's assets will be divided into four separate and distinct funds, namely:

☐ Retirement funds of which the income will, as at present, be exempt from tax;

☐ A fund for individually owned life policies, of which the income will be taxed at the rate of 30%, being the average marginal rate of tax paid by individuals;

☐ A fund for corporately owned life policies, of which the income will be taxed at the corporate rate and;

☐ A fund representing the balance of the insurer's assets, free reserves or shareholder funds, of which the income will also be taxed at the corporate tax rate.

Welcomes

Fedlife MD Morris Bernstein welcomes its introduction and says: "We now have a clearly defensible tax basis and hopefully one which can now stand the test of time and be with us for many years.

"Often in the past the authorities have played around with our tax basis according to their funding requirements."

Insurance companies will no longer pay tax on dividend income, and will be able to obtain deductions for all their relevant expenses.

The effect of the change is that the corporate tax rate will apply to company-owned policies and to operating capital of life assurers. Pension business will remain untaxed in the hands of life assurers, and the rate for individual policyholders will be reduced to 30% from a current 43%.

The Sixth Schedule to the Income Tax Act, which effectively determines the nature of business which insurers may conduct, will also be repealed.

Disincentives

The Sixth Schedule is a regulatory measure that uses disincentives to ensure life offices remain geared to longer term investments.

Bernstein says its demise will enable Fedlife and other life offices to market a whole new range of products.

Huge growth potential in individual savings

ONLY 7% of all savings in SA come from individuals, of which about 80% comprises contractual savings (payments to life assurance companies and pension funds), according to figures released in the Jacobs report.

These statistics indicate just how great the growth potential is for life assurers, and Fedlife is one of the life offices which has been taking advantage of the opportunity.

Fedlife MD Morris Bernstein says the broker market has traditionally been Fedlife's major source of business, with only a small proportion coming directly from its agents. In recent years the organisation's distribution channels have broadened, with Fedsure's move into the financial services sector.

Launched

A broker division has been established at Saambou and Investec is in the process of organising its insurance marketing division. In addition, Fedlife has launched its own agency, which Bernstein says is going to be meaningful in contributing to Fedlife's future.

The company's traditional supporting brokers include bank insurance brokers, other corporate insurance brokers and independent insurance brokers.

Bernstein attributes the company's success to being customer focused, and to designing and providing products which satisfy customers' needs.

"We have become a meaningful financial services player from being a medium-sized life assurance company.

"In fact, Fedlife is the sixth largest life assurer in SA and the fifth largest in terms of premium income," he says.

In order to to continue its growth achievement, Fedlife has identified that it needs to improve the speed and accuracy of its business, improve its cost efficiency and continually strive to improve its service to policyholders.

Bernstein has also outlined the major growth areas for the future. He expects retirement annuity sales to rise again. In the early '70s RAs constituted up to 50% and more of broker sales. Today, they constitute only about 15% of total industry premium income, excluding single premiums.

Lowering

The drop can be attributed to the lowering of tax rates, the fact that government never increased the tax allowances on RAs and structural changes in broker commission, reducing the advantage of selling annuities.

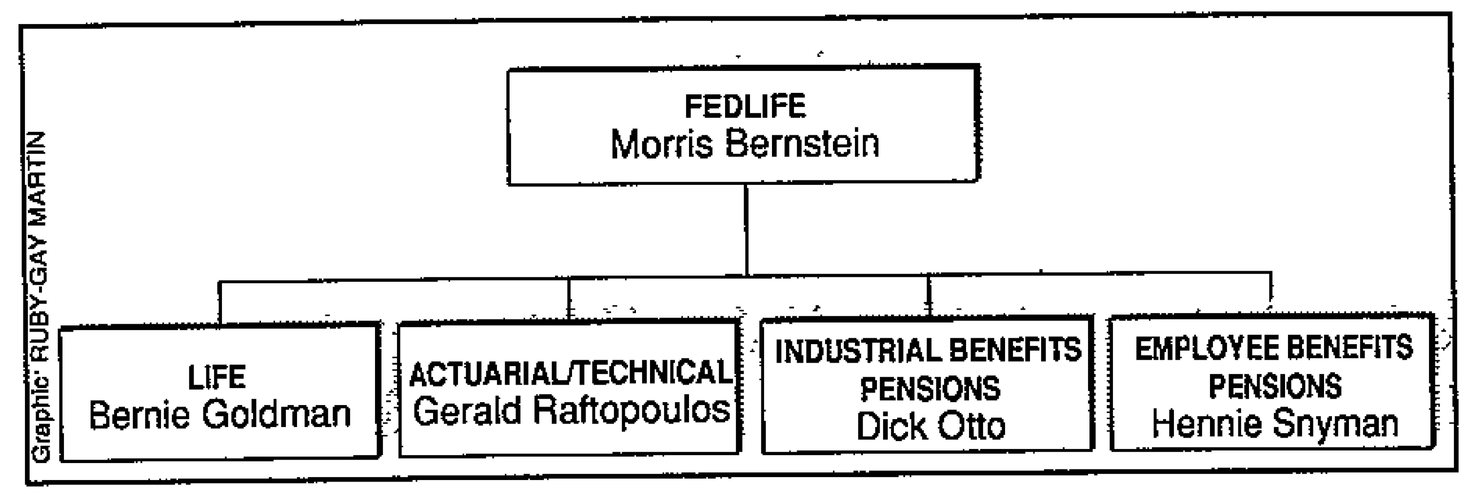
With the recent change in commissions on RA sales back to 75% for the first year and 25% for the second, Bernstein expects sales to rise again.

The removal of the Sixth Schedule in this year's Budget also broadens the scope for life assurers.

"It means our time horizons can move from 10 years to five years and we will no longer be obliged to have life cover on these policies," Bernstein says.

Joint projects with Fedsure's associates would also expand Fedlife's market — for example a product where a bank deposit could be partly invested in an endowment policy and partly in Fedgro unit trust.

Ideally the products would benefit different divisions within Fedsure.



Graphic: RUBY-GAY MARTIN

Need to beat inflation puts SA up in front

THE South African insurance industry is in a strong situation compared with its counterparts in many other countries.

Over the last 15 years, new business written by life assurance companies has increased by between 15% and 25% a year.

This compares with a decrease of 3% to 5% in the US, and minus 22% in Australia in 1992. New business sales have also started to decline in the UK.

Fedlife MD Morris Bernstein says part of SA's achievement came off the back of its high inflation — in an inflationary environment you always need more life assurance on death or maturity.

The SA life assurance industry is also known internationally for being competitive and innovative.

Many thoughts and ideas have originated in SA. For example, dread disease in-

world, Bernstein says.

He attributes this success to SA's successful distribution system, which makes the products easily available in the market place.

"Furthermore, in an inflationary environment, we have been successful in producing investment returns that enable our policyholders to maintain the value of their long-term investments," he adds.

SA's success has not been mirrored elsewhere. The worldwide recession has hit badly and many companies have had problems with the asset side of their balance sheets.

Plummeted

In Australia, and even in America, property values have plummeted.

There was a prolifera-

panies will be doing well.

However, this compares with an inflation rate of about 3%. SA's 20% growth has been achieved because inflation has been 10% to 15% a year.

If inflation continues to decline, growth will very likely decrease as well, Bernstein says.

In Australia, companies are suffering massive write-offs and billions have been wiped off the balance sheets of life assurers and super-annuation funds.

One business trend which is taking place internationally is that banks are getting more heavily into life insurance.

"They see it as a meaningful expansion of their profit opportunities," Bernstein says.

In the UK, most major banks have started their own life companies, bought an existing one or tied up with one. In Australia and

MORRIS BERNSTEIN

Actuarial superstar heads up Fedlife

MORRIS Bernstein joined Fedlife in 1992 as MD in order to free Fedsure Group CE Arnold Basserabie from the day-to-day running of the life assurance company.

Fedlife is the main asset and profit contributor of the Fedsure financial services group.

Qualified

Bernstein started his assurance career with Southern Life in 1966 and in 1968 qualified as a Fellow of the Institute of Actuaries in London.

As with Basserabie, he is one of the few South Africans to have passed all the examinations first time, and is believed to be one of the youngest South Africans to have qualified as an actuary.

In 1976, Bernstein won national recognition for writing the first doctoral thesis on the SA life assurance industry, and received his PhD from Wits University.

Motivator

Leaving Southern Life in 1970, he first went to Guarantee Life and then to African Eagle as deputy MD in 1977. Bernstein was the prime motivator in the introduction of African Eagle Life's Masterplan concept — the first universal life linked insurance contract introduced in SA.

Bernstein was MD of

whole page.

... spread to other countries and is now widely marketed in Australia, the UK and US.

Linked life assurance and universal life-type contracts have also been international trend setters.

Relatively, the life assurance industry has been more successful in SA than almost anywhere else in the ... shopping ... luxury condominiums (in the US), and this has cost the insurance companies heavily.

In the US alone, 1992 saw the insolvency of two life assurance companies, each with assets of about \$15bn.

If new business is to increase at 5% or 6% in the US, its insurance com- ...

Similarly, Fedsure has joined the trend with its move into the financial services sector.

Looking to the future, Bernstein says: "In the new SA, so many more people will be able to afford the benefits of our industry. We will continue to succeed for many years into the future."

... new Southern through its demutualising process and subsequent listing on the JSE, and then emigrated to Australia in 1988.

Bernstein returned to SA in 1989 as MD of Sage Life and was elected Man of the Year at the 1991 Multirand Forum before joining Fedlife in January 1992.

whole page

Providing a safe haven for client investments

IN recessionary times, individuals with discretionary income are often unwilling to enter speculative ventures, and look instead for a safe haven for their money.

Life offices provide one of the best havens and therefore benefit from this. Fedlife has been no exception.

In 1992, brokers gave Fedlife R121m in new business alone, while the company's fledgling agency force contributed R5m. Together, they represent a 56,4% increase over 1991. Total premium income was R625m, 70% up on 1991.

The rapid increase in business meant that the life division brought in 51% of Fedlife's annual income, a result which the division is proud of, although it has its own challenges.

Life division GM Bernie Goldman says large capital reserves are needed to support growth as policies cost more in the first year to place on the books than is received in premiums. The danger is to outstrip available capital but, through various group strategic investments, Fedlife does have the necessary capital cushion in place.

Another danger Goldman and his department have been careful to avoid is an uncontrolled increase in expenses which often accompanies periods of rapid expansion. To his delight, the life division came in at 92% of budgeted expenses in 1992, despite increasing the number of policies sold during the year from 18 000 in 1991 to 44 000. This was achieved on a reduced staff complement.

Fedlife's lapse ratio compares favourably to other companies targeting the same market. Fedlife operates mostly in the medium to high income category and its average policy size is R3 000 a year — possibly the highest average premium per policy in the industry.

Continue

Goldman says the higher the premium the greater the chance of holding onto a policy — firstly because the policyholders have the means to continue contributing and, secondly, because they usually have a better understanding of the implications of surrendering a policy.

The division has, in the past, "dabbled" in the mass market selling packaged products. Management felt some of the products were being missold and withdrew them.

It has now decided to focus on middle to high income earners. This policy extends to Fedsure's associate companies. For example, with Saambou and EP Building Society, Fedlife will concentrate on bond cover policies in excess of R80 000.

Another source of pride for the life division is its innovative products. Fedlife was one of the forerunners in opening dread disease markets. Its Gratuity Plan (a deferred compensation product) and Checkmate product were also both highly innovative.

The division concentrates on producing "unbundled" products which can be mixed and matched, depending on a client's needs.

"Packaged products do not give our brokers and agents the flexibility to satisfy customer needs. Unbundled products can be adapted to fit individual requirements," Goldman says.

He adds that many new products are in the pipeline, one of which is a healthcare product which will be launched later this year.

"We are a people-orientated division but also results conscious, with a specific focus on the customer and quality," Goldman says.

BERNIE GOLDMAN

Tailor-made packages to suit individual's needs

FEDLIFE's industrial benefits division has been hard hit by the extended economic recession, with employee benefits taking a back seat to basic wage and retrenchment issues.

Industrial benefits (IB) GM Dick Otto says the division provides retirement-related benefits to organised industry, such as the building and hospitality industries. It formulates tailor-made packages for employee groups within particular trades, both on a national and regional scale.

The product range covers the full spectrum of pension, provident, retirement annuity, death, funeral, disability and ill-health benefits.

Much of its business emanates from industrial councils, which are trade related groupings of employers and employees. The councils are constituted in terms of the Labour Relations Act and can vary from comprising one employer body and one trade union, to many. For example, the Metal Industrial Council has a membership of about 38 employer bodies and 13 trade unions.

In such cases, employment issues are negotiated on an industry basis. One of the major benefits is that employee movements within an industry do not jeopardise individual retirement benefits.

Records

The system operates with employers, for example, sending monthly employee records to their industrial council together with pension and holiday fund contributions. The council can then keep tabs on how many contributions they have received from various employers for any one individual. In this way, employees are not adversely affected by changes in employment.

IB's emphasis on tailor-made packages ensures that employees receive meaningful benefits.

Using the building industry as an example, death benefits have a built in cover for times of temporary unemployment.

In most industries, death benefits cease the day an individual leaves his employer. But in the building world, where an artisan may be unemployed for a month or more between projects, death benefit cover can still continue for up to one year.

In the textile industry, where the majority of the workforce is female, the benefits are different again.

But it is not only employees who gain. Small employers, for whom the administrative costs of individual retirement funds are prohibitive, also benefit from industry-wide packages.

Otto says that although his division has a holistic approach within which administration procedures, benefit structures, claims procedures and investments all hang together, systems have been designed for maximum flexibility.

"We do not fit a client into a "pre-packaged" system having persuaded him that it fits his needs. Rather, we sit down, discuss what his needs are and then develop the system accordingly," he says.

DICK OTTO

R1m a working day paid out by employee benefits branch

FEDLIFE's employee benefits division paid out over R1m every working day in 1992 to dependants and beneficiaries of retirement funds.

New business increased by 50% in the year, while total premiums received rose to R438m, 40% up on the previous year.

The division is responsible for the design, marketing, administration and actuarial needs of group pension, provident and risk benefit funds for organisations which are not subject to an industrial agreement.

GM Hennie Snyman says the increase came largely from improvements to existing funds and from new funds placed with Fedlife, together with established funds which moved to Fedlife through mergers and acquisitions.

Despite the division's success it is being plagued by a trend which is also affecting other underwriters — the disproportionate increase in claims by people who are ostensibly disabled and unable to work. Snyman says claim increases can virtually be plotted against the performance of the economy.

Spotlight

Also under the spotlight is the need to develop retirement funds for smaller employers. There are many companies for which funds are not viable because of the substantial rise in the cost of registering new funds, increases in underwriters' basic administrative costs and the high cost of medical examinations.

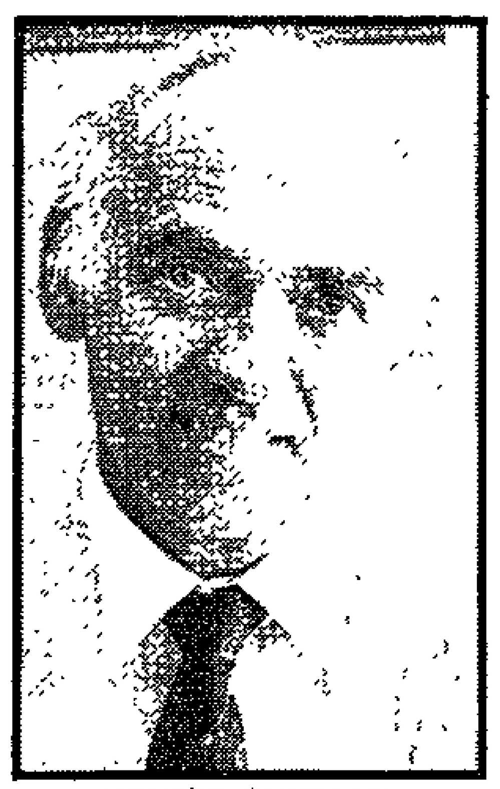
The only real alternatives at present are individual retirement annuities or a combination of annuities and deferred compensation. The result is that a large portion of the market is untapped.

"It will be necessary to look at the market needs of the new SA and develop the right employee benefit packages," says Snyman. "Much research is being done on the needs of emerging entrepreneurs, who could provide a rewarding niche market."

He says the ultimate solution is for life offices to design a simplified and easily administered product based on a low usage cost basis.

With the ANC's stated preference for using subcontractors wherever possible, Fedlife sees the future trend to small entrepreneurial businesses. This makes the need to produce a cost-effective, efficient, easily understood, acceptable and easily administered pension product a matter of urgency.

Funds placed with the division are invested in a market-related portfolio or a contract offering a guarantee of capital and a smoothed investment yield.



HENNIE SNYMAN

Voluntary benefits target market

UNDAUNTED by the difficult trading conditions experienced over the past three to four years, Fedlife's industrial benefits division continues to look for innovative products to meet the needs of its clients.

One of its emphases is to move into the voluntary benefits arena with low contribution schemes, which industrial benefits division GM Dick Otto says is an extensive potential market but very difficult to tap and develop.

Voluntary benefits enable members to decide on the extent of their participation in available products. The division's Domestic Pension Fund has been the most successful. Employers can contribute as little as R15 a month on behalf of their domestic staff to go towards a pension fund.

If the employee leaves, the pension becomes paid up and goes with the employee.

Researching

To complement the Domestic Pension Fund, the division is researching the possibility of a Domestic Provident Fund for those who prefer lump sum benefits. As for the Domestic Pension Fund, it also includes death, funeral and disability benefits.

Fedlife was one of the first to offer post-retirement pension increases, introduced in 1972. Since the mid-1980s (mainly within the building industry schemes) it has been paying double cheques to pensioners in certain industries in December.

It was also one of the first divisions to add funeral benefits as an auxiliary to retirement funds.

The topical issue in SA is the use of retirement funds as collateral for housing. Unfortunately the problem of guaranteeing security of the physical structures has limited growth in this area.

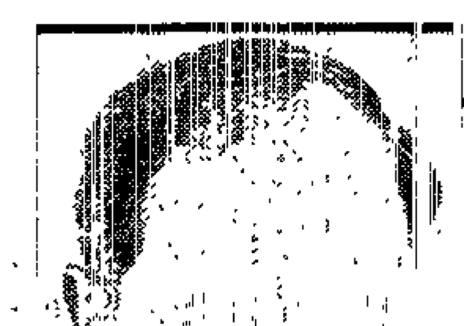
Otto says it is a fallacy that there is a large shortage of finance for housing. The finance is there but will be made available only if violence, which threatens the physical structures, and the ethic of respect for ownership of property, repaying bonds and paying rents can be re-established.

Ensuring policyholders' expectations are met

THE technical services division, although shown in the group structure as a division within Fedlife, has duties which span the whole organisation.

Chief actuary Gerald Raftopoulos says the division holders, or what they have been promised, can be honoured," says Raftopoulos.

Springing from this comes other duties such as fixing the basis of Fedlife's pricing structures and ensuring reserves are maintained which the technical services department carries out in conjunction with the investment division. It is to ensure that investment strategy is fixed so that policyholder expectations will be met.

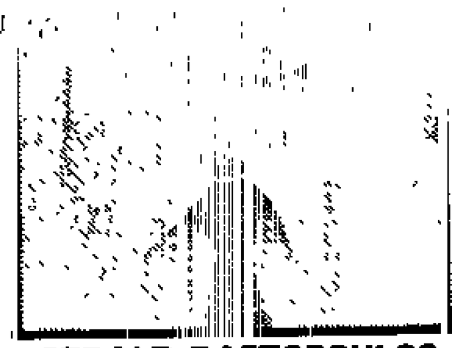


...mands are made on the de-partment from virtually every other division in the group.

Its key function is to ensure that the corporation is financially sound. "We must ensure the benefit expectations of the policy-... The department fixes the profit targets for each product and sets criteria for profit tests on any new products to ensure they will be able to fulfil policyholder and shareholder expectations.

Asset liability management is another function... ment claims experience is monitored so that we can be certain the bases which are used in the premium rates are correct", Raftopoulos says.

Corporate tax is another big responsibility of the actuarial department.


GERALD RAFTOPOULOS

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Decisions are as good as the information available

OVER R5,5bn of Fedsure's assets are invested in equity, capital, money and derivative markets.

Heading the team of 13 specialists responsible for selecting investments is deputy GM Dennis Paizes. Political, economic and company research is also an important part of the department's function.

Overall investment strategy is agreed on by a committee chaired by group CE Arnold Basserabie and which includes senior investment staff and heads of the operating entities. The general investments department makes recommendations based on their close knowledge of unfolding events locally and internationally.

"Investment decisions are as good as the information that is available. We have invested in highly sophisticated information networks to ensure that we are accurately and timeously informed of important announcements or happenings," Paizes says.

During 1992, assets invested in the equities market increased by almost R700m, while the increase in gilts rose by over R700m.

"In the first quarter of 1992 we consciously shifted a large amount of funds from the money market to the capital market. As interest rates subsequently fell, this tactic not only ensured a high return but also gave us a substantial capital gain on these funds. We subsequently hedged our position through the use of options," Paizes says.

Although the team felt the JSE was almost fully valued for most of the year it maintained, and even slightly increased, its overall exposure to equities because it perceived that the market was well underpinned.

"We have to take a medium- to long-term approach to investment. Unless we think that a major crash is imminent, we will generally continue to put part of our cashflow into the market," Paizes says.

For 1993, the investment team remains relatively cautious. As events unfold, its strategies and tactics are under constant review.

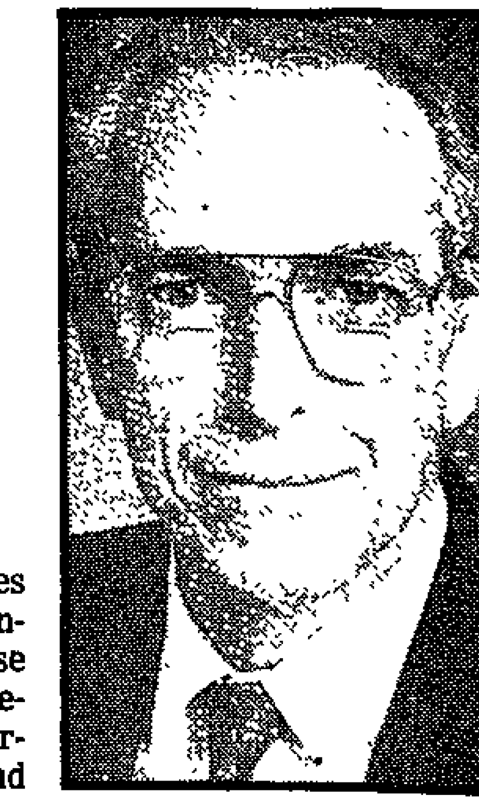
The recent Budget, for example, has dampened short-term expectations for the rate of inflation to continue to fall. This has a negative effect on interest rate expectations and, while economic growth may be positive by the year end, a new bull market in equities is unlikely.

The group has maintained an underweight position in gold producer shares for two years.

Paizes says the group continues to prefer the greater security to be found in mining financials.

DENNIS PAIZES

Investment arm constitutes the hub of the group



IAN FRASER

FEDSURE's investment division is seen as the hub of the group. All the assets generated via Fedlife's operating divisions and the group's other subsidiaries are managed by the investment division.

The responsibility is daunting. In 1992, investment income alone topped R500m, while asset growth rose R1,5bn. The group's total asset base now stands at R6,5bn.

Investment division GM Ian Fraser says the division's function is to invest the group's money to maximise the return for all policyholders and shareholders. As policyholders have varying needs, investments are placed in separate portfolios which carry unique risks.

The largest portfolio is the life fund, where policyholders' capital is guaranteed. The risk profile of the fund must be minimised and, as a result, a relatively large portion of the assets are placed in government stocks (gilts). Each year an income bonus and capital growth bonus is declared for the benefit of policyholders.

The other major investment alternative for policyholders is a linked portfolio where there are no guarantees and the capital is valued according to (or linked to) the market values of the underlying assets. Although the risk profile is correspondingly greater, total returns have historically been substantially higher.

The investment division comprises various departments which concentrate on specific investment markets. Under the leadership of Ian Fraser, there is a property department which is responsible for all property development, management and administrative work; a general investments department which is responsible for participation in the equities and gilts markets and undertakes research in those areas; Fedgrowth Management Company, which markets Fedgro unit trust; and the management company of Fedbond participation mortgage bonds.

There is also an investment marketing section which is responsible for keeping Fedsure's own clients informed of its investment decisions, and investment accounts which record details of all assets and effect settlement for transactions.

The structure of the division mirrors the four main investment options available to investors in SA. The four main assets are gilts, equities (both listed and unlisted), properties and cash or money market instruments. A small portion could also be invested in various loans.

Fedsure's property department achieved a 23% return through income and capital growth in 1992. This success encouraged the group to invest a higher proportion of its funds in property than most of its competitors. Fraser says property is an important investment medium as it provides stability in both income and capital growth.

Fedsure's investment performance is well above the average for the industry. Of the six largest life companies, Fedsure came first in 1991 and second in 1992, according to the Alexander Forbes survey of fund managers.

The return on the flagship pensions portfolio has averaged over 20% for these two years — well ahead of inflation and most of the competition.

Providing capital for company expansion

THE launch of the Fedlife Capital Fund is one of the most exciting developments in Fedsure's investment portfolio, says investments senior assistant GM Neville Stocks.

The fund has been established to provide small to medium companies with the capital they need to expand.

Entrepreneurs requiring capital to enlarge their businesses often struggle to fulfil the lending requirements of banks. For example, security requirements are too stringent, especially in instances of financing specialised items such as machinery.

The Capital Fund can provide suitable equity and loan finance in a more flexible manner than the banks.

But this does not mean the fund is investing in risky venture capital. Its requirements are that the business must have been in operation some five or six years, have a good track record and proven management.

"As trustees of other people's money we do not have the right to invest in risky businesses. The risk profile of the capital fund is no higher than our investments on the JSE, and the return is greater," Stocks says.

The fund is administered by Templeton Capital, and the three directors are responsible for investigating requests for finance, planning and negotiating possible deals before bringing it forward to the trustees of the fund for final approval.

Although the fund is filling a gap in the market for equity finance, the beneficiaries also receive access to other expertise such as strategic planning, management and financial planning.

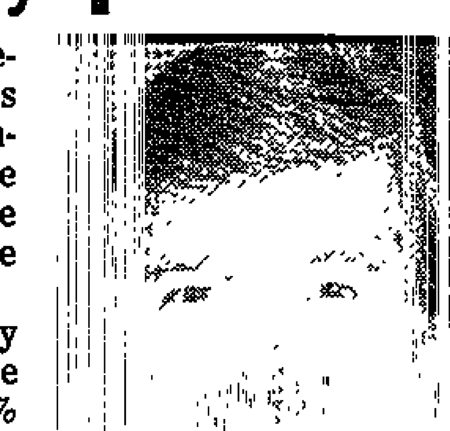
Keeping on top of the property portfolio

FEDSURE's property portfolio topped R1,1bn in 1992 (compared with R43m in 1977), an achievement which property deputy GM Eugene Loubser attributes to "hard work, dedication and commonsense".

In addition, income and capital growth in the portfolio was 23%, despite the ...ings, which are situated in the main economic centres of SA.

Loubser says: "Although it is almost impossible to determine the ideal mix for a property portfolio, we believe that in order to avoid the unnecessary erosion of annual net income growth, vacant land for future de... close, hands-on management of its investments is paying dividends — occupancy is at 97%, despite the tough economic climate and deluge of vacant office space.

Assistant GM property investment Jan Oelefse says the portfolio has 50% single-tenant buildings and ...



The department's emphasis is on the day-to-day management of its properties, which not only ensures that tenants are kept happy, but allows the team to monitor timeously when investments are peaking and when they should sell.

The portfolio comprises properties with high profiles and top quality buildings. portfolio at market value. Residential properties, if any, should amount to an even smaller percentage of the whole."

The portfolio's current content is 55% offices, 24% industrial, 15% retail, 4% vacant land for future development and 2% residential and hotels.

Fedsure's insistence on former provides a more secure form of letting, while the latter (with its higher tenant turnover) provides more opportunity to increase rentals.

He says the major challenge facing the industry today is that tenants' preferences change more quickly than in the past. For example, open-plan offices, which were the height of fashion 15 years ago, are now very difficult to fill. The focus has moved to properties which blend into their environment. Gardens and attractive surroundings are an imperative.

EUGENE LOUBSER

whole page

Fedsure

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Good investment record sells unit trusts

ONE of the key success factors in selling unit trusts is to ensure a good investment performance over the medium to longer term.

"The product is important, but without a consistent investment track record it will not succeed," says Fedgro unit trust executive director Dries van Rooyen.

This adage has served him well. Fedgro unit trust was launched in February 1991 and its portfolio is already worth R43m. Its investment performance has been close to 20% a year and, in 1992, it outperformed the all-share index by a comfortable margin of 10 percentage points.

Van Rooyen's second key to success is good customer service. All his staff, whether frontline or back office, are trained to deal with the public so queries are answered immediately.

Fedgro fits well into the Fedsure group. It is a natural financial services extension for a life office in that it gives the life office a financial shorter term investment vehicle with which to balance a client's insurance portfolio.

Fedlife's extensive branch network provides a useful distribution channel for unit trust business.

Outlets

Fedgro is owned 65% by Fedlife, 25% by Saambou and 10% by Eastern Province Building Society. Together, the three companies provide the unit trust with over 100 outlets nationwide.

The unit trust industry in SA is substantial, with 1,2-million account holders and total assets of R13bn. But it still only represents 1,9% of the market capitalisation on the JSE, compared with the unit trust industry in UK, which holds over 10%. As Van Rooyen says: "There is tremendous potential for growth."

The industry is growing because it is a flexible product which allows for greater liquidity while still being well managed and controlled. It is also a growth investment with a track record that beats inflation.

But with the first unit trust established in SA in 1965, is it not too late to enter the market? Van Rooyen says no. The market has much room to expand. With an effective marketing strategy Fedgro, as a young fund, is finding its rightful place.

"A unit trust, like life assurance products, is not bought but sold. We are developing new packaged products to make Fedgro a worthwhile product for the intermediaries to sell," he says.

Commissions on unit trust sales do not match those of life products. To overcome this disadvantage Fedlife has developed a product which includes both elements. Extenda-Plan has been a great success — not only has it created sales for Fedgro, but it has already brought in over R55m of additional business for Fedlife.

Mortgage bonds retain their popularity

PARTICIPATION mortgage bonds have always been a popular investment as they provide regular income at market-related rates.

It is an investment which is used mainly by "widows, orphans and retired persons" and therefore the need to minimise risk to their capital is essential, says Fedbond MD John Field.

Expand

In 1990, when Fedsure decided to expand into financial services, one of its moves was to open a participation bond scheme. In January 1991 Fedbond was launched.

Field says that from the date of commencement Fedbond grew beyond all expectations. With the assistance of Fedsure's property division to assess the properties' base values, and Fedsure's investment division to assess the borrowers' financial positions, Fedbond soon had an excellent base of solid bonds for investors.

In 1992, the growth of the scheme made it essential to expand Fedbond's computer facilities so clients would be assured of receiving their interest payments on time.

By using electronic transfer facilities generated by the computer, investors receive interest into their accounts on the first working day of each month.

Fedbond then developed the Fedbond Care Rate, which allows for an additional 0,5% interest to be paid to investors of 55 and older. This has proved to be highly successful. "Also our interest payments are made monthly which suits our investors," Field says.

Complement

The company's latest service is the introduction of a pension trust division. This is geared to complement the services offered by Fedlife's pensions (employee benefits) division. Fedbond pension trusts offer ongoing investment management and administration for the capital benefit paid out on the death of an employee.

The purpose is to protect widows and minor beneficiaries from unsound financial advice. It ensures an ongoing income while the children are minors and protects the erosion of capital from inflation.

The Fedbond pension trusts are a natural extension to the products offered by Fedlife and fulfil a need that was apparent in the market for some time, Field says.

Homes sought for large flows of funds

A CHALLENGE facing the Fedsure investment division is to find a home for the constantly growing amount of funds it has available for investment.

Investment division GM Ian Fraser says there is a massive amount of money chasing limited investment opportunities in SA, and in the future this problem will only be exacerbated.

In 1992 total turnover on the JSE was R21bn, while total institutional funds needing investment vehicles topped R40bn. By the year 2000 this gap will have widened alarmingly.

Shrinking

Turnover on the JSE is shrinking in real terms, the property market is contracting and at present investors are limited in offshore dealings.

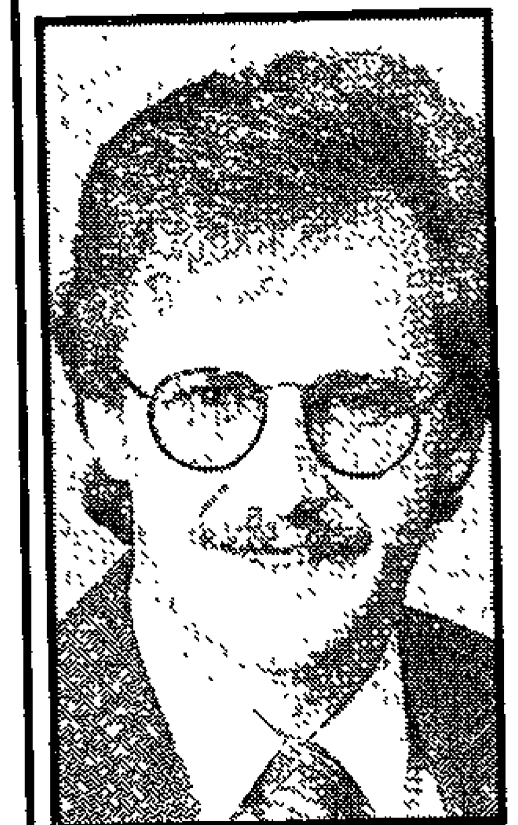
This is one of the reasons Fedlife launched its Capital Fund. It is an alternative

However, many more options will have to be found.

Despite the obstacles, Fraser is confident that Fedsure's disciplined and flexible investment procedures, careful trading and management of risk will ensure its continued investment success.

(85)

Strategic investments tailored to group's corporate vision



DAVE AVNIT

ONE role of Fedsure's newly formed strategy and information division is to translate Fedsure's vision into tangible investments.

Strategy and information division GM Dave Avnit says that in making strategic investments the emphasis is on how each investment fits into the corporate vision. The compatibility of each party's culture is as important as the rands and cents advantages of any deal.

The group's penetration into the financial services sector, through companies such as Saambou, Investec and more recently the Eastern Province Building Society, reflects Fedsure's vision and this is likely to develop further.

But Avnit does not envisage the development running along traditional lines. His department is looking at ways of combining activities — possible joint ventures — through which "one and one can make three".

The key is through insurance intermediaries. Their role is more than providing insurers with a distribution channel through which to market their products. It is a sophisticated financial planning role.

Brokers are the barometer of the market. Through their close contact with clients they can assess the needs and wants of those customers, thus helping the banks and insurers to respond to those needs. They can act as catalysts in merging the different elements, thereby ensuring clients have a balance in their investments.

The increased activity between intermediaries, Fedsure and its associate companies reflects the gain achieved through their closer workings.

Virtually all the group's assets are held in Fedlife but this may change, especially with government's four-fund approach to taxing life offices.

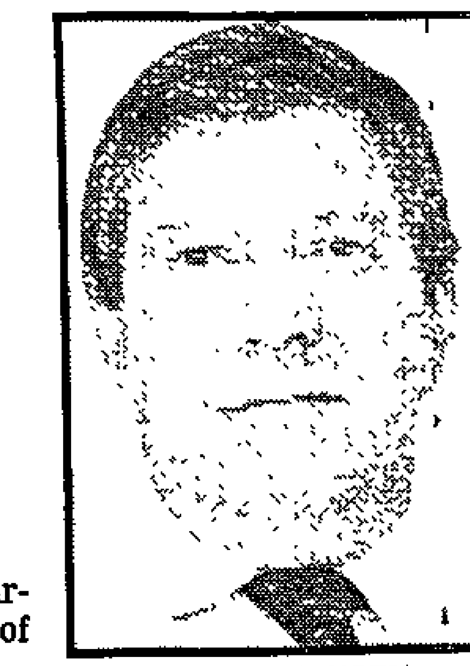
Government has long been committed to the trustee principle in taxing life offices. While adhering to this principle and at the same time ensuring an equitable tax basis, it has been decided that the life insurance industry will be split into four funds for tax purposes.

To back up a vision of diversification and expansion requires capital. When significant investment opportunities are identified Fedsure will need to raise capital through its listing.

Fedsure's performance since its listing in October 1987 has been gratifying. Its ordinary shares came onto the market at 280c and now stand at R12,20. This partially reflects a rerating of the whole sector, but most of it is attributable to improved perceptions of the Fedsure group. One advantage of the rerating is its direct influence on the amount of capital the group will be able to raise for future investments.

The group was listed by raising R50m of shareholders' funds but a further R223m share capital was raised in 1992 by the issue of preference and ordinary shares, through the tie-up with Investec. With the increase in profitability and the group's rerating on the JSE, its market capitalisation stands at R1,3bn.

New culture puts Fedgen back in the driving seat



JOHN TOWSEY

THE opportunities for selling commercial lines insurance, which has been Fedgen's traditional market, have diminished over the past few years following the downturn in the country's business activity.

The recession has led to decreased stock levels and therefore lower premium income levels for insurers. Simultaneously, violence and lawlessness have also taken their toll through rocketing theft and fire claims.

Fedgen MD John Towsey is hopeful this situation will reverse in the future, and Fedgen will be well placed to benefit.

Despite the problems, Fedgen has managed to recover from a loss in 1991 of R5,1m, to record a profit of R5,1m in 1992. Income rose to R163m in the year (compared with R147m in 1991) and net written premium income increased 9% to R111m.

The company's success can be attributed to a relook at all processes which dramatically increased efficiencies, and to a change in culture within the organisation.

Prudent underwriting and claims control, as well as careful premium rating, helped return Fedgen to profitability. The underwriting loss for 1992 at R8m was a significant improvement over the loss incurred in 1991 of R18,2m.

Diversifying

Towsey says that despite the turnaround in the company's fortunes, future expansion will have to come from diversifying the portfolio of business into personal lines insurance.

"About 60% of short-term premiums paid are in personal lines. By concentrating on commercial lines we are limiting ourselves to the shallow end of the pool," he says.

But the diversification will not damage Fedgen's stated policy of being a focused insurer.

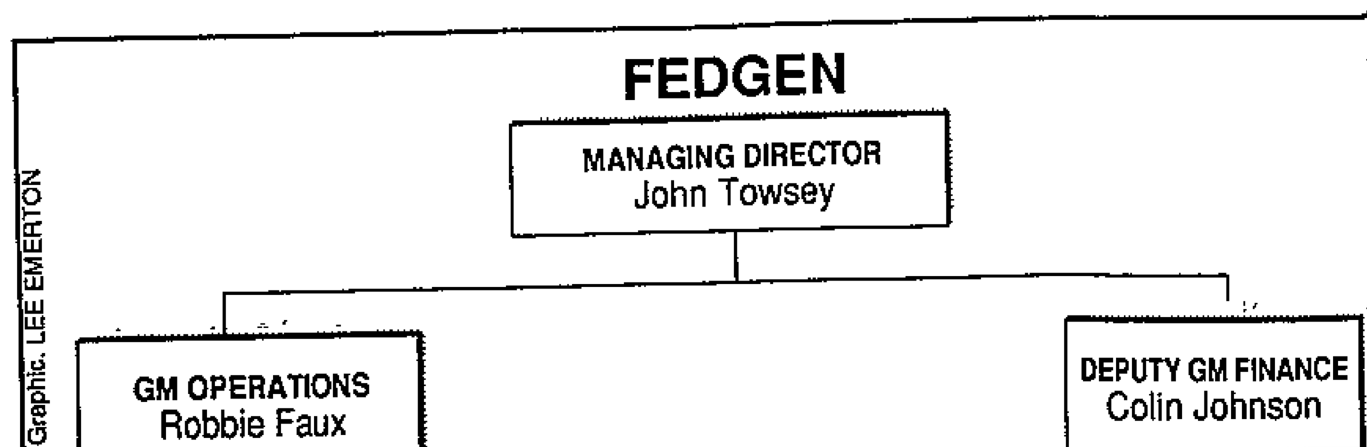
Operations GM Robbie Faux says the company will be targeting specific areas within personal lines — areas which are not as sensitive as commercial lines and where the risks are more controllable. In addition, staff and systems for commercial and personal will remain strictly separate to ensure they maintain their focus.

"We are not looking at volume business, but managed growth through the sale of a cross-subsidy of domestic business," he says.

Within the commercial lines, Fedgen's core business has remained with the construction industry and other middle to small companies. Its classes of business include fire, motor, accident, guarantee (supply bonds, performance bonds, court bonds), marine and engineering.

Another part of the company's strategy is to use underwriting agencies which also focus on specific areas. At present, Fedgen is linked to Motor Underwriting Agency for executive motor vehicles; Clarendon Underwriting Agency: for black taxi insurances; and Fedgen Accident and Sickness Acceptance, which sells personal accident and direct mail insurances.

As Towsey says, such underwriting agencies provide focused needs which are hard to achieve in a composite company. It serves to reduce the risks associated with those areas.



Graphic. LEE EMERTON

Holistic approach enables

PENNY KRIGE

Keeping the workers covered

THE prime function of The Federated Employers' Mutual Assurance Company (FEM), the founding company of Fedsure and now 40% held by Fedlife, is to insure workmen's compensation liabilities of employers in the building and construction industry.

It holds the distinction of being one of only two private sector companies granted a licence to do business in what is otherwise a state activity.

FEM GM Cliff Saville says that in 1943, when the Workmen's Compensation Act came into force, the majority of companies providing the same service as FEM disappeared as employers moved their liability insurances over to the state fund, which is administered by the Workmen's Compensation Commissioner.

FEM was allowed to carry on because of its mutual status.

Founder

Saville says: "The company is particularly proud of the fact that it is the founder of the Fedsure Group of today, and that it continues to provide a workmen's compensation service to employers in the building and construction industry, for which purpose it was formed well over 50 years ago."

Despite the current downturn in the building industry, FEM performed well during 1992 with excellent results, Saville says.

The number of employers registered with the company increased by almost 5%, while in the past five years the total assets of the company increased by a substantial 78%.

Strong financial and other support is provided to the National Occupational Safety Association (Nosa) and to the Safety Management service of the Building Industries Federation of SA (Bifsa).

FEDSURE has a holistic approach to its human resource policies.

"The key to unlocking human potential," says human resources GM Penny Krige, "is to achieve alignment between the strategy and goals of the organisation and the personal aspirations and abilities of individual staff members."

Intrinsic to this approach are the norms and values of human dignity, integrity, equity, participation, freedom of choice and freedom from exploitation. These values apply to the employer and employee.

This partnership approach depends on open and honest communication which is embodied in the recently launched performance management system, Fedmax.

Fedmax is designed to achieve alignment between corporate and individual goals and to provide a platform for identifying training and development needs.

The system is highly interactive between manager and subordinate, who together set goals and agree to standards for the coming year, evaluate performance for the preceding period and openly discuss the subordinate's career aspirations.

Fedsure has an excellent training and development infrastructure which optimally utilises technology to "get the training programmes to where they are needed, when they are needed", says Krige. Computer based training programmes can be downloaded into the branches from Fedsure's mainframe. Employees' performances can also be monitored on these programmes.

The partnership approach and the values were recognised when Fedsure was awarded the prestigious Gold Award of the SA Federation of Business and Professional Women for its strides made for the advancement of women.

"Our strong commitment to performance-based employee growth, equity and fair play are reflected in our non-discriminatory employment policies and practices and our broad ranging affirmative action programme," Krige says.

"Our social investment is both internally and externally focused. We have excellent security benefits for our staff, ranging from income security insurance and dread disease cover to a subsidised housing scheme. We also provide an employee welfare support programme staffed by an industrial social worker and an industrial nurse."

Fedsure makes its facilities available to underprivileged communities and has over the past year trained many black graduates in basic computer skills and programmes. Other youths from deprived backgrounds are being offered life and job skills training.

Organisations do not exist in a vacuum, they are an integral aspect of the society in which they operate and Fedsure recognises this symbiotic relationship and the important role that business must play during this transition period.

"We look forward to the challenges and opportunities of the new SA and from an organisational and people point of view we are confident that we will meet them successfully," Krige says.

whole page

Financial services move is laden with potential

AS Fedsure's move into the financial services sector is a recent development, the relationship it has with its new associates is still in a developing stage — but the potential is enormous.

Broadly speaking the associates fit into three banking categories — Saambou and EP Building Society are retail bankers, Investec is a merchant/corporate bank also providing a range of financial services, and Unibank and Fidelity concentrate on asset financing.

Benefits

Fedsure group CE Arnold Basserabie says the relationships with each associate provide benefits to Fedsure and the associate.

However, he recognises there may be synergies among the associates themselves, and would be receptive to helping them co-operate with one another, if they chose to do so.

He also recognises that relationships do not form merely because a financial structure is in place. One has to work on developing and enhancing them, with tremendous potential benefits.

Group communications and development manager Paul Clipsham is responsible for ongoing liaison with Fedsure's associates. Numerous benefits have so far been obtained and others are being developed. Examples of such benefits include the following:

☐ Saambou's brokerage division produced a substantial amount of individual life business for Fedlife in 1992. In fact, it was Fedlife's biggest supporting brokerage for the year;

☐ Saambou and EP Building Society actively market the Fedgro unit trust, in which they each have a stake, through their branch network;

☐ A substantial amount of joint product development is being undertaken. For example, a product providing life and endowment cover to match the finance given under Investec's property syndication schemes;

☐ Joint finance and investment opportunities have been introduced and are being exploited by Investec and Fedsure' investment division;

☐ Cross-pollination of ideas and activities in a large number of areas such as industrial relations, management training and information technology. This cross-pollination also leads to each organisation obtaining a broader perspective of financial services and investment opportunities.

Informal

As relationships develop, Basserabie anticipates the creation of an informal family of institutions through which synergies and rationalisations can be facilitated. Within Fedsure, he sees greaters spin-offs for Fedgen, Fedgro unit trust and Fedbond participation mortage bonds, as well as Fedlife.

Computer systems an investment

OPINION is changing on the view that information technology departments are necessary, expensive, administrative evils. They are now increasingly seen as part of a corporation's marketing effort.

Fedsure's information technology department, part of the group's strategy and information division, and the investment it makes to bring the best technology to its users, are seen as an investment in sales.

"Our role is to support the gaining of new business rather than just to deal with the business as it comes in," says information technology deputy GM Frank Lee.

As an example, Fedlife's industrial benefits division is linked to two industrial council systems through Fedlife's mainframe which gives the councils direct access to their schemes — a huge administrative bonus and good selling point as it reduces the time needed to effect changes and reduces the margin for error.

Lee says it is his intention for information technology employees to work even more closely with the users, even personally accompanying sales staff to clients to speak to them about the support behind a product or how the systems make it possible to offer a particular product.

"On the flipside, interfacing with customers also gives information technology personnel greater knowledge of our business and what the clients require. There are myriad spinoffs."

Internally the relationship between the users and those who provide the technology is twofold. Technology is user-driven in that the users dictate what they need, and information technology personnel then decide how to achieve it.

"The overall strategy is to remain close to the users and to develop those systems which they see as benefiting their specific areas of operation and which will enable them to transact and manage their business profitably."

"The department's main challenge is to support the organisation's growth and strategic imperatives and help it achieve this at a palatable cost," Lee says.

FEDSURE GROUP

FEDSURE HOLDINGS

100%

FEDLIFE LONG-TERM INSURANCE

Subsidiaries			Strategic investments
FEDGEN SHORT-TERM INSURANCE	70%	41%	SAAMBOU
FEDTRUST INVESTMENT COMPANY	100%	35%	INVESTEC GROUP
FEDGRO UNIT TRUST	65%	30%	FIDELITY BANK
FEDBOND MORTGAGE PARTICIPATION	65%	25%	UNIBANK
			EPBS

Graphic RUBY-GAY MARTIN

Close relationship reaps profits

SAAMBOU is one of Fedsure's associates which already shows clearly quantifiable benefits from its close relationship with the assurer. In 1992, Saambou's broker division sold 10 000 life assurance policies for Fedlife.

Saambou MD Johan Myburgh says the synergies which can and are being obtained between Saambou and Fedsure with regard to sharing infrastructures, products and cross marketing is enormous.

The other advantage of the link is the support Fedsure can offer with regard to the supply of capital resources, he adds.

Fedsure obtained a 34% stake in Saambou's shareholding in 1991 through the conversion of debentures. In return, Saambou acquired Planet Finance Corporation (an Eastern Cape and Border company) which previously belonged to Fedsure.

Saambou was founded in 1942 as a building society. In 1987, Saambou Holdings was listed on the JSE.

When the new Deposit Taking Institution's Act came into being at the beginning of February 1991, the main business changed emphasis in that it became a banking institution.

Saambou Bank, the operating company, provides a wide spectrum of banking services and products to individuals, with the salary earner as its main focus. "During the last two years a great deal of effort has gone into setting up systems, infrastructures and training in order to provide a focused service to our existing and potential clients," Myburgh says.

Looking to the future, Myburgh says his company's prime focus is on capitalising on the advantages and synergies between Saambou and Fedsure itself.

No discrimination as women climb ladder

WINNING the SA Federation of Business and Professional Women's Gold Award in 1992 was an important milestone for Fedsure. It was in recognition of how far the group had come in promoting its female personnel to achieve career growth and status, based on ability and talent.

Eight years ago men and women at the same level were paid according to different pay scales. Women did not qualify for bonds, and medical aid cover was only available to single women. Disability benefits were only available to male staff, and the retirement age for women was 60 compared with 65 for men.

Even as recently as five years ago maternity leave was a privilege, irrespective of service, to which no financial considerations were attached.

Today, employees have to be in Fedsure's service for only a year to qualify for four months' paid maternity leave. They are paid 30% of basic salary, while pension, medical aid and housing benefits are maintained, based on full salary and entitlements.

Human resources GM Penny Krige says it is Fedsure's goal-orientated culture which unlocked the potential of women staff and resulted in women climbing to key operational levels.

Alliance makes a lot of financial sense

THE similarity in management styles and business strategies between Investec and Fedsure make their alliance a logical move. Both view it as a significant step in the formation of a leading financial services group containing insurance, banking, building society and property interests. The alliance was effected in 1992 by establishing a number of cross-shareholdings.

Nominated

In addition, Fedsure nominated two directors for appointment to the boards of directors of Investec Holdings (Inhold) and Investec, while Investec similarly nominated two directors for appointment to the boards of directors of Fedsure and Fedlife.

Investec holds a 23,9% interest in Fedsure, while Fedsure holds a 12,5% direct holding in Investec Bank and a 35% direct holding in Inhold, which in turn owns 50% of Investec Bank.

Investec is one of the strongest capitalised banks in the country — some statistics indicate it is the fifth largest capitalised banking group in sub-Saharan Africa — with a risk weighted capital to asset ratio of 14% (well above the 8% required by 1995 in terms of the Deposit Taking Institutions Act).

Investec MD Stephen Koseff says one of the reasons Investec has maintained a compound growth in operating profits above 25% a year for the last 11 years is because of its niche market approach and the calibre of its people.

Its recent acquisition of London-based Allied Trust Bank will help maintain this track record as it means 40% of the group's net income after tax will be generated offshore — an effective rand-hedge.

"Investec's philosophy has always been to target specific well-defined markets, providing a specialised and tailor-made range of products to its customers," Koseff says.

Independence the key to partnership

THE reason EP Building Society (EPBS) and Fedsure fit so comfortably together is that both parties treasure their independence and are prepared to take advantage of any synergies which exist, without getting involved in each other's day-to-day operations.

That is the reason, says EP Building Society MD Trevor Jennings, why his company was attracted to Fedsure. The attraction has led to EPBS issuing Fedlife with R25m of secondary capital which could in the future translate into Fedsure holding a stake in the building society.

"We still have to decide whether to go the equity route or issue permanent interest bearing shares. Either way, we view our association with Fedsure as a partnership for good," Jennings says.

The deal is the result of an amendment to the Mutual Building Societies Act which has allowed building societies to raise secondary capital either through debentures or permanent interest-bearing shares.

EPBS sees this change as a way of growing its commercial business, which to date has been stunted by the lack of qualifying capital. Raising R25m with Fedsure has given the company ample opportunity to grow.

Other advantages of the association include utilising each other's client bases and being able to offer clients a wider range of products.

Adding credibility to Unibank's business

UNIBANK is one of the earlier additions to Fedsure's associate stable with Fedlife (as the asset holding company in the Fedsure Group) owning about 25% of the bank's shareholding.

Unibank MD Gerrit van der Merwe says having Fedlife as one of its major shareholders lends tremendous credibility to his company's recent restructuring process. Not only did it give Unibank a firm capital injection, it also opened opportunities for reciprocal business.

"Fedlife's knowledge and acumen on the insurance side is proving to be invaluable in structuring financial planning opportunities for our clients and staff.

"It is our intention to develop new products in association with Fedsure and to benefit from any 'bank' type business which they might direct to us," he says.

From a funding point of view, Unibank serves the corporate and wholesale market with local government, medium sized corporates, stockbrokers and the like forming the core.

Its main sources of business come from financing moveable assets in the medium-sized corporate market where structuring is a requirement (this comprises 65% of business); commercial mortgage bond advances (20%); and a series of private label credit cards (15%).

Fidelity still retains

WHEN Fidelity Bank went public in 1987, EP Building Society (EPBS) became one of its major shareholders, with a 30% stake. Permission for EPBS to buy the shares was given by the Registrar on the understanding that it would go public within the year.

With EPBS' decision to remain a mutual society, the 30% holding was sold to Fedsure, an investment which has served the group well.

Fidelity's profit growth over the last decade has been 35% compound, with a current return on assets of over 1,96% (the banking industry average is 0,6%). Reflecting its good performance, Fidelity shares are trading at R8 (compared with their listing price of R1,50 in 1987).

Naturally, the company does work with Fedsure. However, Fidelity Bank MD Jules Langenberg sees Fedsure's stake as primarily an investment. "At this stage we do not envisage a closer formal relationship. We are a niche bank with strong organic asset growth without having formalised co-operation agreements."

Fidelity's other shareholders include Board of Executors with a 30% stake (which they also view as a pure investment relationship), management and staff, who hold 15% and the general public, who holdthe remaining 25%.

Its target market is companies, people within the A income group and professionals. Langenberg believes this market is attracted to Fidelity because of the bank's emphasis on focused customer service. "We go off premises to service our clients, rather than expecting them to come to us," he says.

Producers set prices likely to satisfy bargain-hunters

23/4/93

THE Business Day Wine Festival which opened this week at Kyalami offers SA's recession-squeezed wine buyers the opportunity of stocking up fairly painlessly. When producers, who are feeling the downturn, come to show their wines, it is with sales in mind, and their prices have been set accordingly.

On average it is better for a wine buyer to deal directly with a producer than through a retail outlet. This was not always the case. In the past, retailers profited from trade discounts and bulk transport, passing on some of these savings.

The gross profit percentage on wine in the PWV's major non-grocery outlets has undoubtedly increased in the past 10 years. At the same time, the range of what is available for sale in these stores has actually decreased. It is a consequence of the recession that there is pressure on licensees to cut stockholdings and to concentrate their attention on the fast moving brands. In the meantime, more wine and more labels have reached the market. Many of these products may never achieve a retail presence.

In order to obtain listings and representation, growers have sought the assistance of regional wholesalers. This has added another margin to the price of their wines. Those wineries who have elected to manage without a trade distributor save this margin, but struggle for market share.

Many of these producers are present at the festival. Unable to sell their wines easily into the retail trade, frightened off by wholesaler and retailer mark-ups, they offer their wines directly to the public at prices which are infinitely more attractive than many of the bottle stores. Wine buyers who are interested in stocking in should make a point of scouring the stands at the show, negotiating purchases on the spot.

Several producers are offering to bear the cost of railage for quantities of a few cases and more. This means that the adventurous buyer, willing to abandon the security of his wine merchant, can save at least the conventional retail margin, and perhaps even a distributor's mark-up. Wines purchased on this basis will cost between 30% and 50% less than at the local off-licence — assuming they can even be found on the shelves there.

The obvious solution is to syndicate purchasing at source. A half dozen participants in such a buying ring can satisfy the minimum purchase requirements of about 10 wineries, acquire at least six cases of wine each, and save about R200 on an outlay of R500.

My best value recommendations include the Van Loeveren Sauvignon Blanc 1993 — just released and, despite recent bottling (which "shocks" the wine), packed with fruit; Robertson Co-op unwooded Chardonnay, a beautiful harmony of buttery citrus flavours; Robertson Co-op 1991 Cabernet with its smoky, berry vanilla bouquet; Avontuur's Avon Rouge, an instantly accessible Cabernet/Merlot blend; Lievland's Lievlander, a medium-bodied tasty red wine and finally Vriesenhof's Paradyskloof Dry Red, intense, rich, almost pungently vinous. All these wines can be bought for less than R10 a bottle, sourced directly from the producer. They set value-for-money standards that are likely to stand even though I have yet to complete my tour of all the producers at the festival.

The pre-auction tastings for the Cape Independent Winemakers Guild auction will be held in Johannesburg next week at the Inanda Club on April 25 and 26.

MICHAEL FRIDJHON

Who now lays claim to these artifacts?

REVIEW/ART
STUDIO SALE OF WORKS BY THE LATE IRMIN HENKEL (Volks Art Auctions, Schubart Street, Pretoria)

WHAT is a bronze bust of the late Hendrik Verwoerd worth or, come to that, a portrait of John Vorster? These are two of the items that go up for auction on the Irmin Henkel studio sale at Volks Art Auctions on Saturday.

Volks' Edward Bernardi has made no attempt to put estimates on these works or on a bust of the dominee, D F Malan. Quite simply, he says he cannot.

The late Irmin Henkel arrived in SA via Switzerland about 40 years ago. He was an orthopaedic surgeon who served with the German armed forces in the Second World War as well as a self-taught artist.

But it is as a portrait painter and sculptor that he is remembered here and in particular his public commissions. He painted the group portrait of the First Republican Cabinet in 1964, as well as portraits of presidents Swart, Fouché and Diedrichs and prime ministers Malan, Verwoerd and Vorster.

The past is over, the future not yet here, so in this no man's land how does one evaluate portraits of Afrikaner leaders? National Cultural History Museum director Udo Küsel says the trap in attempting to re-evaluate history is to do it in terms of what we know now, using contemporary standards.

Take the case of the missionaries, who now, in the flush of post-colonial enlightenment, come in for a lot of flak. The missionaries believed they were preaching Christianity. In fact, all they preached was the Western value system. The missionaries were incapable of distinguishing between the two. But we judge them on the basis that they should have known the difference.

Were Malan, Verwoerd and company Afrikaner leaders or the political leaders of the NP government?

The chief instrument of culture resides in Afrikaans. "We were taught we were Hollanders," says Küsel. "In fact, we weren't. Most of the officials in the Dutch East India company were Germans. They couldn't speak Dutch so reduced it to a basic language. This process was repeated with the advent of the Malay slaves. When the British first arrived in the Cape, 35% of the settlers were Hollanders, 34% German and 7% French."

Küsel says the Afrikaners hated the British but strove to emulate them, to the point of religiously copying British etiquette.

From this melting pot there emerged a culture that called itself Afrikanerdom.

But to whom do these bronze busts belong now?

ANTHEA BRISTOWE

Visitors to the Business Day Wine Festival included, clockwise from the top, wine merchant Alan Jack, Miss SA Amy Kleinhans, Annelise Peers and Tracy Ledger, and Peet Strydom.

Pictures ROBERT BOTHA

Why no help for local drama?

REVIEW/TELEVISION

WHEN the new SABC board is appointed at the end of May let us hope that dramas, soaps and serials will be high on its agenda.

We know that news and current affairs will be scrutinised carefully by various monitors, but the equally important question of the fictionalised depiction of our lives and society must not be neglected.

Viewers with long memories will recall that in the early days of television John Cundill was able to tell interesting stories about life in a mining community in The Villagers. Characters like the bitchy Nell and the affable old Chesa in the bar became part of everyday conversation. Far from stopping people talking (as the ignorant always allege) the home-grown television soapie provided many topics for conversation on top of the bus to Parkhurst.

Viewers will also remember quite a few memorable Afrikaans dramas written by Chris Barnard, Karel Schoeman and P G du Plessis.

It was not long before The Villagers was succeeded by the Americanised dross of Westgate.

After that it was downhill all the way with Winchester, Trucking and the current crop of pusillanimous potboilers.

Only Egoli manages to hold its own.

It is quite a strange phenomenon for a pay-television station to be funding a local production that is mildly controversial with its multicultural cast and narrative. It has not yet caught popular imagination, since none of the characters have become household names (even with the highly visible presence of Sharleen Surtee-Richards).

Symptomatically, it was a popular black serial that proved it could be both "good and nice" and also be aware of the possibilities of situation comedy.

It strikes me that when the 1993 annual report of the SABC shows a profit of about R60m there is something wrong somewhere. One might ask: what business is it of a public corporation to be making that sort of profit when there are so many areas of local drama and documentary production that need to be stimulated?

One of the most important areas is that of creating a local film and television production facility that can start turning out dramas, soaps and serials on the scale of the Australian television industry.

It is only by commissioning writers from all the cultures in our country to produce scripts that range from the most entertaining to the most thoughtful that we can start to reflect the South African experience.

Orkney Snork Nie set some sort of precedent in homing in on a specific small town community and milking it for laughs.

There are many such communities, some of which will make sense to a specific audience, while others will cross cultural boundaries.

It will indeed be a pleasure to laugh at our own and our neighbours' foibles. In a society that is as volatile and mobile as ours is there are endless stories. New mixed neighbourhoods, schools, business environments — and now a mixed SABC board — this is the material first for tragedy and then for comedy as history repeats itself.

JOHN VAN ZYL

Low-budget British comedy crowns the funnies at festival

REVIEW/FILM
JOHANNESBURG FILM FESTIVAL (Seven Arts)

FILM festivals usually feature the heavier movies of the year while light entertainment is scorned.

This year's SAA/M-Net conglomeration has its share of comedies, a couple intentionally funny, a few peculiarly so. The one bound for popularity is Leon the Pig Farmer, a small-budget British film that has done surprisingly well.

Property salesman Leon becomes disillusioned with his colleagues' lack of ethics and joins his mother's kosher catering business. While making a delivery to a sex clinic he discovers that not only is he the product of artificial insemination but that his biological father is a Yorkshireman.

Convinced that he has found the reason for his restlessness, Leon sets out to meet his progenitor and discovers that he farms pigs. His initial discomfort melts under the proffered hospitality, which extends to an unexpected acculturation he finds as off-putting as the thought, smell and mess of raising hogs, slaughtering them and, worst of all, eating them.

Most of the good-natured ethnic humour works very well, but some of it goes on too long. The closeness of Jewish family life is wittily extended into everybody making Leon's business their own while the Yorkshire family, far from being the salt of the earth, seems to have stepped out of a particularly convoluted soap opera.

On the more serious side, Nicholas Roeg's Cold Heaven, based on a novel by Brian Moore, is full of Catholic guilt. Theresa Russell plays the adulterous wife of a surgeon (Mark Harmon) who, to his wife's consternation and her lover's frustration, dies many deaths without making her a widow. Whether a product of his wife's fevered imagination or simply a slightly misdiagnosed corpse, the husband and his frequent brushes with mortality fail to clarify Roeg's customary obfuscation. The film itself should have been certified dead on arrival.

Far better is Bertrand Tavernier's L627, a gritty film about the activities of a Parisian antidrug squad. Despite its superficial resemblance to Hill Street Blues, this is a typical French policier in which personalities and procedures are interwoven on the seamier side of the city.

Comedy of a sort can be found in Pedro Almodovar's Labyrinth of Passion which, since its first release 10 years ago, has run continuously at a Madrid cinema and could well create as much a cult as The Rocky Horror Picture Show did.

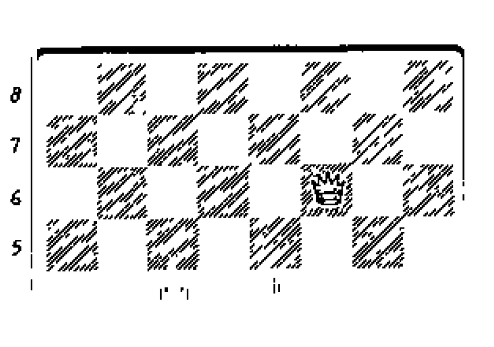
Finally, there is The Dark Side of the Heart, an Argentinian picture that strives for surrealism but settles for sensationalism. It tells the story of a poet who sings for his and his friends' supper, has a unique way of ridding himself of postcoital women, and a yearning for true love — or at least a passion that might last as long as a month.

He finds his match in Ana, a prostitute who insists on charging him even after they seem to have left the usual client-whore relationship far behind them.

Better news is that The Crying Game has arrived. It will be screened at 10pm on April 27, 8pm on April 30 and 8pm on May 1.

PHILLIP ALTBEKER

CHESS
by
Patrick Foley



EMERSON — NUNN, Lon-

BRIDGE — By Steve Becker

South dealer
Both sides vulnerable

NORTH
♠10762
♥AQJ4

contract without increasing the chance of making it.

The outcome depends, pure and simple, on whether or not West has the king of hearts. Therefore, declarer should

RADIO

ENGLISH: 5.00 News headlines. 5.02 Bright and Early with Roy Williams. 5.30 Headlines. 5.35 Calling all Farmers. 5.55 Weather for Travellers. 6.00 NEWS. 6.10 Radio Today. 6.30 Headlines. 6.45 Sport. 6.55 Weather Forecast. 7.00 NEWS. 7.30 Headlines/Comedy/Business/Special Report. 8.00 NEWS/Weather/World Weather. 8.30 Michael Findlay. 9.00 Headlines. 9.15 Zuleika Dobson. 9.30 Paddy O'Byrne. 10.00 Headlines. 10.30 Devotion. 11.00 Colin Yorke's Morning Concert. 11.45 Morning Novel. 12.00 Newsbrief/NEWS. 1.00 NEWS/Weather/Business and Market Trends. 1.30 Talkabout. 2.15 [illegible] with Bruce M[illegible] 3.30

LOCAL FLIGHTS

FRIDAY

DEPART JOHANNESBURG TO (in order depart, arrive, flight)

BLOEMFONTEIN 0700 0755 SA805, 1145 1335 SA847, 1525 1620 SA833, 1815 1910 SA819. **CAPE TOWN** 0120 0330 SA963, 0640 0845 GM101, 0640 0850 SA303; 0700 1030 SA805, 0730 0940 SA305, 0820 1030 SA339; 0900 1110 SA345, 1030 1240 SA309, 1200 1410 SA343, 1230 1440 SA369, 1310 1515 GM105, 1335 1545 SA335, 1430 1640 SA315, 1535 1745 SA321, 1630 1840 SA337, 1640 1845 GM107, 1705 2045 SA829; 1730 1940 SA327; 1815 2105 SA819, 1835 2045 SA347, 1925 2130 GM109 **DURBAN**. 0300 0400 SA965; 0700 0800 SA501, 0800 0900 SA503, 1000 1100 SA509, 1030 1130 SA507, 1200 1300 SA513, 1400 1500 SA515, 1500 1600 SA517, 1610 1710 SA553, 1700 1800 SA525, 1800 1900 SA527, 1950 2050 SA531; 2130 2230 SA593. **EAST LONDON**: 0625 0750 SA401, 1025 1300 SA413, 1340 1505 SA453, 1735 1900 SA435, 1920 2045 SA441. **GEORGE**: 0630 0915 SA461, 1030 1240 SA309, 1125 1315 SA419, 1710 1900 SA823. **KIMBERLEY** 0700 0830 LF122; 0700 0845 SA805 1145 1245 SA847, 1705 1805 SA829. **MMABATHO** 0730 0820 BV002 1615 1715 [illegible] **P[illegible]BURG**: 070[illegible] LE570, 1530 1650 LE572, [illegible] **PORT ELIZ**: 0500 [illegible] [illegible]

Time to protect against slip-ups

(58)

Review (Law Suppl to WMail 23/4-29/4/93.

'Claims against lawyers for negligence have doubled over the past four years. They would be wise to take out extra cover against such claims, suggests a Johannesburg attorney.

By CARMEL RICKARD

SOUTH AFRICAN lawyers have been urged to spend more time and energy guarding against claims for professional negligence.

Johannesburg attorney Des Williams, who has made a study of the professional negligence claims against lawyers over the past four years, says the number of claims has more than doubled in this period. Williams, a partner at Werksmans and head of the firm's litigation department, urges lawyers to take out "top-up cover" against negligence claims and ensure they have strict management procedures so that actions brought on behalf of clients do not prescribe.

He discovered that more claims were made arising from the 1986 Motor Vehicle Accidents Act than any other single cause. In 1991, for example, about 47 percent of the professional negligence claims related to the MVA Act. About 20 percent were conveyancing related, 15 percent concerned general commercial matters and a further 15 percent, general litigation.

The old MVA Act has often led to actions for negligence: its complex procedures can easily cause claims to become prescribed because they are not brought within the specified period. Williams says the suspension of the old Act and the introduction of the Multilateral Motor Vehicle Accidents Fund Act of 1989, with the 1991 amendments, could lead to a drop in MVA-related negligence claims. This is because the new legislation simplifies procedures and extends the period before a claim prescribes.

'The growing sophistication of clients could lead to an increase in negligence claims'

However, Williams warns that the change in the MVA law does not mean attorneys can relax. He predicts that the growing sophistication of clients could lead to a startling increase in negligence claims. "An enormous number of claims prescribe without the client involved knowing about it. But times are changing.

"There are a lot of attorneys with black clients obtained through touts. At the moment when a claim prescribes, lawyers can simply tell their clients they lost the case and will therefore not be getting any money.

"The client will not realise the case was 'lost' because of the negligence of the attorney. This is changing as more people become aware of their rights. Unless attorneys improve their management practices, we can expect to see an increase in the number of negligence actions against members of the profession as clients start asking questions about prescribed claims."

His research has shown that over 70 percent of the 1991 claims involved small legal firms with not more than three partners. Lawyers most at risk of negligence claims are therefore small firms handling many MVA matters but without strict management procedures in place.

All attorneys in this country are covered for professional negligence by the professional indemnity insurance scheme. The cover is automatic and the Fidelity Fund pays the premium. There are limits on the indemnity cover, but these have been increased over the past few years. Before 1987 the limit was R30 000 each claim for all practices, limited to four claims a year. In 1987 this increased to R30 000 each claim for sole practitioners, limited to four claims a year, and to R500 000 each claim for practices of 17 or more principals, also limited to four claims a year. These limits have increased again. They now range from R1-million a claim for sole practitioners to R2-million a claim for practices of 17 or more principals, and there are now no limits on the number of claims.

Williams cautions, however, that even this cover is not enough and suggests that all firms consider top-up cover. Already some larger practices have extra cover — in some cases of up to R100-million a claim. "One has only to think of the size of certain major commercial transactions which have been concluded in recent years and the magnitude of some of the more spectacular financial collapses we have seen, to realise the importance of top-up cover.

"A further reason for obtaining additional cover is that the scheme no longer grants indemnity in respect of the provision of investment advice. Separate cover must therefore be arranged in respect of the provision of investment advice."

Speculating about what is causing the increased number of negligence claims, Williams mentions increased client sophistication. But he also suggests there are more claims against lawyers because lawyers are doing more work. "The volume of conveyancing transactions is increasing; there are more accidents on the roads; the divorce courts grow busier by the year and the number and size of commercial transactions in which attorneys are involved is increasing."

Lawyers are also moving into new practice areas. "Ten years ago it was unusual for Transvaal attorneys to be appointed as liquidators or trustees in insolvent estates. Now, however, attorneys in the Transvaal and the other provinces, are being appointed as liquidators in many of the largest liquidations in the country. This expanding area of practice obviously brings with it increased risk and exposure to claims and the trend will no doubt continue as attorneys expand into other areas of practice such as environmental law and alternative dispute resolution."

He says lawyers in this country appear to be not as concerned as their US counterparts about avoiding conflicts of interest, and show a "remarkably lax attitude" to the issue. He suggests a formal scheme should be implemented within all law firms to avoid the problem. According to Williams, attorneys too often act for both parties in conveyancing, commercial and matrimonial matters and he predicts it is only a matter of time before malpractice claims based on conflict of interest become common.

New scheme to help black entrepreneurs

Sowetan 23/4/93

■ **Proposed venture could guarantee R400 000 loan**

By Mzimkulu Malunga

A new scheme to be launched jointly by Business Challenge and two banks will provide loans to the tune of R400 000 to black entrepreneurs wishing to start business ventures.

Business Challenge's chief executive, Mr Phil Khumalo, says a deal has been struck with a commercial bank and a development orientated financial institution to launch a credit facility for the provision of loans to prospective black entrepreneurs.

The programme is due to be launched in the next few weeks and it will be operational by mid-May.

Unlike the previous scheme with Allied Bank - now part of the Absa group - the new scheme will place emphasis on the viability of the proposed venture as opposed to the ability of the applicant to provide security for the loan.

The commercial bank concerned will administer the programme and contribute some of the loan finance, while the developmental institution will guarantee the loans from the commercial bank.

The institution will also make available additional finance on loan applications exceeding R100 000.

Business Challenge's major role will be to screen applications, make decisions on loans of R100 000 and less and assist the commercial bank with administrative work.

According to Khumalo, major areas of focus when issuing the loans will be franchises, wholesale and fast foods ventures, subcontracting, refrigeration services for taverns, bridging finance, as well as filling station business.

The loan amounts vary between R20 000 and R400 000 and interest on repayment of instalments will be determined by the prevalent rate.

There will also be a three percent tax on all loans which will be used to cover Business Challenge's administrative costs.

Khumalo says deposits totalling over a R1 million are still safe with Allied Bank and members can contact the office regarding the names of financial institutions involved in the new scheme.

Review|Law to LAW B

Ablu seminar 58

THE reseach unit for Banking Law at the Rand Afrikaans University holds its annual banking law update next week. The seminar takes place in Witkoppen on April 28 1993. It is intended for lawyers, legal advisers, company treasurers, accountants and bankers and will take the form of a review of developments in banking law by a panel of specialists under the chairmanship of Mr Justice RH Zulman.

Contact Ben du Toit (011) 489-2889 23/4-29/4/93

BANKING FM 23/4/93 (58)

Testing a principle

Viv Bartlett, senior GM at First National Bank, was subpoenaed to appear on Wednesday to give testimony under oath to the Office for Serious Economic Offences. The testimony concerned the circumstances leading to the liquidation of FNB client KPL Etsa (*Economy* March 19). Creditors intend suing FNB for R28m and the bank is to defend the action.

Bartlett previously said he regards the issue as crucial for all bankers, testing how far a bank may go in assisting a client to survive, without risking attack from other creditors of the client. The bank's legal advisers confirmed Bartlett was due to return from the UK on Wednesday, earlier than scheduled, to testify to the office.

On Tuesday, a hearing in terms of S417 of the Companies Act was completed. Evidence given cannot be reported but the substance of the inquiry is whether KPL traded while insolvent — therefore recklessly — from April to September, and what role FNB played, if any, in keeping the company in business, knowing it was insolvent.

Earlier in the 417 hearing, two FNB managers gave evidence. Subsequently the hearing was advised that Bartlett would not be available to give evidence on Tuesday because of a business commitment in the UK. It was agreed Bartlett's evidence was not essential to the hearing.

The case has attracted attention because of the stubbornness with which the creditors are fighting FNB and also for the interest displayed by the office. A source within the office confirms an investigation is under way but gives no details. The probe concerns allegations that FNB gave favourable credit references and other assurances for KPL months after it became aware of the insolvent situation and while it was taking steps to protect its own position. That allegation would need to be proved through a trial under section 424 of the Companies Act, which deals with reckless trading.

According to FNB, during the period it did no more than agree on a cash-flow plan with the directors of KPL and, had further problems not emerged, this might have enabled the company to trade out of trouble; and it offered other creditors the standard "C" reference. That statement contrasts with the version of some creditors who say, when rumours of KPL's problems were circulating, an officer of a leading credit information company approached the bank to be told that KPL had its "full backing . . ."

Leading creditors also claim to have evidence FNB assured them they would be paid in full and, because of these assurances, they continued to trade with KPL. FNB denies such assurances were given.

KPL's demise stems from construction contracts, notably one named as the Venetian Contract, which went sour because of cost overruns. FNB, which had a long-standing relationship with the company, was apparently caught by surprise when it issued cheques considerably exceeding its normal arrangements. There is disagreement about what happened in the next few months:

- ☐ Whether the bank undertook to restructure KPL's debt;
- ☐ If so, was the arrangement honoured?
- ☐ What assurances were issued by the bank, and in what form, during the period KPL was trading from a position of insolvency? and,
- ☐ Did the bank issue any assurances about the company in a period when its own exposure to KPL's insolvency was being reduced?

Krugersdorp chartered accountant Clarence Kleynhans has signed an affidavit that he visited KPL financial director Michael Duncan in July. Kleynhans says he was assured by Duncan the financial affairs of the contractor were well under control and the contractor expected no difficulties with the Genref contract. Duncan told Kleynhans the contractor had the full backing of its bank, FNB, and he invited Kleynhans to contact David Paynter, a corporate manager of FNB, for further assurance. Kleynhans contacted Paynter who informed him the bank was controlling the contractor's financial affairs and that the bank was giving its support and backing to the contractor "for the purposes of this contract."

On September 17, Duncan signed a letter to FNB GM Neil Garden stating: "We believe the bank is now acting as a shadow director, having instructed the board to give no comfort to our creditors." FNB immediately rejected this statement. *Bryan Deans*

FINANCIAL MARKETS FM 23/4/93

Striving for an even keel

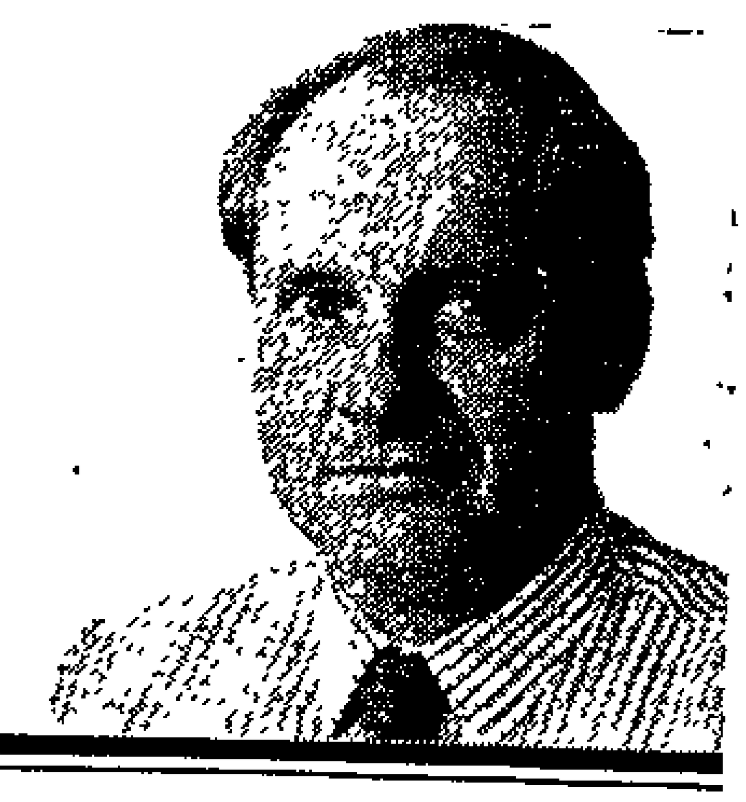
It's early to count the cost, in rands and cents, of Chris Hani's death. The plunge in the value of the financial rand, production forgone in two nationwide stayaways, the loss of life and damage to property, are only early indicators of the damage the event could inflict on the economy.

The real cost is in confidence to take long-term decisions. The images of chaos flashed round the world's TV screens, the fears of many South Africans that they may become the victims of random violence or revenge, and the alienation of the millions who believe Hani's death should have been avoided, could reduce the country's potential to invest

Life assurance industry needs (58) to scale down its projections

MONEY MATTERS

MAGNUS *Heystek*



IT IS fairly common practice in the life assurance industry to use illustrative maturity values when marketing life-based investment policies.

By agreement, life companies use two growth rates — 12 percent and 15 percent.

Investors should view these projected maturity values with a great deal of scepticism.

It is time the life assurance industry scaled down maximum growth projections to more realistic levels.

Bitter complaints flood in about endowment policy payouts, especially when compared with projections made 10 or more years ago.

In most cases the returns fall well short of the "illustrative growth rate of 15 percent". In many cases, returns are barely more than 7 or 8 percent.

In several instances, angry investors have actually forced higher payments from assurance companies, especially after threatening to speak to the press.

There is a dangerous principle involved here. Either the investor gets the return due on an investment policy or he does not. Where does the additional money come from — some secret fund for appeasing disgruntled policyholders?

What happens if you don't complain? Maybe someone from the life assurance industry could provide enlightenment.

But back to my original concern.

Below is a table of returns achieved on life endowment policies recorded by a large assurance company. The returns achieved here are fairly representative of most assurance companies. However, the returns may differ because bonus rates have to be taken into consideration.

Investors in equity-based products, comparing returns to the inflation rate, will see they have been steadily losing out.

ENDOWMENTS/WHOLE LIFE

Period	Equity P.A. %	Equity P.M. %	Balanced P.A. %	Balanced P.M. %	Property P.A. %	Property P.M. %	Inflation P.A. %
Over last ...							
1 year	(6,5)	2,7	(0,7)	4,6	9,0	7,9	9,6
2 years	6,7	2,9	7,6	5,1	10,7	9,8	12,7
3 years	5,2	4,6	6,9	6,8	11,9	11,3	13,4
4 years	9,3	7,1	9,7	8,3	13,4	12,7	13,8
5 years	14,2	12,4	12,6	11,4	13,6	13,6	13,7
10 years	19,3	18,7	15,3	15,0	13,2	13,2	14,3
15 years	23,0	22,7	16,9	16,8	13,4	13 4	14,2
Since Inception	23,1 June 1973	23,5	16,8 June 1973	17,0	13,2 May 1974	13,3	—

Brainwashed

Yet the life assurance industry has done an excellent marketing job, convincing people that their money is beating the inflation rate.

Massive but selective advertising campaigns have brainwashed people into believing their money is well cared for.

Balanced portfolios have generally fared better than the equity-based products yet have not beaten the inflation rate during the past five years, and even over a 10-year period such portfolios have come out only marginally on top.

The property-linked policies have done remarkably well, showing more consistent returns.

This is likely to come as a surprise to many people who, like myself, are under the impression that property (if one can believe life marketers) is not such a great investment.

These figures prove otherwise. The returns on the property-linked products certainly are not as volatile as equity products, and during times of stock market turbulence have performed remarkably well.

How many people are aware that there are three basic types of funds to invest in?

For someone close to retirement it would be foolish to invest in a pure equity fund. A stock market collapse could prove disastrous.

Ideally, the closer to payout the investment is to be made, the more security the investor should opt for, such as in a balanced or property-linked fund.

Educate

How many people know that they have the option of transferring funds from one fund to another in order to preserve capital growth?

Very few, I would suggest, judging by the number of letters and calls on the issue that come in.

Recently the head of a large insurance company told me his firm was doing all it could to educate the public.

"We spend a fortune on training our agents and brokers. We cannot do more," he said.

The problem is that his company trains the agents and brokers, and not the public. Significantly more should be done to give the average person at least a basic understanding of the principles governing the life assurance industry.

Try to find some literature on life assurance at any of the life companies. Forget it. They would rather put you in touch with a broker or an agent.

Money market in for huge shake-up

(58) CT 24/4/93

By ARI JACOBSON

THE money market is in for a massive shake-up from May as liquid bankers acceptances' (BA) fall-away for discounting purposes at the SA Reserve Bank and as well are no longer considered as liquid reserves — a legal requirement for banks.

The scramble for "acceptable" paper from May has been narrowed to the likes of land bank bills, treasury bills and short term RSA's, which have roared into favour.

The clearest indication has been the fall in the discount rate for three-month treasury bills on a solid downtrend in recent times and in the last two weeks having dropped 13 percentage points to 11,08% as applications for the R250m tender this week more than doubled.

"Expect this scramble for government-backed stock to continue on Monday when land bank bills of R50m are placed on tender," warned Standard Bank's John Cruickshank yesterday.

"But we have had ample warning," said Cruickshank.

However he mentioned that "it is a new system and it will require adaptions".

One immediate reaction could be a sharp fall in the money market shortage which reached an all-time high of R6,8bn last week.

This shortage is made up of R2bn in liquid BA's, which would be returned to the banks at month-end. The money market shortage is the amount the private banking sector owes the Reserve Bank and liquid BA's are created by the banking sector to help businesses finance mostly short term trade purchases.

The central bank's problem with liquid BA's as spokesman Andre Kok pointed out yesterday was that it was unable to determine "the quality" of the liquid BA's "and in turn could be left with paper assets that are worthless".

But Kok who heads up the Reserve Bank's capital and money market promised that with the new system would come a "more watchful" strategy to the needs of the banking system and this would lead to a more "sensitive approach" to interest rate policy and money market operations.

Cruickshank said that this would be welcomed as liquid assets, now deemed acceptable, were not always in ready supply.

But he said that judging by the Reserve Bank's "professional approach" up to now in the money market the switch should be successful.

Cruickshank added that the large shortfall in the money market, which is currently being experienced, had little to do with money management and was rather a result of the strong capital outflows.

New Investment Opportunities in Life

South 24/4 - 28/4/93.

58

Tuesday, April 20 quotation for unit trust:

General Equity Funds:

ABSA	139,94	130,90	5,52
BOE: Growth	154,33	144,17	2,99
Community Growth Fund	111,72	105,74	na
CU Growth	119,39	111,46	3,72
Fedgro	126,79	118,39	4,85
Guardbank Growth	2550,36	2374,22	4,72
IGI Life:	126,54	118,42	3,43
Metfund	191,09	177,40	4,31
Metlife	116,80	109,12	6,42
Momentum	251,47	235,69	4,22
NBS: Hallmark	920,77	859,73	4,60
Norwich	356,26	332,64	3,67
Old Mutual Investors	2578,87	2402,52	4,01
Sage	2363,25	2204,91	3,80
Sanlam	1577,07	1477,47	3,53
Sanlam Index	1219,69	1142,67	3,96
Sanlam Dividend	441,41	414,17	5,07
Southern	203,45	190,55	3,98
Standard	1186,77	1115,25	6,97
Syfrets Growth	291,84	273,31	4,63
Syfrets Trustee	116,51	109,21	4,27

A whole new spectrum of investment opportunities was opened up for the consumer with the proposed abolition of existing legislation announced by Mr Derek Keys in his Budget speech earlier last month. New rules which will replace the existing laws create exciting opportunities to provide for the changing investment and protection needs of South Africans allowing individuals to plan more accurately for their real needs without having to add life cover, or limit premiums to enjoy the tax benefits of life assurance investments.

Old Mutual has two issues fundamental to its business, firstly the provision of financial security to policyholders their families and estates, and secondly, to help them create wealth and grow their money. The existing legislation clouded the concept of wealth creation in the form of pure investment by insisting on a prescribed minimum element of life cover and the life office was forced to discriminate in connection with tax, on the basis of the legal persona of the investor a major difference between natural persons and for example, companies.

These rules will no longer apply and the industry will be able to provide policyholders with investment opportunities in a more certain and flexible environment.

The purpose of the proposed legislation, to be incorporated later this year into the Insurance Act, is to clearly demarcate the boundary between business conducted by deposit-taking institutions such as banks and building societies and life assurance companies. In a nutshell you may now take out long-term pure investment, without life cover, for a minimum of five years with a life assurance company. Investments of less than five years, with the exception of Retirement Annuities and life policies underwriting pension and provident funds, are strictly the domain of banks and building societies. Furthermore the rules apply to all policies both new and existing. The minimum amount of time you can take out a policy for, has been shortened from ten years to five years. This means that life assurance products will be suited to medium term investors so if you were reluctant to commit yourself for a traditional ten year term you will now be able to participate in the attractive investments offered by Life Assurers like Old Mutual. Also, older consumers can invest in Old Mutual's Income and Growth Plans with terms commencing from five years as opposed to the previous ten. Old Mutual has enhanced their Anchor Plan range to accommodate these needs.

Life Assurers no longer have to incorporate life cover into investment products meaning that these policies are no longer restricted to R1500 per annum per family unit. If you have a R1500 p.a. existing policy you can either increase the premiums or take out new policies perhaps on other members of your family. Parents or grandparents who invest in education policies for children can now avoid the child life cover restrictions.

Most importantly there is an opportunity for investors who were previously either prevented from investing, or loaded or deferred for health reasons. No underwriting requirements for pure investment business mean guaranteed acceptance subject only to minimum premium and maximum age restrictions. Another important opportunity especially considering the current economic climate, is the new rule regarding inflation-linking your policy. Your premiums may be increased up to a more realistic 20% per annum as opposed to the previous maximum of 15%. And now you can add a premium update facility during the term of the policy, as opposed to previously having to start at inception of the policy. Research at Old Mutual confirms that most policyholders regard the inflation-linking of their premiums as vitally important. It impacts hugely on the maturity value of your investment.

Old Mutual has been in the forefront of these changes having made representations at all stages of the decision-making process.

This has helped to steer these new developments in order to provide more comprehensive and appropriate products for their client's needs. They have enhanced their existing Flexi range of products making the necessary changes to recurring, single and lump sum plans to accommodate the new rules. With these new opportunities available, it is in your interests to review your investment portfolio and perhaps decide to increase the monthly premiums, reduce the term or drop some life cover.

Consult your Old Mutual adviser or your broker who will look at how any changes may impact upon your portfolio as a whole.

MMF asked to limit payouts

(S8) ARG 24/4/93

THE new board of directors of the Multilateral Motor Vehicle Accident Fund (MMF) would be asked to investigate the possibility of limiting payouts by the fund, said Minister of Transport Dr Piet Welgemoed.

Introducing the debate on his Budget Vote, Dr Welgemoed said the board recommended by Mr Justice Melamet would be appointed in the next few weeks.

It would include six directors from the private sector and five representatives of member countries.

"On appointment of the new directors, I will ask them, in close co-operation with Mr Justice Melamet, to investigate possible restrictions on amounts for which the MMF can be held responsible," said Dr Welgemoed. — Sapa.

S/Times (Buss. Times) 25/4/93

Pickard Jnr loses all in bank failure

By JEREMY WOODS

JAN PICKARD Jnr, former chairman of the collapsed Cape Investment Bank, has offered his entire estate to CIB liquidators in a bid to settle any claims they may have against him.

Tinus Slabber, his legal adviser, says: "We have offered the entire estate of Mr Pickard Jnr to the liquidators to settle all outstanding claims. The payment is for a substantial but undisclosed sum."

Nothing

Mr Pickard Jnr and three directors of the bank are being held personally liable for R142-million of losses in one of the largest claims of its kind in SA.

Mr Slabber says it has become clear that civil actions concerning CIB will last several months and result in extensive legal costs.

Mr Slabber says: "If they settle now, there will be financial benefit. If they choose not to settle, the costs of the case will be so expensive there will be nothing left at the end of it.

"Win, lose or settle, Mr Pickard will end with nothing.

"The offer to settle is purely a financial consideration. Jan Pickard strenuously denies all claims against him. He's in a no-win situation."

Mr Slabber says the liquidators have been offered full access to the Pickard estate, including any benefits that may accrue to him from family trusts.

"The proposal includes that if any hidden benefits or assets that accrue to Mr Pickard are found, the liquidators will be entitled to them."

58

Summons

CIB, which failed in April 1991, was founded by the Pickard family, its largest shareholders.

A summons by CIB liquidator Tjaart du Plessis in the Supreme Court, Cape Town, says a "reckless" R1-billion punt in Eskom stock was one of the reasons for the CIB collapse.

Mr du Plessis was not available for comment on Friday.

But Gerald Mallinick, senior partner of Cape Town attorney Mallinick, Ress, Richman and Closenberg, acting for the liquidators, confirms that the offer is being considered.

"We are looking at an offer and will make a decision in due course," he says.

Lawyers in fees row with Absa

S Times (Buss) 25/4/93. (58)

By JEREMY WOODS

ABSA Bank has become embroiled in another bitter row, this time with the Cape Law Society over legal fees charged on home loans.

The 1 100-member strong Cape Law Society, in a letter to Absa chief executive Piet Badenhorst, accuses Absa of misleading the public and acting in bad faith to boost its image.

The row has led to threats that Cape lawyers, who control trust funds estimated at up to R4-billion, may close their Absa accounts.

But Absa, market leader in the home loans business in SA with a 42% share, has hit back, saying it is in the business of providing affordable housing in a competitive market.

"There is no marketing ploy. It is the consumer who benefits from reduced fees," says Nallie Bosman, Absa executive director in charge of commercial banks.

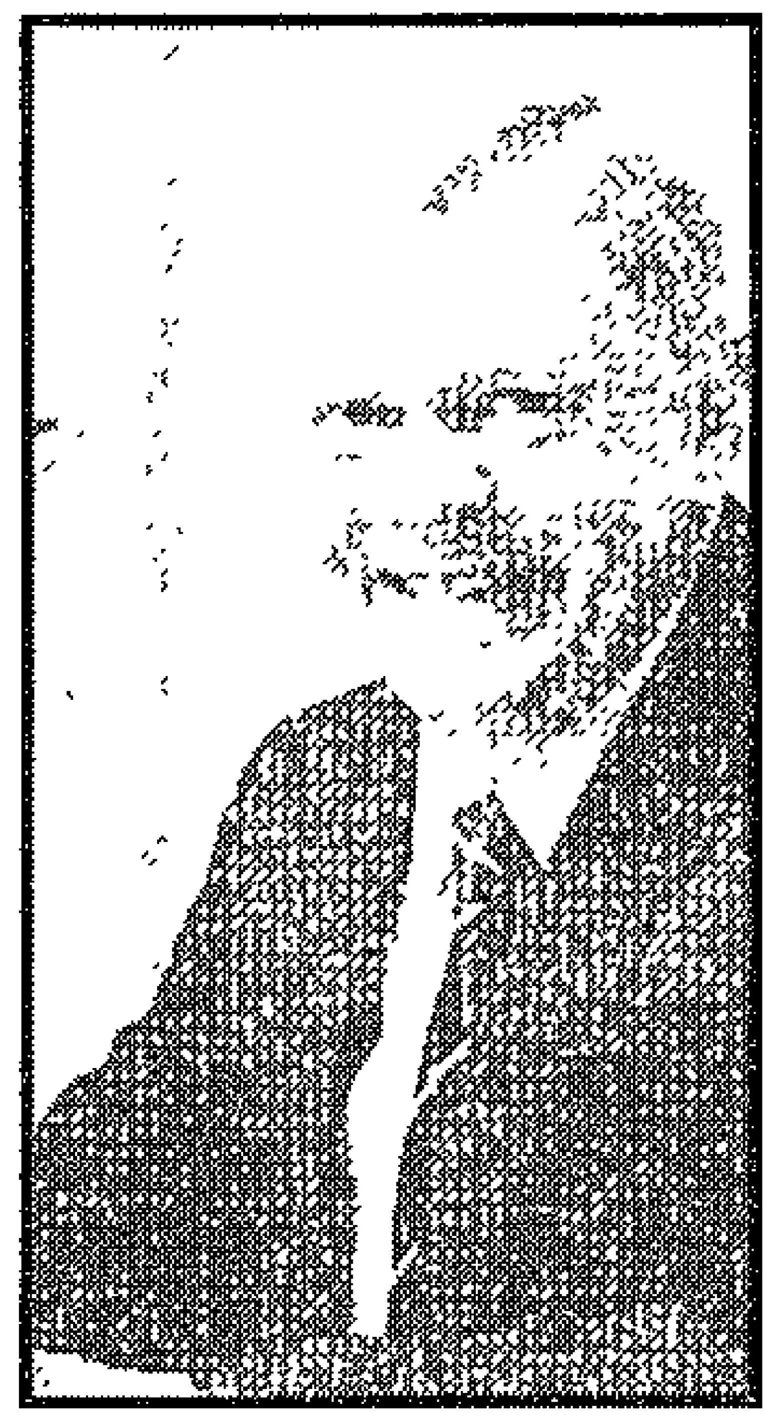
Strident

The dispute arises from Absa adverts which have offered Absa homeowners a 50% reduction on the costs of mortgage registration. The Cape Law Society says that Absa has instructed its members to cut their legal fees by 25% to contribute to the 50% saving.

In a strident letter to Mr Badenhorst, Cape Law Society chairman Carl Pohl says he had been asked by his council to record the "strongest possible objection to what must clearly be regarded as an act of bad faith".

Mr Pohl says it is "unprofessional conduct" for an attorney to accept, or offer, or agree to accept, remuneration at less than the scale of charges for professional work.

"By forcing the society's members to attend to bond registration at less than the prescribed fee laid down by statute, your organisation is actually aiding and abetting them to commit an act of unprofessional or unworthy conduct, which in turn can lead to a disciplinary sanction on their part should they bow to pressure."



PIET BADENHORST

The letter says: "Absa Bank is misleading the general public in an attempt to bolster its image and for the sake of a marketing ploy at the expense of the attorneys' profession, which has for many years been a staunch supporter of the banks in your group."

The senior partner of a Cape Town firm said on Friday: "Absa is playing with fire. Firms in the Cape could have between R2-billion and R4-billion of clients' money in trust accounts, not to mention working bank accounts.

"If Absa insist, trust funds in their bank could be pulled overnight."

Mr Bosman says agreement has already been reached with many legal firms across the country, in terms of which they will carry 25% of the bond registration costs and the bank another 25%, "leaving only 50% of the cost to the client".

He adds that Transvaal firms had been particularly well-disposed towards dealing with market forces since the Transvaal Law Society permits its members to depart from prescribed bond registration tariffs.

Mr Pohl says that after consulting with his members throughout the province he believes "that these tactics and the other similar aggressive marketing campaigns undertaken by your group through the profession in recent years, could prove to be very counter-productive".

The letter continues: "What your organisation is doing through this and other similar schemes is to force member firms to underbid each other in an effort to obtain conveyancing work, from which action in the very short term you might derive some marketing benefits."

Carried

Absa's Bosman says: "Absa's business is driven by the determination to offer affordable banking to the broad cross-section of the community in the face of intense competition among banks for home loan business.

"To defend our market share, for example, we carry the bond registration cost where a client switches an account from another bank to Allied, United, TrustBank or Volkskas without a property transaction taking place.

"Payment of all or part of the bond registration cost is also carried by our banks if people buying homes meet certain criteria."

Mr Bosman says that while these actions have reduced bank revenue they have led to a considerable increase in income for conveyancing attorneys.

"We have been dealing with the conveyancing fraternity for over a century and have made many friends out there in the course of building our 42% share of the home loan market.

"We were consequently able to take the innovative step of approaching them with a view to increasing market share and turnover, to our mutual benefit. This in no way involved the use of pressure."

Bank vault cash holdings dispute

(58) CT 26/4/93

JOHANNESBURG. — Merchant bankers are up in arms over a Reserve Bank ruling which gives commercial banks a competitive advantage.

The dispute is over a ruling which allows banks to include their vault cash holdings in their compulsory deposits at the Bank. This only benefits commercial banks since they need to hold cash as part of their business. The rule effectively increases the cost of funding for merchant banks.

The Reserve Bank proposed last year that vault cash no longer be counted as part of banks' minimum reserve requirements held on deposit at the Bank.

However, under new rules published last month, vault cash was not excluded from the minimum reserve requirements.

Merchant bankers said at the weekend the situation was unfair, since commercial banks had to hold cash as part of their business. At a meeting with Bank Governor Chris Stals on Thursday they were told that the commercial banks were being given the advantage since they were effectively doing the work of the Bank by distributing cash.

Merchant bankers said they would pursue the matter as they were effectively "back to square one".

Merchant bankers dispute new ruling

BD 26/4/93 TIM MARSLAND 58

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The Reserve Bank proposed last year that vault cash no longer be counted as part of banks' minimum reserve requirements held on deposit at the Bank. It said it would be "more equitable if all banks were to exclude vault cash when calculating the minimum reserve balance to be held in an account with the Reserve Bank".

However, under new rules published last month, vault cash was not excluded from the minimum reserve requirements.

Merchant bankers said at the weekend the situation was unfair, since commercial banks had to hold cash as part of their business. At a meeting with Bank Governor Chris Stals on Thursday they were told that the commercial banks were being given the advantage since they were effectively doing the work of the Bank by distributing cash. If they did not, the Bank would have to open outlets countrywide — something it was unwilling to do.

Merchant bankers said they would pursue the matter as they were effectively "back to square one".

R30m issue for GASA shareholders

JOHANNESBURG. — General Accident South Africa's (GASA) three major shareholders will be taking up a R30m rights issue, MD Clive Dean said at the weekend.

SS CT 26/4/93

General Accident Perth, First National Bank and Southern Life Association had agreed to take their proportions of the rights issue.

"Coupled with our new reinsurance agreements — which include far greater use of the local market and proportional cover — our solvency margin will be greatly strengthened."

Dean also announced he would retire in October.

"I will hand over to Ian Maxwell. He is an alternate director of GASA."

Bank rate relief mooted in survey

TIM MARSLAND (58)

SA BUSINESS can still expect relief in the form of a one percentage-point cut in Bank rate later this year, SPL Treasury Services' interest rate forecasts released at the weekend indicate.

SPL gathers economic forecasts from a number of top economists and slots these into an interest rate forecasting system. SPL clients include the Reserve Bank and Eskom.

The forecast puts the chances of a one percentage-point cut in Bank rate by September at 55%, with this percentage improving to 84% by March 1994.

It sees no chance of a two percentage-point cut by September and a 37% chance of such a cut by next March.

"It can be concluded that, even though a number of economic indicators might be favourable for a further relaxation in monetary policy, the panel of economists are still of the opinion that the overall economic conditions justify at least one more reduction in Bank rate".

A disturbing trend in the forecasts is early signs that the interest rate cycle is turning, with a move to a negative yield curve. This means the economists see the cost of short-term borrowings rising relative to long-term borrowings, reflecting longer term uncertainty on interest rates. B|DAY 26|4|93

SPL said the growing uncertainty over future developments was also shown by the resistance of the long-dated Eskom 168 bond to follow the downward trend of prime and bankers acceptances (a short-term interest rate) by the same magnitude.

MVA: attorney's case postponed

Sowetan 26/4/93.

58

By Josias Charle

■ HUGE AMOUNT Police probe alleged fraudulent claims of R1,4 million:

A PROMINENT Pretoria attorney has again appeared briefly in the Pretoria Regional Court in connection with Motor Vehicle Assurance claims.

Mr Morole Bogoshi was not asked to plead and the case was postponed to July 30 for further investigations.

Bogoshi, who is on R300 000 bail, was granted permission by magistrate Mr FJ Poolman to use his passport for trips he would like to make but told to surrender it to the investigating officer after each trip.

Poolman also said the condition that Bogoshi should not contact witnesses in the case had to fall away as no witnesses' names were available. He added that another reason for this ruling was that no formal charges had been formulated against Bogoshi yet.

The Office for Serious Economic Offences in Pretoria is investigating charges of more than R1,4 million in alleged fraudulent claims from the MVA fund.

Last year police searched Bogoshi's offices and confiscated several files relating to MVA claims. He brought an urgent application in the Pretoria Supreme Court against the OSEO to, among others, seek an order declaring the confiscation of his documents illegal.

The court ruled that Bogoshi would be allowed to remove certain documents pertaining to his clients from the files which he claimed were "privileged" either in the presence of the Supreme Court or a representative of the OSEO. The rest of the documents in about 1 000 files would be open to scrutiny by the investigating officers.

These documents would then be sealed and kept by the Registrar of the Pretoria Supreme Court.

Senior State Advocate Mr Johan Visser told *Sowetan* at the weekend that the OSEO was finalising a number of cases relating to alleged fraudulent claims.

Several other cases have been referred to the commercial branch of the South African Police.

COMPANIES

FNB may raise share dividend

FIRST National Bank Holdings is likely to raise its first-half dividend by at least 5c to 55c a share on the back of expected sturdy growth, analysts say.

Results for the six months ended March 31 1993 were due tomorrow and should show earnings boosted by healthy interest rate margins, they said.

"Interest margins have been very kind to them, but the benefits will be partly offset by bad debts," Graham Baillie of stockbrokers Davis Borkhum Hare said.

Analysts expected strong first-half growth at the attributable income level, but said the dilution effect of last year's rights issue on share earnings would be marked. Forecasts ranged from a 9% to 13% increase to 281c-290c a share.

According to Anderson, Wilson Partners, the results would be influenced by two big unknown factors — the extent of the bad and doubtful debt provision and the expected benefits from the recently lowered corporate tax rate to 40% from 48%.

FNB would also be paying the new 15% secondary company tax on dividends.

Analysts said the mainstay of FNB's interim performance had been local interest rate margins of 5,0% to 6,0%, which had recently tightened to 4,0% to 4,5% as short-term interest rates edged upwards.

Marginal asset growth was expected in the first half as a result of the state of the recession-hit economy, they said. "There's no demand for credit," Bailie said.

Analysts said bad debt was continuing to hammer earnings despite intensified credit risk management, and some expected the charge to top the previous period's R160,5m.

58

But, David Southey of Edey Rogers said most banks seemed to have expected the rise in bad debts and he expected FNB's charge to remain the same. — Reuter.

Pep shakes off effects of selling Ackermans

BDay 27/4/93

LINDA ENSOR

CAPE TOWN — Strong gains in profitability enabled clothing manufacturer and distributor Pep Ltd to overcome the effects of the sale of the Ackermans chain and post a marginal rise in earnings a share in the year to end-February.

Earnings a share inched up 1% to 43,2c (42,8c) and the declaration of a final dividend of 12c (11,1c) resulted in a 9% rise in the total payout to 19,5c (17,9c).

The group's accounting policies have been changed so that companies previously treated on an associate basis were consolidated as subsidiaries.

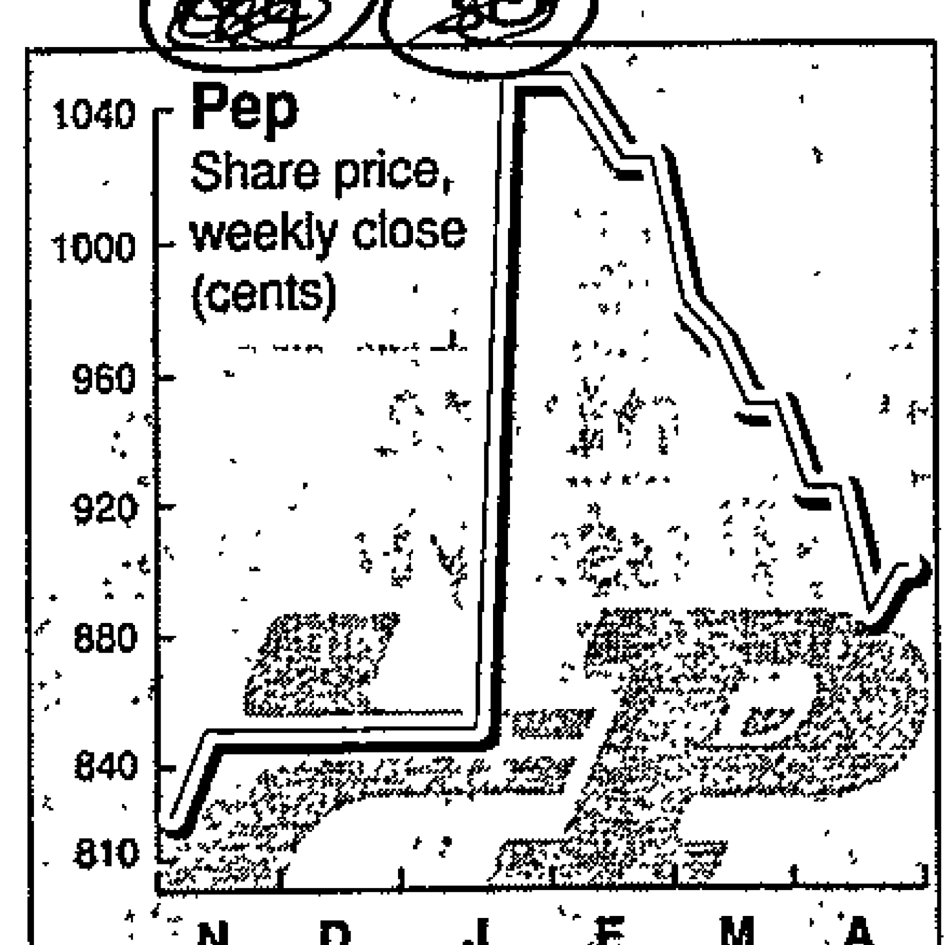
Group MD Tony Haughton said the past year had been the most difficult in Pep's history.

The sale of Ackermans to Pepkor saw turnover slide by 11% to R1,4bn (R1,5bn) but the improvement in cashflow and profit margins, to 13,4% (10,8%), pushed up operating profit 11% to R181,5m (R164m).

Pep Stores' turnover was less than the official inflation rate as the group had kept annual selling price increases within a 6%-8% range for the past two years.

Market share was improved despite overall market shrinkage.

Pep Ltd's Your-More-Store chain in Scotland had expanded rapidly last year to 29 (16) with 25 more planned this year. The overall operation showed a loss because of overhead and expansion costs but this had not had much impact on the consolidated group result.



Graphic RUBY GAY MARTIN Source I NET

The interest bill rose 88% and this, together with the exhaustion of accumulated tax losses which saw the tax rate rise to 39,4% (36,5%), contributed to after-tax profit growth of 2%. Haughton believed the future effective tax rate should stabilise at about 39%.

With outside shareholders' interests significantly enlarged as a result of the 30% minority shareholding in Pep Botswana Holdings, attributable profit rose 1% to R99,5m (R98,5m).

An extraordinary profit of R33m was derived from the sale of shares in Pep Botswana, the restructuring of the property portfolios within the Pepkor group, and the closure of a number of former Harties and Frasers outlets.

The balance sheet was strengthened by an 87% decline in interest-bearing debt to R6,9m (R53m) and a 57% rise in investments (preference shares were bought) to R68,5m (R43,7m).

Haughton expected trading conditions in the 1993/94 year to be tough but results to be satisfactory.

EXECUTIVE SUITE

Sanlam set to expand its property portfolio by 25%

BIDAY 28/4/93 (58)

PETER GALLI

SANLAM Properties expects to increase its new property investments by about 25% to more than R1bn in the financial year to end-September 1994, says newly appointed MD Johan Treurnicht.

In an interview, he said new investments in the present financial year would amount to close on R800m, but there would be a "definite real increase" in the following year to top the R1bn mark.

"However, to achieve this we will have to consider taking greater risks and looking at alternatives to those risk-free, guaranteed investments," Treurnicht said.

"We will have to be more adventurous and less cautious in our investment approach — but always bearing in mind that it is our policyholders' money, and acceptable returns have to be generated."

The portfolio, which is managed for parent Sanlam, stands at more than R7,5bn and has its greatest concentration in the retail and office sectors.

The company holds 1,463-million m^2 of retail space, 1,297-million m^2 of office space, 795 000m^2 of industrial space, 81 000m^2 in residential flat space and 37 000m^2 of other space.

"Our investment in traditional markets is reaching saturation point and we are looking at alternative markets," Treurnicht said.

"We are looking into branching our shopping centre market into towns and cities outside the major urban areas that have large populations and few facilities.

"The emergent black market and associated retail demand holds excellent potential. Our shopping centre in Chatsworth has worked well, we have a development in Mitchell's Plain and a centre is being developed in Phoenix near Durban.

"We also recently financed a centre in Katlehong, which we are seriously looking at expanding," he said.

Another area of growth was the retirement village market. Sanlam had learnt a good deal from its San Sereno development in Bryanston and felt confident it could successfully tackle this market.

The company was also researching the opportunities that could come from the establishment of export processing zones. It was examining offshore trends in this regard, particularly as Finance Minister Derek Keys felt an export thrust was the way to economic recovery.

"The privatisation of certain public corporations also creates opportunities and we are talking to a number of parties in this regard," he said.

Sanlam Properties was also looking at growth opportunities in the leisure market. On the housing side, it did not see itself as a major player in township development.

"While we do not see ourselves moving into the housing market as such, we could act as financier to banks or others that have the infrastructure and experience in this field," he said.

Draft law for mutual banks is considered

BDAY 28/4/93 (58)

CAPE TOWN — Draft legislation to provide a statutory framework for the formation of "mutual banks" could be submitted to Parliament during the current session, an Office of the Registrar of Banks spokesman confirmed yesterday.

The initiative to establish a mutual bank arose from the work of the Community Banking Project, spearheaded by Bob Tucker and Cas Coovadia. It showed an urgent need for such community banking facilities.

The spokesman said commercial banks were not geared to meeting the needs of the lower-income group and their capital structures were not designed to cater for small entrepreneurs. While mutual building societies had gone some way to addressing these needs, there were not many of these institutions left.

Mutual banks were "juristic persons established on the basis of mutual membership, such as is the case with the existing mutual building societies". The activities of a mutual bank would be directed towards the provision, on a commercially sustainable basis, of basic banking products and services, including savings and investment accounts; appropriate access to salaries and wages through transmission accounts; gearing community savings with wholesale funds; loans for shelter and housing; and enterprise loans.

LINDA ENSOR

"It is hoped that through a system of branches and/or agencies and the participation of local boards, a sense of community ownership in the institutions will gradually develop," the spokesman said. "Basic to the character of such a mutual bank will be the right of members to participate in the exercise of control in general meeting of the juristic person registered as a mutual bank."

As fledgling mutual banks might have difficulty meeting bank capital requirements, methods to relax these in the initial stages of a mutual bank's existence were being probed.

However, it appeared that the capital requirements of mutual banks would be the same as those of equity banks in the long term.

13. Final Report on the Violence at Mooi River.
14. Third Interim Report.
15. Report to the State President on an investigation by the Commission's Natal Investigation Team into Allegations of the Presence of Renamo Soldiers in KwaZulu.
16. Third Interim Report to the Commission by the Committee inquiring into Public Violence and Intimidation in the Taxi Industry.
17. Report to the Commission by the Committee appointed to inquire into the Organization and Conduct of Mass Demonstrations.
18. Fourth Interim Report to the Commission by the Committee inquiring into Public Violence and intimidation in the Taxi Industry.
19. Report of the Committee conducting a Preliminary Investigation into the Activities of the Azanian People's Liberation Army (APLA).

Banking groups: assistance by Reserve Bank

*9. Mr K M ANDREW asked the Minister of Finance:

(1) Whether the Reserve Bank rendered any assistance to two banking groups, the names of which have been furnished to the Minister's Department for the purpose of his reply, during the latest specified 5-year period for which information is available; if so, (a) what are the names of these banking groups and (b) (i) what were the terms and conditions of this assistance and (ii) why was it rendered;

(2) whether the said terms and conditions have been adhered to by the parties concerned; if not, why not; if so, to what extent?

(3) whether he will make a statement on the matter? B695E

The DEPUTY MINISTER OF FINANCE:

(1) and (2) As lender of last resort, the Reserve Bank provides financial assistance to banks on a regular basis. The normal banking business code applies to such transactions, namely that transactions between the Reserve Bank and its clients cannot be disclosed to third parties.

(3) No.

Banking groups: audited accounts

*10. Mr K M ANDREW asked the Minister of Finance:

(1) Whether two banking groups, the names of which have been furnished to the Minister's Department for the purpose of his reply, submitted audited accounts in respect of the period 1 January to 31 March 1992; if not, (a) why not and (b) what steps were taken or are to be taken in this regard; if so,

(2) whether these audited accounts have been made public; if so, when; if not, why not;

(3) what are the names of the banking groups in question? B696E

†The DEPUTY MINISTER OF FINANCE:

(1) Audited financial statements for the following companies have been submitted to the Registrar of Companies in respect of the period to 31 March 1992:

— Amalgamated Banks of South Africa Limited ("Amalgamated Banks");

— ABSA Bank Ltd.

Only the financial statements of Amalgamated Banks, a listed public company, have been sent to its shareholders.

(2) Bankorp Holdings Limited and Bankorp Limited are wholly owned subsidiaries of Amalgamated Banks. The formal annual general meetings of Bankorp Holdings Limited and Bankorp Limited will take place before 30 June 1993. When the financial statements of these companies are sent to their holding company (sole shareholder), copies thereof will simultaneously be lodged with the Registrar of Companies.

Press freedom

*11. Mr P G SOAL asked the Minister of Defence:

Whether, with reference to the reply by the

then Minister of Home Affairs to Question No 7 on 18 March 1992 regarding legislation allegedly detracting from the free flow of information and restricting the Press from reporting, any steps have been taken or are being contemplated in respect of the repeal or partial repeal of certain Acts, particulars of which have been furnished to the South African Defence Force for the purpose of the Minister's reply; if not, why not; if so, (a) what steps and (b) when? B693E

The DEPUTY MINISTER OF DEFENCE:

The Government supports the fundamental principles of media freedom and the free flow of information. A Bill of Fundamental Rights should contain such a stipulation which is entrenched in a constitution—in the interim and finally. Laws administered by the SA Defence Force will have to be amended step by step to adapt to such a Bill of Rights and a changing security environment. This last-mentioned statement however allows for the standpoint that certain information, which could be of advantage to a potential enemy, will be worth protecting according to the universally accepted principle in this regard.

Mr P G SOAL: Mr Chairman, arising out of the hon the Deputy Minister's reply, may I ask him if he would please bring the contents of that reply to the attention of the hon the Minister, because that hon Minister was a member of Working Group 1 at Codesa last year, and supported the repeal of these Acts.

The DEPUTY MINISTER: I will definitely do so. May I just say that the hon the Minister was called away at very short notice. That is why he is not here.

INTERPELLATION

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

Own Affairs:

Registration for military service: principals

1. Mr E W TRENT asked the Minister of Education and Culture:

Whether principals of high schools are required to assist in the registration of 16-year-old White males for military service in the South African Defence Force; if so, why; if not, what is the position in this regard? B720E.INT

The DEPUTY MINISTER OF EDUCATION AND CULTURE: Mr Chairman, I want to say at the outset that compulsory military service for White males is not under discussion today. If hon members want to discuss this they should participate in the Defence debate.

What is under discussion, however, is whether headmasters of schools are rendering assistance to the Defence Force by registering 16-year-old White males for military service. Yes, they are.

As a matter of fact, they have done so since 1968, and I am under the impression that many headmasters regard this as a duty to their country. Proof of this is that of the 38 355 forms dispatched to 776 schools, 14 840 have already been returned from 385 schools. It is very important, however, to point out that they give this assistance on a voluntary basis. They are not obliged to do so. When a school does not give its co-operation, the matter is handled by the individual pupils themselves.

I find it unfortunate that the hon member created a false impression in his press statement that was released on 20 April. In this press statement the hon member said that the NP Government was attempting to force school principals to become agents of apartheid. [Interjections.] I have here the original circular. Let me quote from it:

> As in the past, this office is dependent on your kind co-operation. It would be appreciated if the completed registration forms could be forwarded.

There is no question whatsoever of enforcement. I think the party leadership should take disciplinary steps against the hon member for broadcasting a wrong impression. [Interjections.]

Mr E W TRENT: Mr Chairman, I am very glad that the hon the Deputy Minister referred to my press statement. I know that this practice has been in progress for many years. To use schools as a means of applying racial discrimination once again demonstrates how totally insensitive the Government is.

cont→

58 CT 28/4/93

Law on finrand 'invalid', court hears

By DAN SIMON

REGULATION 14A of the Exchange Control Regulations, which deals specifically with the financial rand, should be declared "invalid" as it was enacted by the State President, who in terms of the Currency and Exchanges Act, is not empowered to do so.

This was said in the Supreme Court yesterday during argument in the trial of Welgemoed chartered accountant Mr Nicolaas Griesl, who, with Mr Adriaan Prakke, is alleged to have defrauded the state between March 1988 and February 1990 by inducing the Reserve Bank to release a surplus of foreign currency.

The state alleges that Mr Griesl and Mr Prakke, managing director of Repfin Finance, were involved in the "round-tripping" of financial rands to the tune of about R135 million.

A third co-accused, British citizen Mr Desmond Latham, failed to appear in court when the case began and forfeited R300 000 bail. It is believed he has fled to Britain.

Mr Griesl faces 45 charges of fraud and contravention of exchange control regulations.

He was acquitted of 14 related charges last month. Mr Prakke faces 59 related charges. Both men have pleaded not guilty.

Mr G D van Schalkwyk, assisted by Mr Francois van Zyl, instructed by Mr Mike Evans of Mallinick Ress Richman and Closenberg Inc, appeared for Mr Griesl. Mr G Josman, instructed by Mr Ray Druker of Johannesburg, appeared for Mr Prakke. Mr Tommy Prins and Mrs Phyllis Atkinson appeared for the state.

R5bn bonanza

Reserve Bank boost for major banks

58
CT 28/4/93

By ARI JACOBSON

FIVE billion rand is to be pumped into the vaults of four major South African commercial banks by the South African Reserve Bank, Minister of Finance Mr Derek Keys announced yesterday.

The move foreshadows a major shake-up expected in May in the money market when liquid Bankers' Acceptances (BA) fall away for discount purposes at the Reserve Bank. The BA rate is the rate at which the Reserve Bank lends money to banks.

These would no longer be considered as liquid reserves — a legal requirment for banks.

The move was also triggered, it is believed, by South Africa's depleted foreign exchange reserves which have hampered the Reserve Bank in its task of lending money to commercial banks. Liquidity in the banking system has been shrunk, in other words.

However, introducing the Finance Budget Vote in Parliament, Mr Keys said South Africa's gold and foreign exchange reserves, which slumped by R800 million to a two-year low of R7,48 billion in March had shown "a definite and satisfactory increase in April".

Liquid BAs are created by the banking sector to help businesses finance mostly short-term trade purchases.

However, the Reserve Bank's problem with liquid BAs, as spokesman Mr Andre Kok said, was that the "quality" of this financial paper was always in doubt.

Doing away with liquid BAs is expected to take as much as R3bn out of the system and the latest move by the Reserve Bank is seen by most bankers as a counter-balance.

In Parliament yesterday, Mr Keys said that "state funds will be invested in interest-bearing deposits with the four major clearing banks".

The size of the deposits would take account of the capital strength of these banks and should result in the transfer of an amount of R5 billion "or more".

He said the system would not unfairly advantage the banks concerned because the money would be placed at market-related rates.

Mr Keys said that "all banks would benefit from the smoother working of the monetary system from the Reserve Bank to the commercial banks".

He added "the Reserve Bank will be able to directly influence money supply by means of open market transactions".

COACH TOUR . . . President F W de Klerk and his wife Marike used a horse-drawn coach yesterday to tour the Elsenburg Agricultural College campus near Stellenbosch on an official visit to initiate a project to restore buildings at the historic institution. Rector of the college Dr John Burger took on the role of "tour guide". Picture: STEWART COLMAN

JSE property sectors will offer 'good value in future'

(58)

BIDAY 28/4/93

PETER GALLI

THE property sectors tended to show relative stability on the JSE and, as the underlying property market consolidated and vacancies were absorbed, would offer good value for the investor, Hyprop chairman Bryan Jackson said in the latest annual review.

He said that at present yields, property trusts and loan stocks were attractive alternatives to physical property and the gilts market.

"Property owners had to compete, not only on quality and location of property, but also on monetary value being offered to the tenant.

"Competition for tenants was particularly fierce and rental increases were unusual when vacant space was leased. It was also very difficult for new space to be leased at projected rentals."

Space in older office blocks had accordingly fallen vacant and were particularly difficult to re-let, regardless of quality, Jackson said.

The problem had been compounded by the proliferation of office rights granted by local authorities in response to previous demand, he said.

Prime retail developments continued to show growth and supported the view they could outperform other property sectors during a protracted recession.

Hyprop's interest earnings were expected to decline again in 1993 because of a smaller cash holding.

The company started the year with cash holdings of R21,47m but, after R4,67m was invested in Morningview Office Park and R1,58m in the rest of the portfolio, stood at R14,03m at the year-end.

Vacancies were 4,79% at the year-end and had been reduced to 3,68%.

"Should the portfolio remain unchanged in 1993, distributable income is expected to remain in line with that of 1992 and growth should resume in 1994," Jackson said.

In the year to end-December, the total income distribution to Hyprop combined unitholders dropped to 68,57c from 70,93c in 1991.

The share was untraded yesterday, reflecting a buyer at its May 14 1992 low of 630c, but no seller.

Land Bank to help part-time farmers

B/Day 28/4/93. (58)

TIM COHEN

CAPE TOWN — The Land Bank has decided to increase its financing sphere by granting loans to part-time farmers, partially in an effort to assist black farmers.

Deputy Finance Minister Theo Alant gave the assurance yesterday that the enlargement of the bank's lending policy would be done with circumspection. It would guard against becoming involved in risk finance.

The bank, which had a total of R3,7bn in loans on its books, had extended its lending policy since its creation in 1912, he said.

The bank's lending policy was expanded last year when it decided that applicants need not be full-time farmers. As long as they had farming as their prime purpose they would be considered.

The bank, which has not been dependent on government resources since the early '60s, currently funds itself from capital markets.

Alant said the abolition of restrictive legislation on land ownership had meant greater participation in agriculture by blacks, and the bank would also provide for these farmers.

The bank had wide lending powers and its facilities, involving virtually every aspect of farming, were available to all farmers in SA.

DP agriculture spokesman Errol Moorcroft welcomed the move, saying it was long overdue. Part-time farming had an increasing role to play in the future of SA's agricultural industry, and was an invaluable stepping stone to those who wished to make farming a fulltime career.

During debate on the Finance Vote, Alant also announced that an Inland Revenue office would be established in Johannesburg's northern suburbs to assess major companies, including insurance firms, Sapa reports.

The office would be staffed by professional people, mainly chartered accountants. Some would be employed on a part-time basis.

□ SA's agriculture industry was one of the most important facets of the national economy, and any new form of government would have to take cognisance of this, President F W de Klerk said yesterday.

He was speaking at the launch of a restoration project at Elsenburg Agricultural College near Stellenbosch, our Cape Town correspondent reports.

SA's farm industry was responsible for much of the other general development that had taken place over the years, he said. SA's farmers were responsible for 54% of the wool, 45% of the maize and more than 25% of the wheat produced in Africa.

Farmers had to keep abreast of technology and research to prevent the industry stagnating.

Home aid extended

Sowetan 28/4/93. (58)

By Ismail Lagardien
Political Correspondent

URBAN DECAY Scheme should help 24 000 a year - if finance houses play the game:

THE GOVERNMENT HAS extended the 33,3 percent interest subsidy to first-time black home-owners to existing - second-hand - homes.

The new scheme should benefit at least 24 000 new black home-owners every year and the Government has set aside R99,3 million for this service, the interim Minister of National Housing, Mr Sam de Beer, said in Cape Town on Monday.

The scheme comes into effect on May 1 and is available to families earning under R3 500 a home. The maximum price of the total property should not exceed R45 000.

The scheme, De Beer said, would encourage the revitalisation of decaying urban areas such as Hillbrow, where the majority of residents are black.

The scheme would, however, not mean anything while banks and financial institutions refused to give home loans to black people in urban areas, the member of Parliament for Hillbrow, Mr Lester Fuchs, said yesterday.

Fuchs pointed out that these institutions were "red-lining" certain residential areas within the greater metropolitan area - especially in areas such as Hillbrow, Berea and Yeoville.

By refusing to give bonds, these institutions prevented black people from owning homes in such areas; and this was distinctly racist, Fuchs said. "People of colour who would normally meet the financial criteria laid down by the institutions are deprived of owning their homes."

Mainpro distribution a little lower

BDM 29/4/93.

(58)

PETER GALLI

MAIN Street Property Fund (Mainpro) posted a marginally lower distribution a combined unit at 55,33c in the year to end-March from 55,41c the previous year.

A 10% gain in dividends from fixed property companies at R51,28m (R46,65m) was offset by a 74% drop in interest received to R1,65m (R6,26m).

This resulted in a 0,2% drop in net distributable income at R50,46m (R50,54m).

Anglo American Property Services financial director Lee Whitfield said lower interest rates and the acquisition of property had resulted in the fall in interest income.

Its property holdings of 277 148m² was 97% let on the retail side and 93% on the commercial side.

The share was untraded at its ruling price of 480c, which is just off its September 3 1992 low of 475c.

Apex Property Fund posted a 3,3% increase in distributable income to 31,42c a unit in the year to end-March from 30,42c the previous year.

Dividends from fixed property companies rose 12,6% to R26,39m (R23,05m), but interest received plummeted 81% to R616 000 (R3,16m). After services and sundry costs, net distributable income was R25,87m (R25,05m).

Whitfield said the financial services levy imposed on interest earned on money held in the trust, combined with lower interest rates, had been responsible for the drop in interest received.

The 156 540m² portfolio had a vacancy level of 10,33%, which was slightly up on the previous year. Apex last traded just over a week ago at 265c, between its annual high of 280c and low of 245c.

Sage to acquire stake in AIH

ANDREW KRUMM (58)

THE Sage Group will pay Absa R190m for its 49% interest in Amalgamated Insurance Holdings (AIH) — subject to ratification by Sage shareholders at a general meeting in May, according to a joint announcement yesterday. BDAY 29/4/93.

Speculation is that Sage will finance the deal by selling its stake in Absa. The announcement said Sage would fund the acquisition through disposal of "non-core" business.

The effective date of the transaction is October 1 1992, and the deal should therefore have some effect on Sage Group earnings for the year to end March 1993. Sage Group financial director Eric Langlands said the group would make public the deal's effect on group earnings in late May, when it was due to release its results.

The announcement, though, said "had the transaction been in effect for the full year ended March 1992, Sage earnings a share would have decreased by 0,4c from 51,2c to 50,8c on an undiluted basis....".

The deal would not have a material effect on Absa earnings.

Langlands said Sage would fund the acquisition through the disposal of "non-core business", but declined to specify what these were.

He added that Absa and Sage were not going through a "divorce" but were merely reorganising shareholdings.

The agreement between Absa, sage and AIH, setting out reciprocal business relationships, was unchanged, the announcement said.

FNB puts up strong performance

Star 29/4/93

By Magnus Heystek (58)

First National Bank (FNB) yesterday surprised the market by posting substantially improved results for the half-year to March.

Pre-tax income rose 22,4 percent to R421,5 million, compared with the same period last year.

Senior general manager Norman Axten cautioned that while the results gave the impression FNB was doing exceptionally well in a depressed environment, the effects of the reduction in corporate taxes and the acquisition of the London-based Henry Ansbacher group should be taken into account.

The lower company tax rate had resulted in the release of R139,6 million from deferred tax.

Earnings per share prior to the deferred tax adjustment and tax equalisation provision rose from 257,7c a share to 310,1c.

Net interest income improved 17,4 percent to just over R1 billion.

Provision for bad debt rose 15,1 percent to R184,8 million, but Axten said only about R170 million of this was attribuatble to the domestic market, the balance being inherited when FNB acquired Henry Ansbacher.

Written off

The financial rand premium of R88,9 million on the foreign currency transaction to pay for Ansbacher and Midlantic (Asia), a Hong Kong-based bank, had been written off, net of discount to net asset value, he said.

Other operating income increased 17 percent to R755,4 million, while other operating expenditure rose 15.9 percent to R1,23 billion.

The balance sheet reflects the strong position FNB finds itself in, with total assets having risen 21,7 percent to R49,070 billion.

Advances grew 18,6 percent to R38,011 billion, while deposits and current account deposits went up 25,2 percent.

An interim dividend of 55c (50c) is being paid.

Axten said FNB was in a sound position and was in fact gaining market share in certain sectors, notably in the credit instalment market and the home loans market.

Wesbank had become the leader in the instalment finance market, while FNB's share in the competitive home loan market had risen strongly and was now over 10 percent.

Reduced tax rate lifts FNB results

Bday 29/4/93 .

(58) (800)

SHARON WOOD

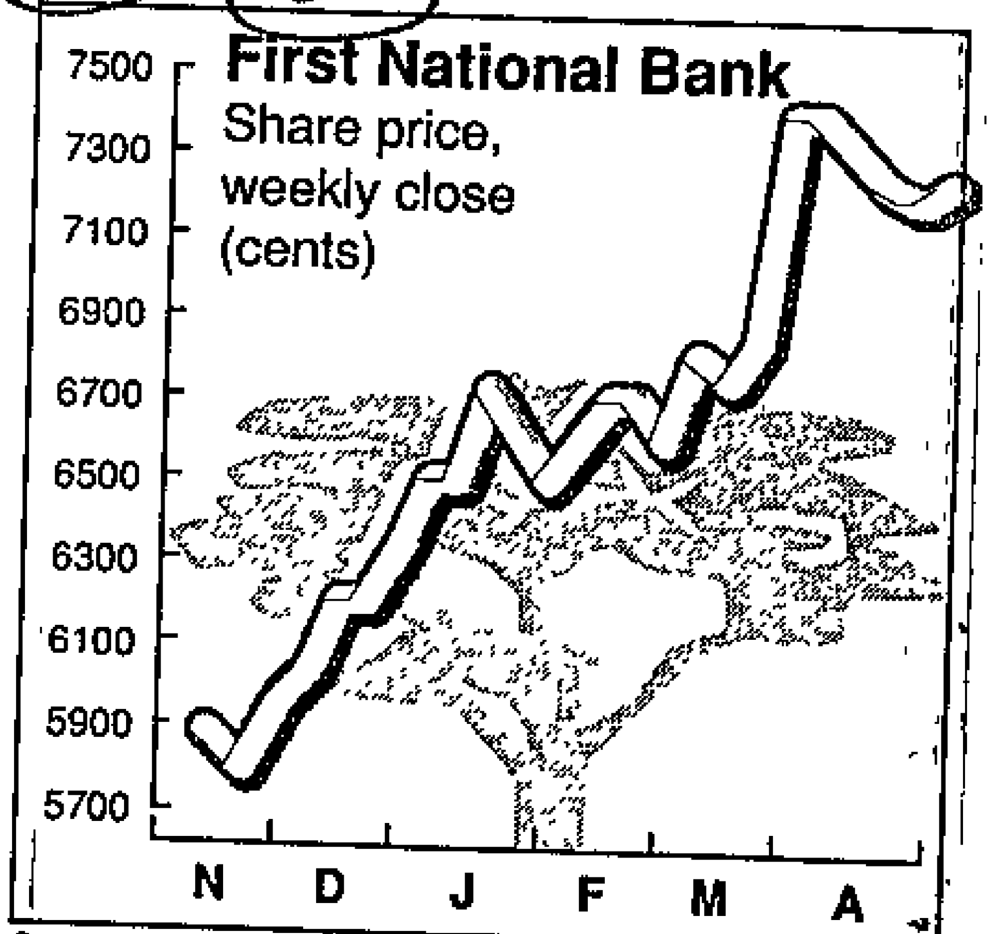
A LOWER tax rate was behind a better than expected earnings performance from FNB, with earnings a share up 20,3% to 310,1c in the six months to end-March from the previous 257,7c.

The group's tax rate dropped to 40% from 48%, in line with the new company tax regulations, and this resulted in a 2,2% decline in tax paid to R156,5m from R160,0m. In addition, there was a deferred tax rate adjustment of R139,6m, which was added to income after tax.

Dividends were raised 10% to 55,0c a share from 50,0c a share.

Interest income for the group improved by 17,4% to R1,08bn (R920,6m). The increase stemmed from a 5,9% fall in interest expenditure, while interest earned remained stagnant because of lower interest rates in the period under review.

Bad and doubtful debt provisions advanced by 15,1% to R184,8m (R160,5m). But



Graphic RUBY-GAY MARTIN Source I-NET

senior GM Viv Bartlett said if Henry Ansbacher's bad debts were stripped out of the results, provisions for bad debts in the SA operation would have been flat in spite of

□ To Page 2

FNB

Bday 29/4/93

(58)(800)

□ From Page 1

continued economic recession. He said this could be attributed to a quicker recognition of potential bad debts.

Bartlett said Ansbacher would contribute to FNB's profits before the financial year-end.

He was still concerned that the economy was under stress and that political issues were exacerbating the problem.

Income before tax rose 22,4% to R421,5m (R344,3m). Net income surged 79% to R332,6m (R187,8m) because of the deferred tax. Attributable earnings jumped 78,1% to R334,5m (R187,8m).

An extraordinary item of R88,9m was paid because of the finrand premium on the acquisition of foreign subsidiaries.

FNB showed a healthy increase in advances because of the inclusion of Ansbacher results. Total advances grew 18,6% to R32,06bn (R38,01bn).

Growth in advances for the SA operations was about 13% year on year and Barlett predicted this would increase to about 15%, excluding Ansbacher, by the end of the financial year.

FNB had made some progress during the period in increasing its market share in the home loan and instalment markets.

'Cash stimulus' played down

SIMON WILLSON

BANKERS yesterday dampened expectations that R5bn was about to enter the money market as government transferred its cash deposits from the Reserve Bank to the private banking sector.

Finance Minister Derek Keys told Parliament on Tuesday that R5bn in government cash surpluses would be placed with commercial banks in an effort to increase government interest earnings. Expectations that the move would boost liquidity in the money market quickly helped to ease capital market rates; the bellwether E168 yield drifted from Monday's close at 15,11% to a low of 14,94% yesterday.

"There is no way the authorities could allow R5bn to hit the market in one shot," a money dealer said yesterday. "It would wipe out the shortage and interest rates would drop." The shortage totalled R5,3bn at the beginning of this week.

Reserve Bank money and capital markets GM Andre Kock said the effects might become apparent only later. "The government cash balance at the Bank at the end of April will be at least R5bn ... but that will not go straight into the market. It will depend a lot on future cash flow and money market management."

Kock said the main objective of the move was to eliminate seasonal money market distortions caused by state cash movements.

The change is associated with the new system of Bank accommodation of the money market. From May 3 the range of assets that commercial banks can lodge at the Bank's discount window in return for overnight funding will shrink as the liquid bankers' acceptance becomes ineligible.

Standard Bank Treasury GM John Lloyd said a reduction in the market's seasonal liquidity imbalances would be welcome.

"If the shortage was to continue at these high levels the commercial banks could be forced into raising their prime overdraft rates.... Everybody involved should gain from a smoothing-out in liquidity flows."

While Keys said interest earnings would increase with commercial banks' interest payments on government's cash deposits, bankers said the Reserve Bank would lose interest formerly earned on the deposits, and this loss would be reflected in the profits the Bank remitted to government.

Star 29/4/93

'Protect academic freedom'

A strong call for the protection of academic freedom in a bill of rights was made by Rand Afrikaans University professor Rassie Malherbe last night. Malherbe said that the particulars of safeguards for academic freedom should also be contained in a general law on universities. — Staff Reporter.

(54)

CAPE INVESTMENT BANK

FM 30/4/93

(58)

Rally round

Former Cape Investment Bank chairman Jan Pickard jnr has offered its liquidators an amount worth three times his estate to settle a R142m claim for which they hold him jointly responsible.

Pickard's current estate does not add up to R1m but members of the Pickard family have rallied to his assistance to avoid a lengthy and costly civil court case which his attorney, Tinus Slabber, says could "last several months and run legal costs up to R1m-R3m."

Liquidator Tjaart du Plessis blamed the management for "a reckless" R1bn punt in Eskom stock, in summonses issued against some directors by the Cape Supreme Court.

Slabber stresses that Pickard's offer is not an acknowledgment of the claims against him. "He denies that any of the claims could succeed — based on information available to us from the investigation into the bank's liquidation."

Pickard's offer does not alter a financial dispute which has been brewing between the family business, Picardi Holdings (Pichold), and the Reserve Bank. Cape Investment Bank shareholders and Pichold hold the central bank responsible for more than R13m — the purchase price paid for Pichold shares by Prima Bank in 1990. The potential claim is

(*) continue

(58)

based on a second purchase contract between Pichold and Prima Bank Holdings (*Economy & Finance* June 19).

Pichold, a public listed company at the time of Cape Investment Bank's liquidation, lost R17m. Jan Pickard snr, former Western Province Rugby Union president, is the major shareholder in Pichold. That was his only link to the bank.

Former MD Andy Swartz, who is being sued jointly by liquidator Tjaart du Plessis for the R142m losses (one of the largest claims of its kind in SA), would not comment this week. "I have strongly refuted the allegations made by Du Plessis and have entered a plea to defend the claim. I therefore regard the matter as *sub judice*," says Swartz. Another former director who is also being mentioned in the claim, Gerlof Reitsma, was not available for comment.

Slabber says the liquidators have scrutinised Pickard's assets and all benefits — including previous inheritances — which are due to him arising from his family ties. "If they find anything to which they may have a reasonable claim, they are welcome to it," says Slabber. He says the major creditor, the SA Rail Commuter Corp, has sent investigators and they were happy with the extent of the disclosures.

Meanwhile, advocates from the Cape attorney-general's office have completed an investigation into the Cape Investment Bank's liquidation and a R247m investment loss by the Commuter Corp after the bank's liquidation. A senior police brigadier questioned a number of Commuter Corp employees who dealt with money market procedures and State Advocate "J C" Gerber has been assigned to further investigate the matter.

A-G Frank Kahn would not comment this week. He said the matter was *sub judice*.

Eddie Botha

STANDARD BANK PROPERTY

Something of a yawn

Activities: *Closed-end property trust.* 58
Chairman: *E P Theron; MD: S Shaw-Taylor.*
Capital structure: *280,1m units. Market capitalisation: R434m.*
Share market: *Price: 155c. Yields: 12,9% on dividend; 12,9% on earnings; p:e ratio, 7,8. 12-month high, 175c; low, 140c. Trading volume last quarter, 6,5m shares.*

Year to Dec 31	'89	'90	'91	'92
Gross rents (Rm) ...	43,3	46,3	50,1	60,3
Net income (Rm) .	36,5	44,5	53,9	56,0
Dividend (c)	15,00	17,15	19,25	20,00
Net worth (c)	n/a	n/a	131	131

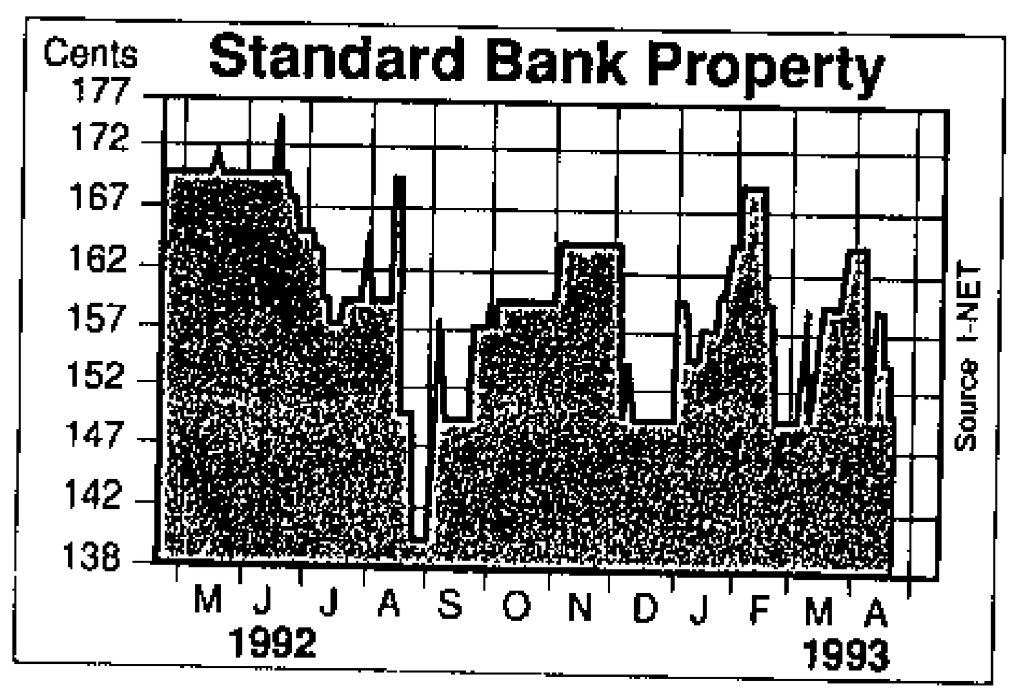
The trend of slowing growth in distributable income continued in 1992. At 3,9%, this was the second consecutive year that growth failed to match inflation and is less than one-fifth of the 22% recorded in 1989.

Theron ... *property slowing down*

While this trend, superficially, is not inconsistent with the performance of the economy and, in particular, the softening market for rental accommodation, a closer look suggests that 1992 results are misleading as a means of assessing the underlying performance of the property portfolio

Results in the past two years have been significantly affected by sharp swings in investment income. In 1991, distributable income was boosted by 2,64c by higher interest receipts, mainly in the property-owning companies themselves, while last year the reverse happened, with income 3,38c per unit down as investment income declined.

Excluding interest from distributable income for the past three years, in 1991 Stanprop achieved a 6,5% gain in income from its property portfolio from an 8,2% rise in gross rentals; last year the increase in rental income accelerated to 20,5% and net income rose an even greater 35%.



After a particularly busy year in 1991, there were fewer changes to the portfolio last year. Acquisitions included the R12,5m purchase of a Midrand office complex, let to a subsidiary of Babcock Africa. Three more office blocks in Randburg bought for R24,5m. The fund's own developments saw completion of warehouse and office facilities (also in Randburg) for M-Net and Midas and extensions to the Bedford Centre Nu Metro cinema complex in Bedfordview.

Limited further progress has been made on the objective of divesting completely from residential property, now 11% of the portfolio. After 1991's R90m sale of the Bedford Gardens complex, the only development of any consequence was the opening of sectional title registers on all the Berea and Hillbrow, Johannesburg, blocks of flats.

Marketing has so far been limited to only one of these — Tygerberg apartment block in Berea — and, though Stanprop says buying interest has been encouraging, sales have been slow, with only 30 of the 228 units sold by year-end. The fund blames lack of bond finance, but marketing agent JHI Eskel Jawitz (referring specifically to the Hillbrow/Berea area) has said that bonds are available depending on the quality of a property and its growth and resale potential.

Management sees this year as being another of slow growth but hopes for a more substantial increase in earnings in the medium term, given a stronger economy and resulting absorption of vacant space (11% of the year-end nonresidential portfolio).

The units spent most of the past year trading within a fairly narrow band between 150c-170c. The present 155c is at the lower end of this range and, on a 12,9% yield, is at a 6% discount to the sector, suggesting that upside potential exceeds downside risk.

Brian Thompson

BoE hopes to retain growth momentum

B/Day 30/4/93 . (58)

LINDA ENSOR

CAPE TOWN — Financial services group, the Board of Executors (BoE), achieved a 35% rise in earnings a share in the six months to end-February and MD Bill Macadam was confident of maintaining this growth rate in the second half of the year.

Macadam told a news conference yesterday all divisions had performed well, in particular the treasury and corporate finance divisions of BoE Merchant Bank which handled the R2,2bn Royal Foods-Del Monte deal. Fees derived from the deal were used to strengthen reserves.

Macadam said the the group had been strenghtened by means of organic growth and development of new businesses rather than through acquisition. The results reflected the benefits derived from the strategic planning and base-building undertaken by BoE over the past decade.

A 21% higher dividend of 17c (14c) was declared on fully diluted earnings of 58,8c (43,5c) a share. Because of the dividends it received, BoE's dividend declarations were not subject to the secondary tax on companies. Pre-tax income showed a 30% growth to R9,5m (R7,3m).

An inflow of new business, particularly pension funds, contributed to a 17% rise in assets under administration to R5,4bn of which R2,1bn was managed by the pension fund division.

Private client business had shown favourable results while the Growth Fund had achieved "excellent" investment performances. Associate company Fidelity Bank's good results were largely responsible for the 57% rise in retained earnings.

Lending criteria were stringent and bad debts on the mortgage book were negligible in BoE Merchant Bank. The home loan book, geared to the top end of the market, had grown to R125m in its first year of operation while BoE had also increased its penetration of the participation bond market by 37% over the past year.

Macadam said the newly introduced project finance division within the merchant bank had considerable growth potential. It would focus on structuring complex financial deals, for example corporate capital expenditure projects, using tax bases and depreciation allowances.

An agreement between BoE and major local players to create a vehicle to harness stokvel money for housing was due to be signed next week.

STATE FUNDS (88)

FM 30|4|93 (58)

Government accounts now held by the Reserve Bank are to be partially privatised. Finance Minister Derek Keys announced in Parliament this week that legislation will be introduced to allow a part of government funds to be placed with private-sector banks. It will be incorporated in this year's Finance Act.

He explained that many of the central bank's actions in the market are in response to massive flows of funds between the private banking system and the central bank. If some of the funds are already in the banking system, "most of this work can be avoided, along with the human errors which occur now and then."

To allow some benefits to be derived before legislation can be passed, the Department of Finance and the Reserve Bank are exploring ways to use existing powers to allow government funds to be placed in interest-bearing accounts with the four main clearing banks.

The amount, which will depend on the capital strength of the banks, should be about R5bn. "As the private banking system borrows a larger amount than this from the Reserve Bank, there will be no additional pressure on any sector of the market," said Keys.

whole page.

(58)

Just another form of working capital — Standard Bank

BECAUSE factoring divisions of big commercial banks source their business mainly through the branches, factoring is often considered to be in competition with their other forms of finance, particularly the overdraft. But Standard Bank Factoring(SBF) sees factoring rather as another form of working capital.

SBF marketing manager Steve Padgett says most of his clients are often only referred to the factoring division when others are unable to provide the necessary additional collateral to increase their overdraft limits.

But this does not mean SBF accepts everyone. There are certain criteria that must be met.

□ The business must be involved in manufacturing, distribution, wholesale or service industry;

□ It must generate a minimum credit turnover of R100 000 a month;

□ It should receive a high incidence of repeat orders;

□ It must sell on normal trade terms, ie 30, 60, 90 or 120 days;

□ It must sell to other businesses, not individuals;

□ It must be profitable or have the potential to be profitable and;

□ It must sell a product or provide a service that has been accepted by the customer. Undisputed evidence of satisfactory delivery of goods or services must exist.

Checking

The primary services offered are checking, approving, administering and reconciling sales ledgers, debt collection, general credit decision-making and the provision of management information.

"This implies at the outset that we become our clients' credit manager and adviser. To the smaller business, which does not want the headaches of debtor administration, this aspect is vital," says Padgett.

For companies that are fully computerised with elaborate debtors departments, full factoring is not necessary.

Agency factoring and confidential factoring are two of the options available for such clients. In both cases the client remains responsible for collecting the debts, although the extent of disclosure of SBF's involvement differs. Companies using agency or confidential factoring must have monthly credit sales in excess of R300 000.

Where a business does not see a need to factor its entire debtors ledger, it can decide to select certain debtors which, when factored, would provide the necessary cash to satisfy working capital needs.

The charges for these services are competitive and Padgett says the benefits justify the cost. Interest charges range between 0,25% and 4%, while service fees fall between 0,25% and 3% of turnover.

"If we feel it would be too expensive, we would either offer a different type of factoring or suggest the client tries another form of finance," says Padgett.

Only one in six companies SBF investigates is put on the books.

Padgett admits the division has a high turnover of clients, but says this is because factoring is bridging finance used to help a client through a specific situation. When it is over, the client normally returns to using an overdraft facility.

STEVE PADGETT

Ned Commercial Services offers an attractive range

THE dictionary definition of "factor" is "a business that makes loans in return for, or on security of, trade debts" — but for Ned Commercial Services it means cash-flow financing.

The Nedcor Bank operation includes a range of products that can be amended to suit clients.

Its core business is invoice discounting, partially or totally insured, with or without recourse (guarantees). However, it also offers stock financing and a full warehouse facility — each option providing working capital that allows the company to work its way out of trouble.

Ned Commercial Services MD Derek Schultz says "Companies hit by the recession or a sudden reverse, like the business failure of a big customer, will look for support from their bankers — especially if the relationship is a long one.

"New loans might be requested, but that is a tough request if the company is fully geared and its ability to make further repayments is in doubt.

"Another option is for the bank to take a stake in the equity. This does not always suit the bank or the entrepreneurs, who see a portion of their lives' work signed away. This is where Ned Commercial Services comes in."

However, not every company qualifies for assistance. On the debtor financing side, certain minimum volumes are required. In the past, the cut-off point was considered to be turnover of R400 000 a year. Now the firm is looking at R250 000, as long as there are not too many transactions in the chain.

New wave

Schultz says by lowering the "entry fee" Ned Commercial Services will be positioning itself to assist the new wave of largely black businesses expected to emerge in the mid-1990s.

One of the innovations for companies needing working capital but wishing to avoid debt and not wanting to sign away their equity, is the firm's warehouse facility.

It is a logical extension of its stock financing service, where certain companies can obtain cash from Ned Commercial Services by pledging stock and providing firm orders showing that the customers are there and payment is just a matter of time.

Under the warehouse plan, finance is provided both locally and overseas to businesses that qualify, for which an administration fee is charged.

In the late '80s it became the first factor to introduce computer interfacing with clients. This has since progressed to day-by-day access to general ledger and debtors ledger information through computer links, which allow a new approach to business controls.

DEREK SCHULTZ

Playing a role in promoting development of businesses

FACTORING houses have a definite role to play in promoting developing businesses in the new SA, says First Factors senior manager Michael Maudsley.

Although factors prefer to deal with companies that have a track record, they may be able to help emerging businesses.

"Because we stay in much closer contact with our clients, we see warning signs quicker, so we can afford to help where the banks are reluctant," Maudsley says.

First Factors chief manager Vernon Binks says: "Before we offer a company a facility, we must satisfy ourselves it will be of benefit to the company. For example, if finance costs become too high this could inhibit the company's trading performance."

Many factoring companies are experiencing an increase in invoice discounting business. This is confidential factoring, where the company continues to do its own administration.

The trend is an indication of how many larger companies are taking advantage of the benefits offered by factoring houses. For a company to qualify for invoice discounting, it must have a turnover of about R1m a month, share equity of at least R1m, a good track record and sound debtor control and systems.

Maudsley says First Factors' biggest clients are manufacturers — especially in the clothing, shoe and furniture sectors — where the lead time from creating the product to selling the finished item is long.

Another growth point in business has emerged with the recession. Many companies (such as chain stores) have changed their terms from 45 days to 120 days. Suppliers need added capital to bridge those changing terms and many have approached factoring houses for the finance.

Binks says the recession has brought with it many inquiries for finance but fewer investigations are translated into business — belying the perception that factors are lenders of last resort.

"We have strict lending criteria because of the risks involved in using only a company's debtors book as security," says Binks.

He says First Factors' business is written with recourse. The clause, however, is not as much of an issue as in the past. By insuring one's debts, a company is protected against debts that turn sour.

Credit control often worst managed asset

POOR debtor management is the cause of many liquidations, says Cutfin operations director Richard Smith.

"Debtors can be the most neglected and worst managed asset in a company's balance sheet and that negligence is one of the main reasons why so many businesses go to the wall," he says.

If any business activity is to function properly it is essential that it is provided with adequate resources. Good debtor management involves having high calibre people who understand the importance of asset management to the business' cash flow.

"It is amazing how many companies, large and small, can still regard the job of collecting money as one for junior or non-performing staff. Staff in credit control functions must have status within the business and enjoy the support of top management to enable them to communicate with debtors from a position of strength."

Companies should constantly update debtor transactions, rather than treat them as a month-end task. Regular contact should also be made with each customer so that the debtor becomes accustomed to the manner in which he will be handled and the payment pattern he will be expected to follow.

"It is important that a company monitors its debtor business so that informed credit decisions can be made proactively rather than reactively," Smith adds.

Credit control departments should operate within a set of laid down standards and targets, including monthly targets for collection.

The cost of debtors in terms of cash flow, interest charges, bad debts and business opportunities are often not fully realised, Smith says.

Confidential, flexible and cost-effective

THE advantages of invoice discounting over factoring are that it is confidential, flexible and clients do not have to pay for services they do not want, says Sasfin MD Roland Sassoon.

Sasfin does not involve itself in the day to day administration of its clients' debtors, but rather concentrates on providing finance. The reason for this is threefold.

First, with computer technology becoming increasingly accessible and affordable, most companies are able to administer their own debtors ledgers at costs lower than the fees charged by professional administrators.

Second, Sassoon says confidentiality is a vital part of Sasfin's business, as most companies do not want to disclose how they finance their business. "The relationship between a client and his customer is very delicate and most companies do not want a finance house interfering," says Sassoon.

Third, it can be used on and off, as required. With factoring, because a customer cannot be expected to pay the factoring house one month and the company another, factoring cannot be switched on and off depending on a company's cash flow. The company is locked into factoring its entire debtors ledger for the duration of the contract, even in times when it is not needed.

Role

Marketing director Maurice van Bergen says although the bulk of factoring business is done by big organisations, smaller houses do have a role to play.

Sasfin can offer much more flexibility in terms of the types of clients it will do business with. For example, it will look at clients that larger institutions might consider an excessive risk.

To reduce the risk element of some customers, Sasfin is prepared to accept certain forms of collateral, such as premises, equipment and private property — as well as personal surety from major shareholders, which is required by most factoring houses.

As a rule of thumb, Sasfin operates on a minimum annual turnover of R1m.

Metropolitan clients like what they hear

WHILE businesses that approach Metropolitan Industrial Corporation for trade finance facilities usually do so on the basis of wanting an invoice discounting facility, many change their minds when the advantages of full book factoring are explained, says Metropolitan MD Bryan Scarrott.

"A debtors book that is meticulously and professionally managed can result in a reduction of day debtors by more than 15%, which can go a long way towards covering factoring costs.

"And when discounts and additional profit from improved operating efficiencies in an adequately funded business are taken into account, substantial profits can be made from factoring," he says.

Metropolitan is a medium sized factoring house that has provided trade finance facilities for more than 30 years.

Its factoring facilities include invoice discounting, full book factoring, and the purchase of bills and post-dated cheques.

Scarrott says invoice discounting is of particular benefit to a business that requires intermittent funding for short periods.

"As and when working capital is needed, individual invoices can be sold to generate cash," he says.

By contrast, full book factoring involves the sale of all present and future receivables to the factor which will process the invoices, run the debtors ledger and send out statements.

The advantages to the client are that their entire debtors ledger is managed by a highly skilled specialist firm.

During the past year, criteria for assessing new business has been updated to take into account the higher potential risk resulting from the recession.

This has meant a proportional increase in the ratio of investigations to accepted business.

"Of major consideration in evaluating the viability of a business is the experience, expertise and proven history of management. Of course it goes without saying that debtor quality and factoring economics are important," he adds.

Third party members sign agreement

SOWETAN 30/4/93

TIM COHEN

(58)

CAPE TOWN — Participants in the troubled third party insurance scheme signed a new agreement yesterday.

A significantly amended version of the Multilateral Motor Vehicle Fund (MMF) agreement was signed by SA, Bophuthatswana, Ciskei, Transkei and Venda.

The new agreement revamps the management structure of the fund to include six more directors in a restyled board which will replace the existing executive committee. Willem Swanepoel, who has headed the fund for the past year, has been appointed the new CE.

The intention is to boost the expertise of members of the fund, which was found to be responsible for granting excessive claims, some of them fraudulent.

As a consequence, the fund became actuarially insolvent.

Transport Minister Piet Welgemoed said yesterday this did not mean that the fund was incapable of satisfying its immediate obligations.

The MMF would continue to operate on a "pay as you go" basis, meeting claims as and when they became payable, although it would attempt to boost reserves.

Absa denies initiating summons served on De Villiers, Ronan

58 (282)

ANDY DUFFY

8 10 MM 30/4/93.

THE Absa banking group yesterday denied it had initiated the summons served this week by police on former Allied MD Kevin de Villiers, who must appear in the Johannesburg Magistrate's Court on May 24 to answer charges of conspiracy to commit fraud.

A similar summons was served on De Villiers' former personal assistant at Allied, Patrick Ronan. An alternative charge is attempted theft. There is also a charge of perjury.

An Absa spokesman said police had acted on instructions from the attorney-general. However, an official in the attorney-general's office said Absa had lodged a complaint with the attorney-general in November, and presented evidence to back its allegations. The investigation then opened.

The charges stem from a case Ronan brought in January 1992 when he claimed R115 000 from Absa/Allied for allegedly contravening the Basic Conditions of Employment Act. He claimed his dismissal in July 1991 breached a 12-month notice period agreed in writing with De Villiers. De Villiers was called as a witness during the hearing.

The case was dismissed after the validity of the written agreement was called into question. The State prosecutor passed on details of the case to the attorney-general, though no investigation was opened at that point.

The Absa spokesman said that if the group had handed over evidence to the attorney-general in November, this was only the information compiled during its defence of the action by Ronan.

"There was no further effort from Absa's point of view," he said.

De Villierssaid the charges were "irritating". Ronan declined to comment.

Insuring premiums against effect of AIDS

BDM 20/4/93. 58 ~~72~~

ANDREW KRUMM

SOUTHERN Life yesterday launched a new life assurance product to protect healthy policyholders from sharp, but inevitable premium increases because of AIDS.

Southern Life director Chris Liddle said "Exclusive Life" was designed to prevent healthy policyholders from subsidising HIV infected clients, and required clients to undergo regular HIV testing.

The new product required HIV testing every five years to the age of 45. Should a policyholder test positive in a repeat test, or refuse to undergo the test, life cover would be reduced to 10% of the sum assured.

Exceptions would be made in cases of proven accidental infection, such as through blood transfusions or rape.

Although repeat testing appeared controversial to those outside the industry, it was the only solution.

"Current testing merely screens people who are HIV positive when taking out a policy, and does nothing to control the cost of benefits to those who are infected after they have been accepted for cover."

Liddle said existing policyholders would not be allowed to transfer their policies into the Exclusive Life scheme, but a R240m reserve had been made to protect them from premium increases resulting from AIDS.

Life cover costs for an HIV infected individual was at least 50 times that of an uninfected person. "If only 1% of the insured lives of an assurer were HIV positive, premiums of non-infected policyholders would increase 50%."

Rates of infection were increasing rapidly. "In the six months to December 1992, the rate of HIV infection increased by 80%, while 1,01% of all applicants tested were HIV positive," Southern GM Paul Truyens said.

Taken with statistics that 2,3-million South Africans would die of AIDS by the year 2005, all life assurance would soon be sold this way, or the industry could be wiped out.

☐ Our Durban correspondent reports that the Manpower Department's annual report, which was released this week, disclosed that about 400 people contracted HIV each day in SA.

The department estimated that 400 000 people were infected between 1982 and 1992.

Generally the 20-30-year-old age group was most affected by HIV infection and AIDS – encompassing one of the most productive and economically active parts of the population.

"The highest number of AIDS cases occurred among blacks (1 043 cases), followed by 420 cases among whites. However, because of the nature of the disease, it is very difficult to determine how many people have been infected already and how many could still contract the disease," the department said.

Coupled with the AIDS problem, was population growth. The population of SA, including the TBVC states, increased from 29,2-million in 1980 to about 38-million in 1991.

This represented a growth of 2,4% a year.

According to estimates by the Human Science Research Council, the population of SA and the TBVC states will increase to 64-million in 2010, 83% of whom will be blacks.

Mining giant launches big housing scheme for workers

■ **Employees will live within walking distance of home by turn of century:**

Sowetan 30/4/93.

By Joshua Raboroko

MINING giant Genmin has announced a R30 million housing scheme which could have far-reaching implications for black housing in South Africa.

In terms of the scheme the emphasis is placed on land and not home ownership.

The scheme will provide access to finance for employees who wish to become homeowners but have been unable to obtain finance for a site and service option.

The new scheme implemented by Genmin is being done in conjunction with three financial institutions, Absa, FNB and the SA Perm and IDT Finance Corporation Limited, a subsidiary of the Independent Development Trust.

Genmin's chief executive, management resources, Mr At du Plessis, said the breakthrough came when the emphasis was shifted from home ownership to landownership. It would not only help alleviate the housing problem but would also assist in eradicating the illegal squatter problem.

The company's goal was to facilitate a process which would enablé 80 percent of its employees to live within walking distance of their workplace.

A large portion of employees who would like to become homeowners could not afford a bond between of R20 000 and R30 000 for a small housing unit.

Du Plessis said it was impossible for lower paid employees to obtain a bond from a financial institution for less than R20 000. Research within the group had shown that a large percentage of the company's 115 000 workers were interested in participating in an affordable site and service scheme.

In terms of the scheme, employees with at least two years service, earning less than R2 000 a month, could now obtain loans of between R1 000 and R10 000, redeemable over a period of between 12 and 120 months.

The money could be used to buy a piece of land and to build an affordable dwelling on it. The idea was that they started off with a temporary structure but that they should eventually erect a permanent house when they could afford it.

PROPERTY Grant of R25 million to build homes ● 1

New housing plan comes into being

Sowetan 30/4/93.

By Joshua Raboroko

■ FINANCE CORPORATION Scheme wants to stop exploitation of consumers in the low-income market

A NEW FINANCE corporation, Metropolitan Housing Finance Cooperative Ltd, has been formed to stop the exploitation occurring in the low-income housing market.

Metco, a Section 21 company, aims to safeguard low-income families who are being exploited as a result of the desperate need for housing in the townships.

The company's education and training manager, Mr Abe Maduna yesterday said they had received about R25 million from the Independent Development Trust Finance for the purpose of granting loans to the low-income home-buyers.

Home improvements

He said loans would also be granted to those who wanted to improve their present homes.

The scheme would start in the PWV area but would be extended once offices had been established in other areas.

The loans ranged from R100 to R10 000 depending on demand by individuals.

"One of the conditions for people to qualify for a loan is that you become a member of Metco by buying shares in the company," Maduna said.

> **'One of the conditions for people to qualify for loan is that you become a member of Metco by buying shares in the company'**

He added that the company aimed to educate and inform consumers about their housing rights and to create mechanisms within the housing arena to eradicate the exploitation that was occurring.

"There is extensive evidence that low-income families are being exploited by a range of unscrupulous developers, contractors, landlords, speculators and financial brokers," he said.

On this issue, Mr Brian Leveson, director of Lawyers for Human Rights Units says, "the types of exploitation include, prejudiced building contractors, thefts of deposits paid, sub-standard building construction, fraudulent marketing practices and coercion into financial arrangements which they cannot afford."

Headache

For more information on Metco write to: Metco, First Floor, Trinity Place, 57 Hillcrest Avenue, Craighall Park, PO Box 1350 Pinegowrie 2123.

Homefunder can help

■ New way to finance low-cost housing brings hope to workers:

By Joshua Raboroko

658

MAJOR insurance companies have taken new steps to tap pension and provident fund money for housing, especially in the low-cost housing field.

Old Mutual and Sanlam have decided to use the money as loans by the fund to members or as collateral to make it easier to obtain financing.

Sowetan

Old Mutual and the Urban Foundation have launched an initiative known as "Old Mutual Homefunder" for this purpose, according to sources.

30/4/93.

It is aimed at members of retirement funds earning between R800 and R1 500 a month.

An executive director of the Urban Foundation, Ms Jill Strelitz, said the initiative targeted workers who could not afford repayments on mortgage bonds.

Old Mutual employee benefits general manager Mr Henk Beets said: "This initiative allows retirement fund members immediate access to the money they have accumulated in the fund rather than forcing them to wait until retirement."

In its newsletter, *Insight*, Sanlam says: "Housing, especially low-cost housing, is one of the gravest problems with which South Africa has to contend today."

A fund member may use his or her accumulated withdrawal benefit as a deposit for a mortgage bond, and-or to top up the monthly mortgage bond repayments.

While these new steps have tremendous potential for increasing access to home ownership, it does rely on the participation of the mortgage lenders for its success.

Strelitz said: "We hope that it will encourage financial institutions to take up the challenge of entering the lower income housing market."

Barney Mthombothi of *Sowetan* and Dr Gert Dry of Absa.

Job creation plan

Sowetan 30/4/93. 58

■ **Nation Building project for businessmen:**

THE Amalgamated Banks of South Africa has renewed its sponsorship of the Job Creation Competition of this year's *Sowetan* Nation Building campaign.

The objective of the competition is to arouse interest among the unemployed to design a simple business plan that will stimulate growth and generate more jobs.

"Absa is sponsoring the competition again because our social investment spending is focused on crucial areas, such as the massive unemployment in South Africa, particularly among disadvantaged communities," said Absa group marketing executive Dr Gert Dry.

The *Sowetan*-Absa Job Creation Competition will start soon with seminars explaining the importance of entrepreneurial skills in creating jobs.

Unemployed people interested in entering the competition will attend a seminar and then submit a basic business plan.

Out of the plans submitted six will be chosen and awarded prizes of R10 000 each to start businesses.

Details will be published in future editions of the *Sowetan*. Last year's campaign drew over 500 entries.

Mr
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NEWS Home loans were initially approved then cancelled

Chaotic housing situation

Sowetan 30/4/93

By Joshua Raboroko

■ Blacks hard hit by banks' refusal to grant bonds:

58

MORE than 600 black home buyers have been refused bonds by financial institutions in the PWV-area even though South Africa is faced with a large-scale housing shortage.

Research by leading estate agents and home developers shows that hundreds of bond applications in the PWV areas have been turned down by leading banks in the past four months.

According to agents some of the buyers, whose bonds were initially approved and are occupying the new homes, subsequently received letters informing them that their applications had been unsuccessful.

A leading estate agent says banks have to change their attitudes towards financing bonds for black home buyers who, he believes, are unfairly prejudiced on grounds that are more emotive than realistic.

"The fact is that the black market is where the real growth of the property market lies, yet it is being stunted by lack of access to finance by black buyers," says managing director of Remax Homenet Mr Basil Renecle.

"Obviously any bank must be prudent within its lending policies but the qualifying criteria applied should be based on business principles only and not on unfounded opinion that black buyers are not good credit risks."

One of the institutions that has fallen into this trap is the prominently Afrikaner orientated bank Saambou which has turned down scores of bond applications after it found that they failed to comply with certain requirements, including security and credit worthiness.

Several clients claimed they had already paid transfer fees — on average R4 900 — and were waiting for their homes when they received letters from Saambou informing them that bonds had been refused.

Saambou's senior general manager, Mr Dawie Botha, said after an internal audit and administration it was found that most of the requirements were not met. Primary requirements, he said, were credit worthiness and the security each applicant provided to the bank. After the audit the bank decided to "put some of the applications on ice" pending investigation.

"We have advised estate agents and clients of our position and will continue to discuss the matter with them," Botha said.

Regarding those already occupying new homes, he said: "We will investigate their bonds because it will be illegal to put them on ice."

An estate agent James Gomes said it was unfair to withdraw bonds of blacks who held saving accounts with the bank worth thousands of rands. Most of their clients were professional people, who received State subsidy.

Mr Llewellyn Ford of Wizards Estate said buyers and sellers of properties had a chaotic situation on their hands. About 400 families were sold, bonds granted and given official unconditional bond letters. The financial institution had withdrawn their bonds, even though some only had one week to go for registration of transfer.

Affordable housing to be showcased

By Joshua Raboroko

■ There is a solution to crisis:

AN international exhibition to showcase solutions to the South African national housing crisis will be held at Nasrec, Johannesburg, from July 30 to August 3. Sowetan 30/4/93

Afribuild '93 is expected to attract many players in the marketplace so that it can show financial institutions, the construction industry, civic associations and the man in the street how affordable housing can be.

Writing in a newsletter produced by the National Housing Forum, McNaughton Victor, managing director Ms Bette McNaughton, one of the most reputable exhibition organisers, says: "We are hoping that Afribuild '93 does not become a political pawn in the greater scheme of things. "It will be seen as an honest attempt to alleviate some of the conditions many people have to live in.

"We have had a moderate interest from sub Sahara with stronger interest from countries like the United Kingdom, many of the European countries and the United States."

According to a newsletter by the National Housing Forum "... the present housing shortage is enormous and even conservative estimates indicate the need for 200 000 units each year if we are to overcome the shortage by the year 2010."

On the Witwatersrand alone, tens of thousands of people still live in single sex hostels for up to 11 months a year a relic of the apartheid era. Millions of ordinary South Africans live in so called "informal settlements" usually without basic services like running water or water borne sewerage.

Star 30/4/93

'Anarchy leads to collapse of education'

Continued disruptions at schools made 1992 another disastrous year for black education, according to the annual report of the Department of Education and Training (DET).

(50)

More than 11 million pupil days were lost last year, and more than 16 000 individual instances of unrest took place.

The wasted time, said the report, meant each of the 700 000 black secondary pupils lost up to 20 school days during 1992 due to disruptions.

Educationists believe that if the figures focused only on flashpoint areas such as the PWV regions of the DET, the number of school days lost could well represent between two and three months.

Soweto, Alexandra and East Rand townships were the hardest hit. By September it had become clear that education in Soweto had collapsed.

"It appears the spirit of resistance, rebellion, disruption and, eventually, anarchy, which has been nurtured in Soweto since 1976, has led to the collapse of education in Johannesburg," the DET said. — Education Reporter.

R5-m bank haul

Biggest robbery in South African history, say police

Argus 30/4/93

Staff Reporter and Argus Correspondent

ARMED robbers have escaped with R5 million in what police believe is South Africa's biggest bank robbery.

Police said Volkskas bank security officials were on the way yesterday to Harrismith in the Free State from the QwaQwa capital of Phutaditjaba when they stopped at an accident to help.

About seven armed robbers forced them back into their armoured vehicle and to the bank in Phutaditjaba. Here Volkskas bank personnel were forced to open the vaults.

The robbers took the money from the vaults and fled in what is thought to be a white van stolen in Johannesburg.

The South African Police have been asked to help.

A spokesman for Absa, Mr Jan Snyman, said the bank officials were on their way to agencies in the area.

They stopped at the accident scene to see whether they could help.

"Seven men just appeared out of nowhere and forced the staff back into the vehicle at gunpoint. One of the men drove the car to the bank and staff members were forced to open the door to the building and then the safe."

Mr Snyman said the Volkskas bank in Phuthaditjhaba was the agent for the QwaQwa government and dealt with large amounts of money.

"The robbery took place at the end of the month, which obviously meant there was more money at the bank than usual."

Volkskas has offered a R10 000 reward for information leading to the arrest and conviction of the robbers.

● Dagga with a street value of nearly R5 million has been seized in the biggest haul in the Cape this year, reports Staff Reporter Jacquelyn Swartz.

The 4 759kg of dagga was found in a container on the back of a lorry in Leeu Gamka and was destined for the Cape Town market.

Wynberg narcotics detectives Sergeant Paul Dippenaar and Sergeant Toffie Smith were driving from Beaufort West to Cape Town on Wednesday night when they spotted the lorry at a petrol station.

They were suspicious because the privately owned vehicle was carrying a huge container normally used for shipping and its doors were not facing the road, but the back of the cab.

They found a tiny hole in the container sealed with putty which they removed and noticed a strong smell of dagga.

The driver, a 30-year-old Port St Johns resident, has appeared in the Laingsburg Magistrate's Court.

Threat to schools 'senseless'

Star 20/4/93

By Phil Molefe
Education Reporter

Threats to occupy white schools and colleges were irresponsible and inappropriate, particularly in a time of negotiation, Minister of National Education and Education Coordination Piet Marais said yesterday.

(50)

Responding to a threat by the southern Transvaal region of the National Education Coordinating Committee (NECC) to occupy white schools next month, Marais said that, at best, such actions would contribute to a delay in the momentum of change and serve only to increase tension "in a time of insecurity".

He had repeatedly committed himself to "meaningful advisory structures" which would be representative of all interested parties with a view to non-racial education.

NECC regional secretary Amon Msane said white education would be brought to a halt on May 26 to "knock sense into the Government's head".

The ANC, which distanced itself from the action last week, yesterday reiterated its opposition to the campaign.

The Conservative Party's Youth Council said yesterday it would be ready to act against anyone trying to disrupt white education.

The National Party said: "The unwarranted disruption of calm, well-functioning schools will create an explosive situation not conducive to peace and good education."

The right-wing Boere Weerstandsbeweging warned that occupation of white schools "would cause civil war".

Spokesmen for various white provincial education departments have also condemned the plan and said security would be stepped up.

Agents upset about scrapping of exam

Bldm 7/4/93.

(59)

PETER GALLI

ESTATE agents have condemned the decision by its representative body, the Estate Agents' Board, to abolish the compulsory qualifying exam for candidate estate agents.

Major industry players said yesterday they had not even been consulted about the move and that the board had received no mandate from the industry for this.

A board spokesman confirmed this, saying that, as the industry's regulatory body, it had taken what it regarded as a "proactive move" without consultation as it did not feel this was necessary. This decision means unqualified candidate estate agents can achieve full agent status by working for a registered agency for a year and can then open their own agency.

The board spokesman said that after comprehensive consideration and extensive research it was felt the examination had "not meaningfully contributed to the increase in standards by estate agents and that persons who had passed the exam were not necessarily more ethical than those who had not".

This was clear from the increasing number of claims against its fidelity fund and the rising number of matters before the disciplinary committees, he said. The exam had to be considered hand-in-glove with the new, consumer protection orientated code of conduct. The public could be protected adequately by the ethical requirements for agents in the new code.

"Our research also indicates there are numerous informal estate agents operating in black areas and we felt it desirable to subject these informal operators to the disciplines of the new code.

"We accept that many of these people are poorly educated and consequently had little opportunity to pass the exam and it has to be acknowledged that the board is operating in a Third World situation."

It was also necessary for the board to remove the apparent misconception that it represented only white interests and it needed to exercise equal control over all agents, the spokesman said.

Seeff Organisational Holdings chairman Lawrence Seeff said: "While the industry has been trying to improve standards and improve professionalism, in one unilateral foul swoop the board has done away with all of this."

Camdons chairman Mannie Osband said the move was disappointing as industry standards had been set through the exam, which was an accepted norm in the industry. "The board will now allow less dedicated and competent people into the industry without monitoring their ability. This will lower standards across the board and result in an even poorer public perception of the industry."

Bill Rawson of Bill Rawson Estates said in the place of the exam came a strict new code of conduct, which agents were expected to observe, whether or not they had been trained. "It appears the board thinks that punishment is preferable to training as a means of upholding standards. It needs to rethink its decision and soon."

Pam Golding Properties director Ronald Ennik said the board would be faced with the "nightmare" of policing the ethics and standards of the industry through the reporting of incorrect behaviour rather than through education.

Industry standards would now deteriorate further and public perception of the industry would slide.

"The new code will not protect the public sufficiently as not all thefts and misconduct will be reported to the board. By dealing with uneducated, ill-qualified estate agents, members of the public increasingly will burn their fingers.

"But many of these people are either unaware of the mechanisms at their disposal to address this or feel the amount or misconduct involved does not justify the time, effort and bureacracy involved in going through the board channels," he said.

While all the major players canvassed supported the inclusion of underprivileged communities in the industry, they felt this should have been done in a way that did not hurt industry standards as a whole.

Healthcare: 'Need for a new-look'

By ARI JACOBSON

Ginsburg Malan Healthcare Solutions director Cyril Ginsberg (centre) with joint MD Robin Von Holdt (right) and Gavin Watkins (left).

58 CT 1/3/93

THE healthcare industry is cluttered with agents selling policies and not enough effort is being spent finding solutions to the problems pertaining to the industry, says Ginsburg Malan Healthcare Solutions director Cyril Ginsberg.

Ginsburg Malan who act as consultants and actuaries for employee benefits began focusing on the healthcare industry about two years ago "based on client demand for help".

Reward

The client list grew to such an extent that a healthcare division has now been started up, with experts brought in to bolster the company.

Ginsburg Malan boast a customer base built around publicly-listed groups such as Anglovaal, Foschini, Santam, Wooltru, the Premier group and many others.

Looking at the problems inherent in the current healthcare system joint MD Rob Von Holdt points out that medical aids "provide no reward for the person that is fit and so there is no incentive to under-use the system".

This is where Von Holdt reckons pro-active alternatives should be introduced such as "cash incentives and no claim bonuses" to encourage those healthy individuals not to over-use the system and at the same time "providing no worse benefits for those with bad health".

Von Holdt says a product currently being developed is a cash benefit fund, linked to a medical aid scheme, whereby a member contributes to the fund and when ill health occurs that person first pays from his contribution and then from the medical aid scheme.

There is an obvious incentive not to overuse the system as a cash-asset could build up if a customer is careful, he says.

"This product has been introduced into national companies and most of the members have sizeable cash balances."

Another area requiring a healthcare solution, according to Ginsberg is long-term cover for pensioners.

Long-term

He points out that "an individual will incur 70% of hid healthcare costs from the day he retires to his death — in that time period."

So Ginsberg and his associates have been working on a product that provides for long-term pre-funding "with an element of savings for healthcare requirements in later years".

Aids-related claims hit insurance firms

Health Reporter (58) (42) ARGT 1/3/93

AIDS-related insurance claims doubled last year.

The latest statistical record produced by Mercantile and General on behalf of the insurance industry said that notified claims increased from 281 to 548 last year.

Life insurance claims have amounted to R20,5 million while disability and permanent health insurance claims amounted to R3,2 million and R88 000 respectively.

Not all this money was necessarily paid out as some claims were in dispute.

The number of female claimants increased by 300 percent — although this figure may be exaggerated because of the relatively low numbers of women, according to the report.

"The relative increase in the number of female claimants as well as the increase in the married claimants' category, is representative of a change in the South African epidemic," stated the report.

The majority of claimants fall in the 31-40 year age group.

BUSINESS

Absa banking arms to merge in April

STEPHEN CRANSTON (58) ARGT 1|3|93

JOHANNESBURG. — The four commercial banking arms of Absa, Allied, United, Trust Bank and Volkskas will be combined from April 1 under one chief executive, Nallie Bosman, currently head of Trust Bank and Volkskas.

His deputy will be Sid Booysen, the former executive head of Allied and United. All the regional offices will report to him.

Mr Bosman said there would be important client and operational benefits, including shorter lines of administration, faster decision-making and client query response times and better use of personnel.

Very few retrenchments would result. The commercial banks had already been divided into two head offices, for Allied and United and Trust Bank and Volkskas. Each group had five regional offices and these would be increased to eight.

Absa would open a regional office in Port Elizabeth and have four regional offices in the Transvaal.

Under them would be 26 sub-regions, with managers appointed to metropolitan or rural branches. Each regional manager would manage all four brands, while the credit, human resources, administration and business development functions would be centralised.

The separate identity of the brands would be maintained. There would be four brand managers in business development.

Star 1/3/93

Opening up the vaults

Did the Reserve Bank lend the former Trust Bank R1 billion a year ago to stop it going bust? The market has been full of rumours about this, but the Reserve Bank has been tight-lipped when approached. Its standard answer has been "no comment" on the grounds that the Banks Act prevented any Bank official from disclosing information about assistance to an institution. But things could be changing.

The bank's governor, Chris Stals, said last week that the bank was "considering ways and means to give greater transparency to future operations that provide lender-of-last resort facilities in cases of extreme distress."

(58)

Translated, that means the next time a bank gets into difficulties and needs help the Reserve Bank will tell the world — and about time too.

One head office for Absa arms

CT 1/3/93

JOHANNESBURG. — The head office and regional offices of Absa's four commercial banking arms, Allied, United, TrustBank and Volkskas, would be combined from April 1, the banking group said here last week.

Absa said this followed on the recent and successful merging of the Allied and United computer systems, a step toward the development of a common computer system.

The re-structuring was aimed strongly at enhancing client service throughout the group, said Nallie Bosman, former executive head of TrustBank/Volkskas, who will head up the new structure as executive director: commercial banks. — Sapa

Bosman said the move was essential to develop an integrated computer system to include TrustBank and Volkskas as well as Allied and United.

Star 1/3/93

Absa to combine banking arms

By Stephen Cranston (58)

The four commercial banking arms of Absa — Allied, United, Trust Bank and Volkskas — will be combined from April 1 under one chief executive, Nallie Bosman, at present head of Trust Bank/Volkskas.

His deputy will be Sid Booysen, the former executive head of Allied/United. All the regional offices will report to him.

Bosman says there will be important client and operational benefits including shorter lines of administration, faster decision-making and client query response times and better use of staff.

Very few retrenchments will be required, Bosman says.

The commercial banks have already been divided into two head offices, for Allied/United and Trust Bank/Volkskas.

Each group has five regional offices. These will be replaced by eight regional offices.

Absa will open a regional office in Port Elizabeth and have four regional offices in the Transvaal.

Under them will be 26 sub-regions, with managers appointed to metropolitan or rural branches.

Each regional manager will manage all four brands and the credit, human resources, administration and business development functions will be centralised.

Star 2/3/93

Allied yacht sponsorship not invalid, says ex-MD

(58)

Court Reporter

There had never been any suggestion that a R4,5 million sponsorship of the Allied yacht in the 1990/1991 BOC Yacht Race was invalid, former Allied Group Ltd managing director Kevin de Villiers told the Rand Supreme Court yesterday.

He was responding to comments made by dismissed Amalgamated Banks of South Africa (Absa) chief executive officer Bob Aldworth at an Absa board meeting in September 1991 to discuss the contract between Allied and Tytherley Investments Ltd. The latter handled the sponsorship and publicity of the Allied yacht, which was skippered by John Martin.

Tytherley's Peter Mancer is suing Absa for R1,5 million of the R4,5 million contract, claiming it became liable for payment when Allied merged with Volkskas Group Ltd and UBS Holdings Ltd to form Absa in April 1991.

Absa maintains it has paid Mancer all the money it owed.

In an affidavit, Aldworth said the agreement between De Villiers and Mancer was not a contract but a device to obtain tax benefits to which Allied was not entitled.

De Villiers told Mr Justice W J Hartzenberg that he had met the Receiver of Revenue to establish his attitude towards the proposed sponsorship and possible tax deductions. The formal motivation for the tax benefits had been left to senior bank officials.

Referring to minutes of the September 1991 board meeting, M Tselentis, SC, for Absa, said Aldworth had told the directors that [illegible] owed Mancer between R300 000 and R400 000. De Villiers replied that there had been no suggestion that the contract with Tytherley had not been valid.

The trial continues.

Court told of 'R4,5m deal for tax break'

SUSAN RUSSELL

FORMER Allied MD Kevin de Villiers denied in the Rand Supreme Court yesterday that he had signed a R4,5m sponsorship contract so the banking group could obtain tax benefits it was not entitled to.

The agreement, arising out of Allied's sponsorship of SA yachtsman John Martin, was concluded by De Villiers and marketing company Tytherley Investments in September 1990, before the merger that formed Absa the following year.

Tytherley Investments, represented by MD Peter Mancer, is suing Absa for R1,5m — part payment of the R4,5m contract.

Absa is defending the action, claiming the agreement was never meant to be a binding contract. (58) (320)

The banking group alleges the contract was a device created to enable Allied unlawfully to claim deductions under the Income Tax Act, which allowed exporters added tax benefits on marketing expenditure abroad. B/DAY 2/3/93

De Villiers said he had not been involved in the first leg of the John Martin sponsor-

☐ To Page 2

Tax break

B/DAY 2/3/93. (58) (320)

☐ From Page 1

ship. His involvement began with the second stage in early 1990 when he had concluded two contracts with Mancer and his company. Mancer had then approached him and offered the Allied exclusive European television rights to the 1991 BOC yacht race for R4,5m.

De Villiers said he had told Mancer that if the bank took up the R4,5m offer, the two existing contracts, worth R2,1m, had to be done for free.

He said he had also negotiated with Mancer a protracted period for payment of the R4,5m.

He had been aware the company could qualify for tax deductions on marketing expenditure abroad and had understood that for every R1m spent, the Allied would effectively pay R250 000.

De Villiers had not believed he would get the agreement past the Allied board without clearance from the Receiver of Revenue that the deal would qualify for a deduction.

He and Mancer had attended what De Villiers described as a "reconnaissance" meeting.

"I wasn't a tax expert, but to my mind the rules weren't always very clear and a lot depended on how the Receiver interpreted them. If he was well disposed he couldn't break the rules, but he could interpret them favourably. My feeling was that the Receiver was well disposed."

The Receiver had subsequently confirmed that the acquisition of European TV rights would qualify for a deduction. Under cross-examination it was put to De Villiers by Absa counsel M Tslentis, SC, that by acquiring the two earlier contracts worth R2,1m for free, Allied had in fact bought the TV rights for R2,4m.

"That's one interpretation," De Villiers replied.

"It is not an interpretation, Mr de Villiers," Tslentis said, "it's a commercial reality."

De Villiers repeated that this was an interpretation and as far as he was concerned he had entered into a R4,5m contract and obtained the other two contracts for free.

Evidence continues today.

Mutual & Federal boosts earnings

BDAY 2/3/93. (58)

ANDREW KRUMM

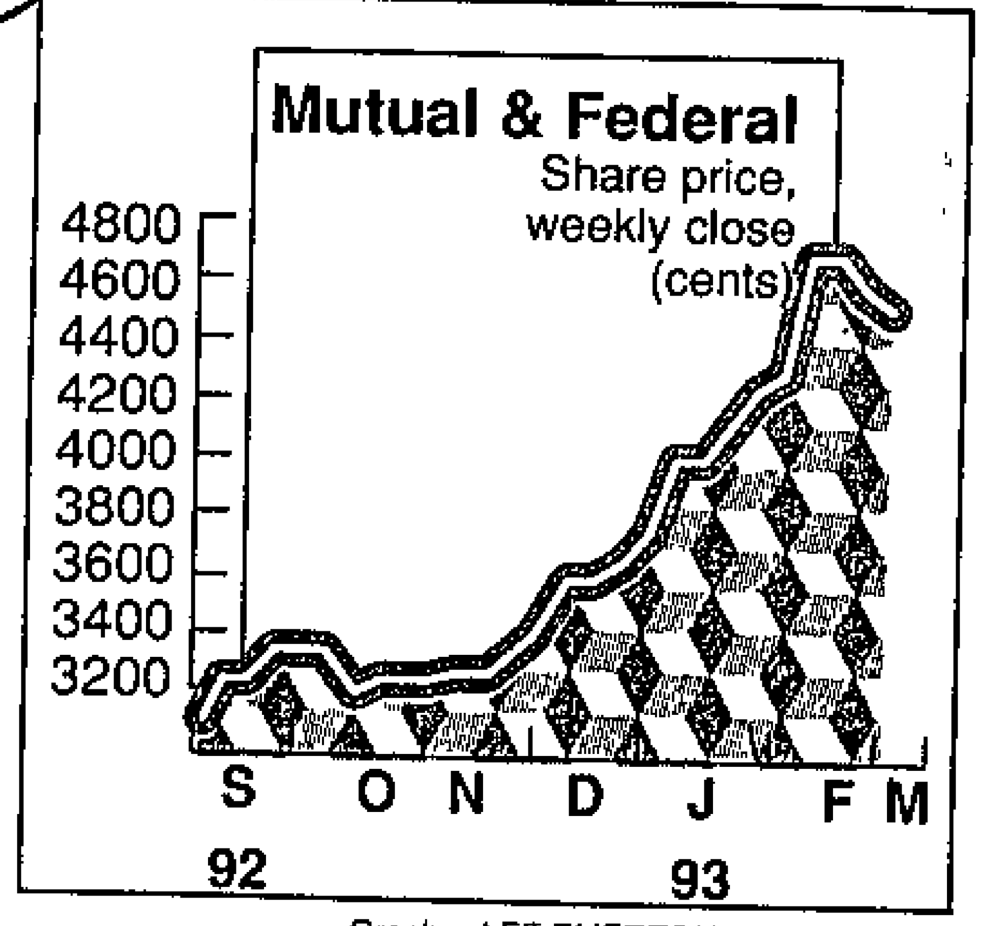
INSURER Mutual & Federal has reported a 16% rise in interim earnings to 165c a share at end-December (1991: 142c) as cost control and the absence of natural disasters boosted the underwriting surplus.

The interim dividend was increased by 20% to 30c a share compared with 25c a share in the previous period, MD Ken Saggers said yesterday.

Premium income grew to R645,2m (R573,5m), which was pleasing given the difficult trading environment, said Saggers. Net premium income rose 14% to R548,4m compared to R482,4m in 1991.

The group had not been faced with any abnormal weather losses, although the incidence of motor vehicle theft rose considerably in recent months. In addition, prudent underwriting standards bumped the underwriting surplus up 36% to R34,8m from R25,4m in the previous year.

"Notwithstanding the good result, the commercial and industrial portfolios remain highly competitive and inadequately rated, while a number of large fire losses



Graphic: LEE EMERTON Source I-NET

— about 35% of which were arson-related — compounded this." Saggers estimated the commercial market was underrated by 15%, and should industry losses in this area continue unabated, re-rating would happen sooner than expected.

Investment income grew by a "modest" 10% to R75,8m (R69,2m), reflecting the

☐ To Page 2

Mutual & Federal

BDAY 2/3/93 (58)

☐ From Page 1

decline in interest rates and static dividends. However, the group had changed its accounting policy on surpluses and deficits from the realisation of investments. Previously surpluses or deficits were included as part of investment income, but now were charged to the fluctuation reserve. Comparative figures had been restated to take account of the change to policy.

"During the period under review the group incurred a pre-tax loss of R16,4m (R1,5m profit) on realisation of investments. The after-tax loss is R8,4m (R0,8m profit)." Mutual & Federal's solvency margin exceeded 130%.

Saggers said the outlook for 1993 remained negative as the recession would manifest itself in a higher incidence of losses to theft, arson and fraud. Any increase in the VAT rate would force policyholders to increase the value of their insured assets to avoid being underinsured.

Earnings surge 16% for M & F

(58) CT 2/3/93

By MAGGIE ROWLEY
Deputy Business Editor

MUTUAL & Federal lifted earnings by 16% to R77,2m equal to 165c a share for the half year to end December.

Gross premium income advanced by 13% to R645,2m while net premiums grew by 14% to R548,4m.

The underwriting surplus at the interim stage amounted to R34,6m — an increase of 36% over the corresponding period the previous year thanks to stringent expense control and the absence of natural catastrophes, says MD Ken Saggers.

Saggers said while he was pleased with the growth in premium income which was organic in nature he was concerned at the level of crime related losses particulary motor vehicle theft which has increased considerably in recent months.

Investment income was up a modest 10% at R75,8m which he said reflected the effects of declining interst rates and static dividends.

Saggers said the commercial and industrial portfolios remained thinly rated. Compounding this had been the number of large fire losses some of which could well have been arson related.

The group's solvency margin (the ratio of net assets to net premiums) remains strong and is in excess of 130%.

The interim dividend has been increased by 20% to 30c a share against 25c for the corresponding period the previous year.

Saggers cautions that the outlook for short-term insurers remains negative and the ongoing recession will continue to manifest itself in a higher incidence of losses arising from theft, arson and fraud.

As such the first half results were not necessarily indicative of the likely results for the rest of the current financial year.

He cautioned that any increase in the VAT rate would require policyholders to increase the value of their insured assets accordingly.

Money supply growth down

ET 2/3/93 (68)

GROWTH in the broad money supply in January was below the guideline range set by the Reserve Bank for 1993, figures released yesterday show.

Year-on-year growth in M3 — cash in circulation and all deposits with banks — shrank to 5,4% in January from December's 8%. Growth from the guideline year base (the fourth quarter of 1992) plunged to -4,51% from 11,29% in December.

The Bank last month set its new guidelines for acceptable growth in money supply at 6-9%. At the time it said it took into account the need for an increase in the money supply to support an expected rise in real GDP.

Nedcor Bank chief economist Edward Osborn said the data reflected the "absolutely stagnant state of the ecomomy".

Had the economy been in an upturn, the growth rate would have been significantly higher.

While the low growth indicated there was some room for the Bank to cut interest rates, it was unlikely to do so as it had other problems to deal with — poor foreign exchange reserves and the balance of payments position.

Old Mutual economist Rian le Roux, said the unexpectedly large drop in the money supply growth in January reflected the real weakness in the economy and reducing inflationary pressures.

"There is now no doubt that Stals' strict monetary policy is starting to have an effect.

"Even although inflation could rise temporarily on the back of tax increases, if the current account situation improves in the second half of the year, it will pave the way for a further cut in interest rates."
— Own Correspondent, Business Staff

Star 2/3/93

Money supply growth dips sharply

By Sven Lünsche (58)

Growth in money supply fell sharply in January and was well below the new guideline range set by the Reserve Bank last month.

Reserve Bank figures show the broad money supply measure, M3, rose by a yearly 5,4 percent in January, compared with eight percent in December.

Total M3 money supply in January was R193,86 billion, down from R197,22 billion in December.

M3 growth from mid-November 1992, the base for the 1993 money supply guidelines, was below the Reserve Bank's targeted range of six to nine percent.

While the low growth in M3 reflected the easing of inflationary pressures in the economy, it is also an indication that the economy is showing no signs of an upturn in demand.

Standard Bank says in a economic release that overall growth in credit demand last year at about eight percent was at its lowest in more than five years.

The only growth came from demand for mortgage finance, which picked up by 18 percent.

In December credit demand picked up slightly again, rising by 10,4 percent to R216,7 billion, according to the Reserve Bank figures.

Other economists say inflationary pressures are expected to fall off due to the low level of economic activity after four years of recession and the reduced pressure on food prices as the drought continues to ease.

Star 2/3/93 (58)

'Welcome improvement' in M & F's surplus

By Stepen Cranston

The short-term insurer Mutual & Federal has increased its net income after tax by 16 percent to R77,2 million in the half year to December.

Earnings per share increased by the same percentage to 165c. Dividends per share were up 20 percent to 30c.

There was a welcome 36 percent increase in the underwriting surplus to R34,6 million.

MD Ken Saggers says that the industry had not been faced with any abnormal weather catastrophe losses although water related claims had been much heavier than in the past two years.

A catastrophe reserve of R60 million has been created.

Gross premium income increased by 13 percent to R645,2 million and Saggers says that he is pleased with this growth as it was organic in nature.

The extent of crime related losses was "concerning" and the incidence of motor vehicle theft had increased considerably in recent months.

Saggers says that the commercial and industrial portfolios are thinly rated. Compounding this has been the large number of fire losses, some of which could well have been arson related.

But he says the overall quality of the underwriting account has improved.

Saggers argues that Mutual & Federal has restricted expense growth to an acceptable level. This has minimised the upward pressure on premium rates.

The growth in investment income was a modest 10 percent which reflected declining interest rates and static dividends.

The market value of investments increased by 4 percent to R2,173 billion.

The Group's solvency margin, the ratio of net assets to to net premiums was 130 percent. Saggers says that this financial strength underscores the Group's ability to meet its obligations.

He argues that the outlook for short-term insurers remains negative as the continuing recession will continue to manifest itself in a higher incidence of losses arising from theft, arson and fraud.

Saggers says that the nature of short-term insurance is such that the results for the first six months do not necessarily indicate the likely results for the remainder of the year.

Star 3/3/93

Cheaper insurance for taxis

Three major taxi associations have entered into a scheme with Future Bank and a number of insurance companies to supply insurance at cheap rates to their members.

58

Millions lost as shoddy building work flourishes

BIDAY 3/3/93 58

ANDREW KRUMM

THE banking industry's failure to protect unsophisticated home buyers against shoddy workmanship at the bottom end of the formal housing market has cost the economy hundreds of millions of rand, say sources involved in the provision of low-cost housing.

These costs, which may run into billions if damage to informal housing is included, are largely borne by the homeowners themselves, and probably contribute to the prevalence of bond boycotts.

Banks and building societies are not the only parties to the problem, the sources add. It is the profusion of "bakkie builders" and the relative ease with which they get accreditation from institutions which compounds the situation.

HouseSure CE Peter Veal says the advent of what could be called built-in damage to lower income housing is significant, though not "wholesale".

HouseSure underwrites SA Housing Trust (SAHT) bond finance subsidiary Khayalethu Home Loans.

Veal says the root of the problem lies with institutions which leave the unsuspecting black client unaware of his rights and on his own in a sophisticated environment.

This, coupled with the lack of a workable quality assurance programme to eradicate poor workmanship, makes it all the easier for "cowboy operators" at the bottom of the formal market, says Khayalethu quality assurance manager Martin van Vuuren.

Where institutions fail to perform quality control inspections they tacitly sanction shoddy workmanship, and fail to recognise the need to prosecute the errant builder.

Van Vuuren adds, however, that the problem is broader and includes other drawbacks such as the employment of poorly qualified local labour, often demanded by the community itself.

"There is also the delay between the time a new homeowner notices a problem and when he reports it. Often it is then too late to prosecute the builder."

Veal says current discussions between the banking community and groups like the SA National Civic Organisation could result in an undertaking by banks to protect their lower income customers.

Measures could include a quality assurance programme and improved methods to check on builder's skills — both of which Khayalethu quickly learnt to implement.

Veal adds that although this type of arrangement might solve most of the problem, one snag remained: how to get institutions to lend into the high-risk, low-return end of the housing market. This is where insurance came in, as insurers "are accustomed to dealing with risks".

However, insurance industry commentators say they are loathe to get into the lower income housing market because of the large volumes, with attendant high administration costs, and low margins on offer. Insurance products giving both builder and homeowner protection are available, but they are expensive.

A building industry source says: "We are trying to bring down the cost of low income housing in SA, and insurance might make housing in this sector unaffordable."

But Veal denies this, saying the answer is to spread insurance cover over the very large volumes in this sector.

"In Khayalethu's experience insurance costs add between 5% and 10% to the monthly mortgage repayments." The homeowner gets a comprehensive policy covering all risks, with the exception of political risks.

Veal says it is necessary — and profitable — to offer comprehensive insurance to the new homeowner, covering not only structural defects and breakages but contingencies such as unemployment.

This approach reassures banks that they will get their money if the homeowner is retrenched, while the client knows he has someone to back his bond repayments, or to pursue the matter of shoddy workmanship in the courts.

"One cannot approach the lower income market from a Western perspective as the cost of insurance becomes too high for the policyholder. If insurers are to get into this market in a meaningful way, they will have to change their outlook," Veal says.

—PROPERTY—

Banks deny Yeoville, Bellevue 'red-lined'

B|DAY 3/3/93.

58

Reports by
PETER GALLI

MAJOR financial institutions have denied "redlining" the Yeoville and Bellevue areas in the east of Johannesburg in terms of bond applications.

Red-lining is a term used when an area is designated problematic in terms of loan security or possible urban decay, and a restraint is put on the issuing of bonds for properties.

Standard Bank divisonal GM, home loans, Duncan Reekie, said red-lining occurred where properties in certain areas were found by banks not to offer secure and sufficient value because of uncertainty created by changes in the condition, nature and structure of the buildings, amenities, services or development plans.

This was shown by the decline in the market value of the properties and the potential for further such declines. "However, Yeoville/Bellevue is not a particular problem area and we have not red-lined it. We are still granting loans in these areas, and these are based on our standard loan criteria."

FNB spokesman Norman Axton said accusations that the bank had red-lined Yeoville and Bellevue East were "absolutely untrue". Each loan was considered on its merits.

"In areas such as certain mining towns, where the life of the mine is less than the bond requested, we are cautious about granting bonds," he said.

However, the Yeoville/Bellevue area was not such an area and the only requirement the bank had was that properties be valued by a professional valuer.

FNB divisional GM: home loans Bob Wood confirmed that the bank had not red-lined Yeoville/Bellevue East, saying it was not regarded as a problem area.

Absa deputy CE Mike de Blanche said certain areas — such as Yeoville, Berea and Hillbrow — were potentially problematic as there were pockets that reflected urban decay. "If an area shows signs of deterioration the financial institution has to question whether the security offered for the loan is sound, and the extent of the risk has to be evaluated."

But the bank had not red-lined the area and merely exercised more caution when considering bond applications. Each property was judged on its merits and long-term security.

However, local authorities and home owners in these areas also had a responsibility to improve the area, he said.

"Accommodation in close proximity to any major CBD area is vital, especially given the local housing situation. However, we are not concerned only about metropolitan areas," he said.

Republic Ratings

Insurers overcoming their initial resentment

BDM 3/3/93. (58)

FORMAL credit and debt ratings of SA insurance companies are gaining credibility among insurers, many of whom resented the first informal rating published last October by Republic Ratings.

Findings from this informal (without co-operation or access to confidential information) risk assessment ranked 18 leading short-term insurers on their ability to pay claims.

Understandably, opposition arose among insurers which were not used to having their creditworthiness openly compared.

Some argued that independent ratings were not necessary as they considered the existence of a regulatory authority to be sufficient to protect the policyholder, although this argument was subsequently disproved by the liquidation of President Insurance.

RR senior analyst Mike Berry says that in no way was the exercise an attempt to make waves that would rock the insurance boat. He says the attitude of the insurers was similar to that of the banks a year earlier, most of which now support the ratings initiative.

Since these opening rounds a more positive attitude is unfolding, with a growing number of insurers showing greater interest in and understanding of the ratings methodology and its findings.

Three insurers — Guardian National, Credit Guarantee and Regent Insurance — have been formally rated by RR and all praised the ratings principle and findings.

Guardian National MD Keith Nillson says his company, which was the first insurer to be formally rated, was impressed with Republic Ratings.

"It was done in considerable depth, and we were impressed with the way they produced findings."

Guardian is a major corporate insurer with clients including Eskom, Sasol, SA Breweries and Barlows.

"We felt it appropriate to be ranked before circumstances developed to the point where we would be 'forced' by our business clients to obtain a formal rating."

He says that since being given a top AAA rating, Guardian National has received a number of congratulatory letters from important customers.

Compuquote MD David Hersch, whose company provides comparative quotation and information systems for the insurance industry, says ratings have "a great deal" of validity.

"Because free enterprise means full scrutiny, the rating process is a great idea for any public institution."

Regent Insurance MD Charles Metcalf says while he agreed to a formal rating he did so with tongue in cheek as Regent was a small and new company.

"However, I was impressed with the questions and the investigative process which looked deeply into our financial affairs.

"The assessment will benefit us as we are relatively unknown yet specialist and well structured insurer," says Metcalf.

Insurance consultant David Laing, formerly of Willis Faber, says independent ratings provide brokers with accurate and up-to-date information on the financial soundness of insurance companies.

As brokers are concerned about their expenses ratios, this has a bearing on commission rates and enables them to place business with lower risk companies on behalf of clients seeking the lowest premiums.

Previously, brokers depended on the Registrar to provide information on the creditworthiness of insurance companies. The data could be about 10 months out of date before it was made available, by which time an insurer could have become financially unsound, says Laing.

Assessed

With several more short-term insurers beginning to see the possible benefits that accrue from a formal rating, some are already considering having their companies assessed.

A Registrar of Financial Institutions spokesman says ratings are deemed necessary "in order to lift and maintain higher standards in the industry so as to protect the consumer."

Formal ratings hold many advantages over the informal assessment methodology, particularly as the latter is done without the co-operation of the companies ranked, and without considering the issue of parent company support.

The table depicts the country's top-ranked insurance companies on a formal and informal basis:

Top ranked insurance companies
(Formal & informal)

Formal ratings	
Guardian National	AAA
Credit Guarantee Insurance Corp	AA
Regent	A
Informal ratings	
Mutual & Federal	12
Commercial Union	10
SA Eagle	10
Santam	9

Equivalency Scale

Barring unforseen circumstance, the informal rankings are likely to be accorded the following "stand alone" formal ratings	12 & 11 = AAA 10 & 9 = AA

Graphic: LEA EMERTON Source: REPUBLIC RATINGS

Attributable income was

Guardian earnings rocket 30%

BIDAM 3/3/93

AIDREW KRUMM

DRIVEN by growth in premium income, short-term insurer Guardian National has lifted earnings more than 30% to 536,5c a share in the year ended December 1992 from 410,4c in 1991.

A final dividend of 110c (1991:90c) a share was declared, bringing the total distribution for the year to 187c (155c) a share.

MD Keith Nilsson said the major increase in premium income, which rose to R773,2m from R600,5m in 1991, came from the corporate market.

"A good proportion of the local corporate insurance market, previously placed with Lloyd's of London, has come back to SA because of problems at Lloyd's."

Privatisation had increased the local corporate market, and Guardian had taken a share as well.

Nilsson said the underwriting surplus rose "satisfactorily" to R6,6m from R1,6m in 1991, although its level was not in line with that of competitors.

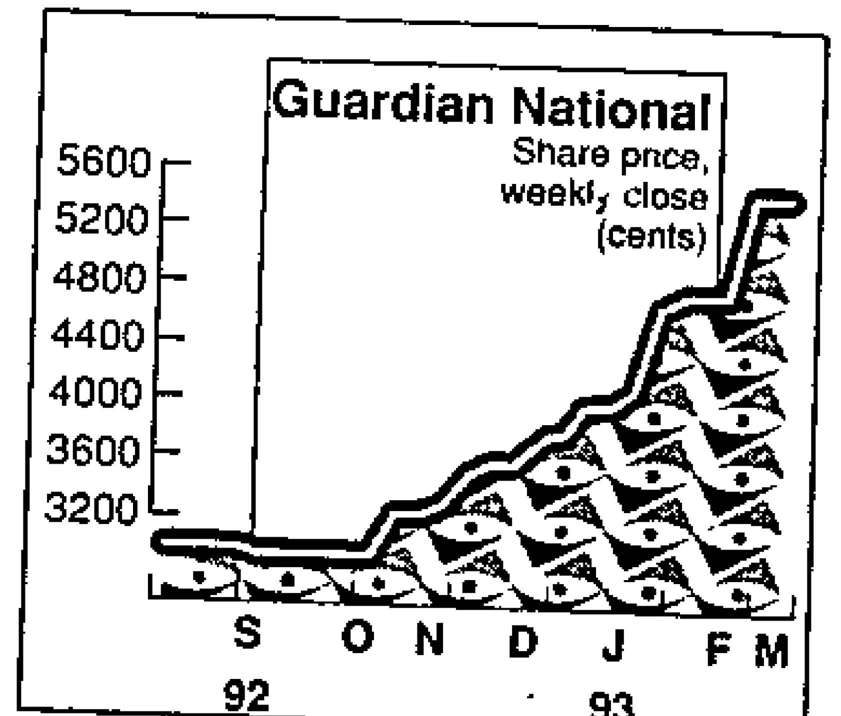
"The reason is that in conditions of high premium growth, the need is created for substantial additional reserving to provide for claims in future years. We now have a good, solid reserve for any contingency."

He said both the growth in premiums, and good performance from fund managers had contributed to the 20% rise in investment income to R61m from R50,8m previously. The result was a 29% jump in pre-tax profit to R67,6m (R52,4m).

The company's net asset value grew 17,6%, while the solvency margin was a "satisfactory" 67,6%.

Of Guardian's prospects in 1993, Nilsson said: "Our industry is so volatile that no purpose is served by giving accurate predictions."

He was cautiously optimistic about the year ahead, but added that SA's weather conditions appeared to be returning to normal — which could see an increase in weather-related claims.



Graphic LEE EMERTON Source I-NET

Strong demand hikes Macmed earnings 65%

BIDAM 3/3/93. MARCIA KLEIN

STRONG demand for primary health care products saw Macmed Health Care increase earnings by 65% to 5,6c (3,4c) a share in the 12 months to end-December.

The company, which makes and distributes health care products, has compared its 1992 performance with annualised 1991 figures, as financial 1991 actually covered a 17-month period. Earnings were 4,8c a share.

Macmed announced that it would shortly embark on a R4m rights issue in view of "the strong organic growth prospects in coming years and in order to maintain the company's low gearing objectives".

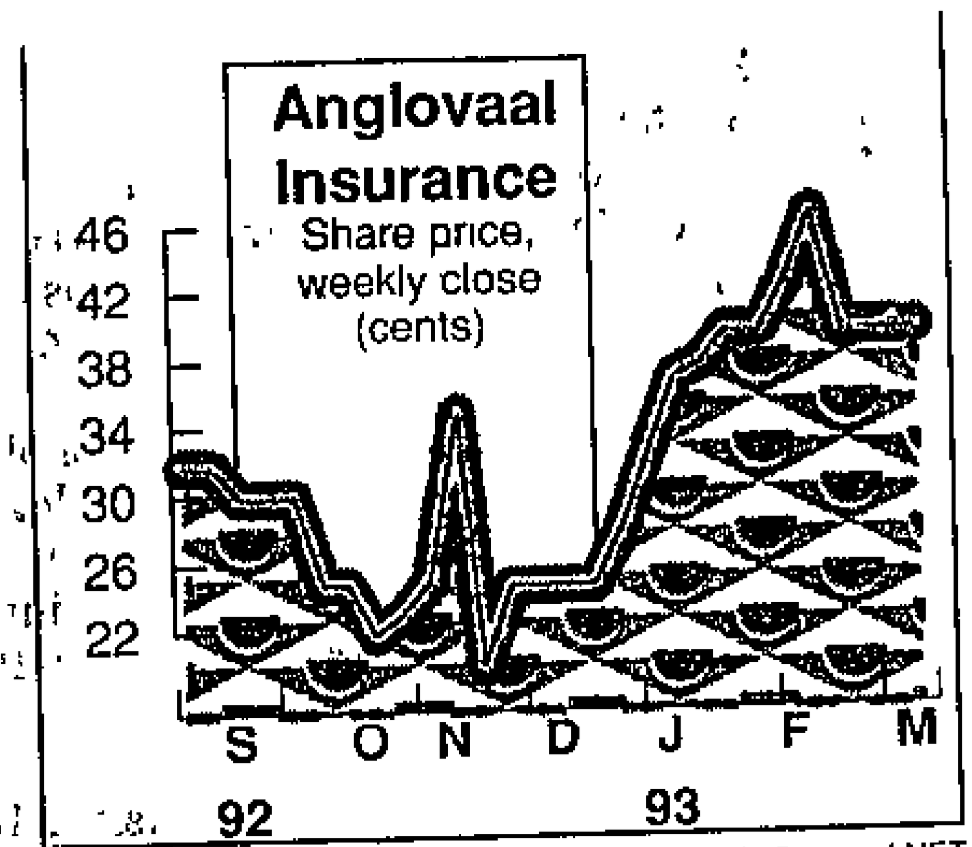
Turnover of R22,3m rose by 43% over the previous year's annualised turnover of R15,6m. MD Don McArthur said this increase was the result of strong demand for Macmed's low-cost primary health care products.

Operating income grew by 39% to R2,9m from R2,1m. A significant reduction in the interest bill resulted in a 49% rise in pre-tax income to R2,8m from R1,9m. Income after tax was 78% higher at R1,8m from R992 000.

An extraordinary item of R497 000 comprises goodwill written off following the acquisitions of surgical glove company Rosstex and Hygenico Trading.

After adjustments, Macmed showed an accumulated loss of R199 000 for the year, compared with a loss of R883 000 in the previous year.

The company declared a final scrip dividend, where shareholders would be issued one share for every 115 shares held. The share closed yesterday at 110c.



Graphic LEE EMERTON Source I-NET

AVF Group comes bouncing back (58)

Blom 3/3/93.

ANDREW KRUMM

THE AVF Group moved solidly back into the black with R3,9m attributable profit for the interim period to end-December 1992, following its R80m loss in the previous financial year.

At the time, substantial provisions made in AA Life filtered through to AVF, causing a higher deficit in the holding company. However, AVF said yesterday AA Life had managed to stem losses over the past six months and should attain at least a break-even position for the full year to June 1993.

Directors said AVF's consolidated net premium income stood at R154,8m for the half-year to end-December 1992, which resulted in a pre-tax profit of R4,5m. Of this, Crusader Life contributed R3,96m, AA Life R3 000, and other income R486 000.

No comparative figures were given for the interim period ended December 1991, as this could be misleading following a year-end actuarial exercise in 1992, directors said. It was this exercise that resulted in the write-off of material non-recurring items in AA Life.

Directors added that a R2,9m contribution to profit by associate company Board of Executors (BoE) was diluted by a R3,3m payment to AVF minority shareholders. This resulted in earnings of 3c a share for the half-year. No dividend was declared.

Crusader Life (Crulife) chairman Don Rowand said the life and health-care

□ To Page 2

AVF Group

Blom 3/3/93. (58)

□ From Page 1

assurer had a record six months to end-December 1992. Net premium income was up 58% to R98,5m (1991: R62,2m), while net investment income increased to R8,2m (R3,7m). This had lifted total income 62% to R106,7m (R65,9m). As a result the net taxed surplus rose to R3,9m against R2,5m in the comparable period in 1991.

"Earnings were equivalent to an unchanged 7,67c a share following an increase in the company's issued share capital." It was company policy not to declare an interim dividend pending satisfactory actuarial revaluation at year-end.

He said indications were that Crusader would meet its goal of increased profitability for the year.

Rowand added that the results of UK-based associate Pegasus Assurance were encouraging and showed a profit of about £250 000 for the year to December. Profits would be retained to fund growth. Pegasus planned to raise further capital in SA, but this could pose exchange control difficulties, Rowand said.

AVF directors said BoE expected further growth in attributable profits in its current financial year.

AVF Group moves back into the black

CT 3/3/93

From ANDREW KRUMM

JOHANNESBURG. — The AVF Group moved solidly back into the black with R3,9m attributable profit for the interim period to end-December 1992, following its R80m loss in the previous financial year.

At the time, substantial provisions made in AA Life filtered through to AVF, causing a higher deficit in the holding company. However, AVF said yesterday AA Life had managed to stem losses over the past six months and should attain at least a breakeven position for the full year to June 1993.

Directors said AVF's consolidated net premium income stood at R154,8m for the half-year to end-December 1992, which resulted in a pre-tax profit of R4,5m. Of this, Crusader Life contributed R3,96m, AA Life R3 000, and other income R486 000.

No comparative figures were given for the interim period ended December 1991, as this could be misleading following a year-end actuarial exercise in 1992 which resulted in the write-off of material non-recurring items in AA Life.

A R2,9m contribution to profit by associate company Board of Executors (BoE) was diluted by a R3,3m payment to AVF minority shareholders. This resulted in earnings of 3c a share for the half-year. No dividend was declared.

Crusader Life (Crulife) chairman Don Rowand said the life and healthcare assurer had a record six months to end-December 1992. Net premium income was up 58% to R98,5m (1991: R62,2m), while net investment income increased to R8,2m (R3,7m). This had lifted total income 62% to R106,7m (R65,9m). As a result, the net taxed surplus rose to R3,9m against R2,5m in the comparable period in 1991.

"Earnings were equivalent to an unchanged 7,67c a share following an increase in the company's issued share capital."

It was company policy not to declare an interim dividend pending satisfactory actuarial revaluation at year-end.

Rowand added that the results of UK-based associate Pegasus Assurance were encouraging and showed a profit of about £250 000 for the year to December.

Guardian National earnings up

JOHANNESBURG. — Short-term insurer Guardian National has lifted earnings more than 30% to 536,5c a share in the year ended December 1992 from 410,4c in 1991.

A final dividend of 110c (1991:90c) a share was declared, bringing the total distribution for the year to 187c (155c).

Premium income rose to R773,2m from R600,5m in 1991 — mainly from the corporate market. The underwriting surplus rose to R6,6m from R1,6m in 1991.

Investment income rose 20% to R61m from R50,8m. The result was a 29% jump in pre-tax profit to R67,6m (R52,4m).

8/3/93

The company's net asset value grew 17,6%, while the solvency margin was 67,6%.

Police move to extradite Aldworth

58 RAY HARTLEY

POLICE were preparing an application to have dismissed Absa banking executive Bob Aldworth extradited from Britain and brought to trial in SA for the alleged theft of R414 000 from Absa, an Absa spokesman said yesterday. 8/DAY

The spokesman confirmed that charges of blackmail and defeating the ends of justice were also being prepared against Aldworth. 3/3/93

Moves were also being made to sequestrate Aldworth's SA estate in an effort to recover money allegedly stolen from the group by the former banker, the spokesman said.

The sequestration of assets believed to be in Aldworth's wife's name — including his R1,2m house — were being investigated, a banking source said.

Aldworth signed an affidavit admitting to cancelling a personal loan for R414 000 from Absa Bank, but subsequently claimed he had been unaware of the legal consequences of the statement.

Absa lawyers have meanwhile released a transcript of the meeting at which the statement was signed, in which Aldworth said he was aware that he was admitting to theft.

Banks increasingly see value of formal ratings

BIDAY 3/3/93. (58)

FORMAL ratings are becoming firmly entrenched among deposit-taking institutions (DTIs) with banks increasingly accepting the value of, and demand for, an independent assessment of their creditworthiness.

Republic Ratings (RR) MD Dave King says that initial reluctance by many DTIs towards the ratings concept was understandable and was in line with international trends.

"Ratings is a long-term concept and the key is to first establish credibility. Once established, the serious players start to use the ratings when allocating their portfolios and this becomes a powerful incentive for the banks to co-operate in the process."

Demonstrated

The extent to which RR has gained credibility over the last 18 months is aptly demonstrated by about 60% of SA's registered banks having commissioned formal ratings, with only one major bank left that does not support the ratings initiative.

First National was the first bank to agree to be formally rated and senior GM Viv Bartlett says the bank's decision was motivated solely because formal ratings have gained credence throughout the developed world.

"With SA becoming a world player as business doors re-open and the increasing need to attract foreign and local investment for expansion, major business needs to come to terms with ratings."

DTI registrar Hennie van Greunen says the Reserve Bank's view is that as no single regulator worldwide has been able to successfully prevent bank failure, more checks are needed.

"If regulators cannot prevent bank failure then greater participation is needed from what I consider to be the six key players — the bank's board of directors, its management, the internal audit function, external auditors, the bank supervision department and the "public", including rating agencies.

"We not only advocate this combination, but such a theme is now being used more internationally, and I regard the role of independent ratings agencies as a powerful one," Van Greunen says.

King says one of the major reasons why RR is in the best position to access risk in this sector is the poor level of public disclosure associated with SA banks.

RR's ratings are based on internationally accepted methodologies, entailing an intensive investigation into the bank's affairs and its full co-operation.

Over and above the "traditional" financial analysis, RR must be comfortable with both risk management and strategic considerations, he says.

"Critical to this is the thorough evaluation of the quality of the bank's asset base and earnings streams, an understanding of how it manages credit, price, interest, liquidity and foreign exchange rate risks, and an analysis of asset/liability management and the hedging instruments used."

Rand Merchant Bank executive chairman GT Ferreira says while RMB did not want to be the first bank to be rated, it also did not wish to be among the last.

"At first we were somewhat reluctant to be formally rated because we knew too little about Republic Ratings' ability to rely on its methods and findings.

"Hence our initial strategy was to gain insight by becoming a ratings subscriber, as this would enable us to study the other rating reports they had produced before deciding whether to be formally rated ourselves."

Ferreira says RR has since proved to be a professional rating agency, with RMB impressed by the depth of detail involved during its assessment by them.

Impressed

A cross-section of banks approached for comment were equally impressed with the thoroughness of RR's investigations.

Saambou Bank saw a formal rating as a means of giving credit to its improved state of finance.

Saambou MD Johan Myburg says that at the same time such a rating could be used to tell institutional and individual depositors, some of which had reduced their business when Saambou went through a lean patch, that it was improving its profitability.

"This is important as we rely heavily on government departments, Eskom and the insurance industry for institutionalised business.

He says in response, government institutions — some of which lost badly after the Cape Investment Bank collapse — told him they now rely heavily on Republic's debt ratings.

"Indeed, some institutions have re-opened their credit lines with us since the announcement of our successful rating," says Myburg.

Unibank MD Gerrit van der Merwe also confirmed that his bank's rating has facilitated its marketing process.

While there is little doubt that RR has made rapid strides over the past year, it has not all been plain sailing. As a case in point, King refers to the Bankorp rating, which caused a fair amount of controversy in the marketplace.

"The rating was based on confidential information at our disposal and while, with the benefit of hindsight, the marketplace knows that we were correct to rate Bankorp A1+, we learnt a valuable lesson regarding the importance of effective communication at the time," says King.

One of the steps RR took was to follow the European standard of according "two-tier" rankings in the banking sector — one on a strictly "stand alone" basis and one considering the issue of shareholder/regulatory support.

RR previously factored this consideration directly into the rating but, subsequent to the Bankorp rating, the market requested it to specifically isolate the extent to which the possibility of shareholder or regulatory support influenced each rating.

King has no doubt that the majority of the banking sector will be rated in the short term.

"International experience has shown that once 50% of an industry sector has been rated, the balance have little choice but to co-operate or they will lose business," he says.

Star 3/3/93

Guardian National shows 31 pc growth

(58)

Finance Staff

Guardian National, in which Liberty Life has a 45 percent stake, boosted its earnings per share by 31 percent to 536,5c last year (1991: 410,4c) on strong growth in underwriting profits.

The total dividend for the year has been raised by 21 percent to 187,5c from 155c.

The underwriting surplus increased by R5 million to R6,6 million, allowing Guardian to improve its reserves to R19,8 million (R10,2 million).

Guardian says there were no serious weather-related losses, although the crime rate remained unsatisfactorily high.

The financial results were also boosted by a strong investment performance, with income from investments rising 20 percent to R61,1 million (R50,8 million).

Star 3/3/93

Life assurers beat recession

By Leigh Hassall

The release of the 1992 annual results of the Fedsure group last week highlights another year of strong growth in net premium income of the insurance companies.

While most industries are battling to maintain market share and sustain real growth the insurance sector appears to have beaten the current recession.

As the table shows, most of the larger insurance companies achieved strong growth in net premium income (NPI) in recent years. Amongst the listed companies the percentage growth in 1992 ranged from Fedlife's 39 percent jump to Southern Life's 7,8 percent. Liberty Life's 1992 results are not yet available, but a 17,9 percent growth was achieved in 1991.

COMPARISON OF THE GROWTH IN NET PREMIUM INCOME (NPI)
(Figures in Rand Million)

		1991	1992
OLD MUTUAL	- NPI	8061	10233
	- % Growth	13%	27%
SANLAM	- NPI	8179	N/A
	- % Growth	10%	N/A
LIBERTY LIFE	- NPI	2274,5	N/A
	- % Growth	17,9%	N/A
SOUTHERN LIFE	- NPI	1853,0	1998,3
	- % Growth	16,1%	7,8%
FEDLIFE	- NPI	862,7	1199,0
	- % Growth	31,8%	39%
MOMENTUM	- NPI	1009,8	895
	- % Growth	6,7%	(11,4%)
METROPOLITAN LIFE	- NPI	703,0	816,0
	- % Growth	28,7%	16,1%

(Figures supplied by Fedsure)

(58)

Momentum went against the trend with an 11,4 percent decrease in 1992, but this can be attributed largely to the teething problems of the merger with Rand Merchant Bank.

Of the unlisted insurance giants Old Mutual's NPI grew by a remarkable 27 percent or R2,172 billion in 1992.

Old Mutual's 27 percent surge is even more impressive considering the hefty size of its premium base.

Sanlam's latest results are not yet available but in 1991 NPI grew by 10 percent or R751 million.

While the business of insurance companies is subject to the vagaries of the recession through its relation to the average income of the population, the industry has benefited from a move into new markets.

A large proportion of growth in the individuals' market is in the medical arena. The trend away from medical aid societies towards health insurance is proving to be a major growth area.

Other trends favouring the industry include a move towards provident funds and an awareness of the investment aspects of life products.

Net premium income comprises two elements — recurring premiums and single premiums. While an analysis of current trends may suit the recurring premium business the overall increase in premiums is distorted by one-off or single premium business.

Turnaround at AA Life helps AVF's bottom line

Star 3/3/93

58

By Stephen Cranston

The stemming of losses from its major subsidiary AA Life has enabled the Anglovaal assurance and financial services holding company AVF Group to report earnings per share of 3,0c for the six months to December, compared with a 74,1c loss in the year to June.

The board considers the comparative figures for the first half of the year to be meaningless since there were substantial write-offs at year-end for AA Life which invalidated the figures published at the time.

AA Life, after a R98,6 million loss last year made a R3 000 profit in the period under review. It expects to attain at least a break-even for the full year.

In contrast Crusader Life, which is separately listed, reported an increase in net taxed surplus from R2,5 million to R3,96 million or an unchanged 7,67c a share.

Its net premium income and annuity considerations increased by 58 percent to R98,5 million. Net investment and other income was up from R3,66 million to R8,21 million lifting total income by 62 percent to R106,7 million.

The key recurring gross premium income was up by a third to R41,4 million. Crusader's broker consultancy division was enlarged following the takeover of AA Life's broker support operation.

Crusader's premium lapses increased, but its credit protection business was slightly ahead of last year.

The unaudited results of British associate Pegasus indicate a profit of £250 000 on an embedded value basis. The company, in which Crusader has a 33 percent interest, intends to raise further capital which might pose exchange control difficulties.

AVF earned R2,9 million from its associate company Board of Executors. There was a 12 percent rise in its attributable earnings during the second half of its financial year ending September and the company expects further growth in attributable profit in the current year.

Since year-end BoE's merchant banking arm has benefited from falling interest rates as well as its participation in major international and local transactions, as corporate finance adviser.

Its results for the first three months of the year are ahead of budget.

AVF has converted its 35 200 convertible BoE loan stock units into a similar number of ordinary shares. It has bought an additional 1 500 loan stock units.

The market value of AVF's holding in BoE was R70,8 million on March 1.

AVF's subsidiary Avins, which holds all AVF's interests except the BoE stake, reported an attributable profit of R1,1 million, equivalent to 0,47c a share.

Sanco, Perm to discuss agreement

BDM 4/3/93

(58) THEO RAWANA

THE implementation of the agreement between SA National Civics Organisation (Sanco) and the Perm would move into gear at the parties' two-day consultative conference beginning on Sunday, Sanco president Moses Mayekiso said yesterday.

The two parties signed an agreement early last month which effectively excluded the Perm from such action as bond boycotts and which put in place joint plans for education, job creation and training and development programmes in the townships.

Mayekiso said in a statement the conference, which would be attended by Sanco representatives from 14 regions, would thrash out details of the agreement ranging from honouring contractual agreements, to exemption from mass action and training of community leaders.

Mayekiso said the agreement had set new ground in relations between consumers (Sanco) and banks, institutionalising for the first time a mechanism of communication.

The agreement provided for a national working committee to look at the establishment and maintenance of appropriate services and facilities within communities to facilitate access to home loans.

The committee would also look at the development of appropriate banking services targeted at these communities and research measures designed to assist borrowers in difficulty.

Research measures to resolve problems of repossession of property and ensure project implementation was conducted in a mutually beneficial manner would also be dealt with.

The committee would also consult on viability and sustainability of lending in certain geographic areas where environmental conditions had changed and research the possibilities of innovative schemes such as housing associations, co-operative ownership, rental and lease agreements, Mayekiso said.

ANC spokesman Carl Niehaus, left, yesterday took part in a Campaign for Independent Broadcasting picket outside the SABC in Johannesburg. Similar protests were held in Durban and Cape Town. Picture. ROBERT BOTHA

Demos over SABC board

B/DAY 4/3/93

LLOYD COUTTS

DEMONSTRATIONS calling for an independent SABC board were held outside the corporation's offices in Johannesburg, Durban and Cape Town yesterday.

The picket was called by the Campaign for Independent Broadcasting (CIB), which accused government of dragging its feet on the crucial issue. The current board's term of office expires this month.

The CIB is demanding a new authority, operating independently of government and any ruling party, to regulate the broadcasting industry. Yesterday a spokesman said Home Affairs Minister Louis Pienaar had agreed to meet them by January 20, but had since denied this.

The ANC yesterday welcomed President F W de Klerk's announcement at an SABC board banquet on Tuesday that the SABC was to be depoliticised, but said it contradicted official Ministerial positions.

Government appeared to be trying to prolong the present board's life, the ANC said.

Allied 'threatened to sack ex-MD for opposing deal'

B/DAY 4/3/93

SUSAN RUSSELL

FORMER Allied MD Kevin de Villiers told the Rand Supreme Court yesterday he had received threats of dismissal and been the subject of motions of censure after publicly opposing the proposed UBS takeover in favour of the FNB offer.

De Villiers said there had also been controversy among board members as to whether a clause entitling directors to make their opposition to the takeover public was applicable in his case.

De Villiers is a key witness in a R1,5m dispute between marketing company Tytherley Investments and Absa. Tytherley MD Peter Mancer is suing Absa for part payment of a R4,5m contract he concluded with De Villiers, involving Allied's sponsorship of SA yachtsman John Martin in the 1990/91 BOC race.

De Villiers and Mancer signed the agreement in September 1990, seven months before the UBS takeover and formation of Absa. Absa is defending the claim on the grounds that the agreement was never intended to be a valid contract.

It is alleged the agreement was a device created to enable Allied to unlawfully claim benefits. Mancer and De Villiers testified that the sponsorship agreement was a valid contract, and denied it was created as a tax dodge.

Absa counsel M Tselentis SC yesterday cross-examined De Villiers about the inclusion of the clause allowing directors to publicly oppose the proposed UBS offer.

"It was very sporting of them," Tslentis remarked.

"Very correct of them, Mr Tslentis, not sporting at all," replied De Villiers.

"Once my position had emerged more clearly I tended to be excluded from negotiations," he said. "It was put in the hands of (Norman) Aldborough."

De Villiers said at that stage he had difficulty in getting board meeting memos, but there had been discussions about interpretation of the clause. He told the court there had been "long acrimonious debates", to which he was often not a party, about whether or not the clause applied to himself.

One interpretation had been that as group MD he was not a "normal" director and therefore not entitled to go public. "On my interpretation I was entitled to make my opposition public."

De Villiers added that from feedback he had he understood some board members had accepted his interpretation of the clause while others had not.

The court adjourned briefly when Mancer's counsel T Beckerling said his legal team had anticipated this line of questioning, but had been denied access to the Allied board meeting minutes from the takeover period.

After the adjournment Tselentis told Judge W J Hartzenberg there had been misunderstanding between the attorneys acting for both parties and that the minutes would be made available.

TAX ON ANNUITIES

Unless the life assurance industry comes up with a practical alternative, retirement annuities are to be taxed on the Paye basis and not on Site, from the start of this month.

In 1988, in its continuing search for ways to reduce its administrative burden, Revenue placed annuities, receivable from RA policies, into the Site net. Under this system, the life company from which the retiree bought an annuity, made a final tax deduction according to a sliding scale (see table). This relieved the taxpayer of the obligation to submit a tax return and automatically routed the amount owing to Revenue.

However, the system gave taxpayers the opportunity to reduce tax, by purchasing several annuities from different life offices, thereby splitting their income. Revenue became concerned about the loss, actual and potential.

So it amended the Income Tax Act (in the 1992 Amendment Act) to place annuity income derived from RAs on to the Paye basis.

Old Mutual's Abri Meiring, chairman of the LOA taxation committee, says the life industry has been told that if it can devise and manage an administrative structure to detect splitting of annuity income, Revenue would be willing to continue with the Site system.

Proposals along these lines are soon to be considered by LOA member offices.

Gavin Came, of consultancy services at Liberty Life, says the problem of revenue losses through annuity splitting must be seen in perspective. Firstly, he believes annuity splitting never occurred on a large scale.

He says an individual shopping around for an annuity will generally be much more concerned with achieving the best level of benefits he can attain for his personal needs than with minimising his tax rate. So he will select a single annuity, instead of splitting his retirement credit to minimise tax.

Secondly, and more important, most RA policies are purchased by people who have shown good sense in retirement planning, notably professionals. By and large, these taxpayers also enjoy substantial incomes. So, when they take an annuity, they will usually have accumulated other income-earning assets.

They will, therefore, have to aggregate their income from all sources, some of which may have been taxed on a Paye basis, and file a tax return reflecting total income, regardless of what they do with their annuities. (The Site deductions of tax on the annuities would, of course, comprise a tax credit.)

Martin Kourie, of Momentum Life, concedes the difficulty of policing the Site system to prevent splitting. But he feels the switch to Paye will prejudice taxpayers who also receive pension or employment income, which would have been taxed on a Site-only basis but for the existence of RA income. This class of taxpayer will incur a large additional tax liability without being guilty of income-splitting. The example reflects an additional tax liability of R21 000. ■

AN ADDED BURDEN

Income sources	R	Tax as SITE-only payer	Tax payable under PAYE
Pension	40 000	3 875	
Retirement annuity I	30 000	1 075	26 425
Retirement annuity II	25 000	25	
Interest	2 000		
		4 975	26 425

The example involves no RA splitting.
It allows for the loss of duplicated rebates on the SITE basis.
The calculation is for a married taxpayer over 65.

Source: Momentum Life

FM 5/3/93 FO)

CUSAF FM 5/3/93

In lucky territory

(58)

Short-term insurers must cast a wary eye to the sky every time it rains nowadays. Commercial Union of SA's absence of major flood or hail claims over the past five years pits it against the law of averages.

Cusaf MD John Kinvig, who saw the short-term subsidiary CU Insurance boost consolidated earnings with a 457% increase in its underwriting surplus to R29,5m, admits as much, saying underwriting cycles are now in "very lucky territory." Kinvig ascribes CU Insurance's outstanding results to this, as well as to sound underwriting and a tapering off of what is still an unacceptably high level of crime-related claims.

One suspects he protests too much. Cusaf has no doubt learnt a lot since flood and hail damage knocked most listed short-term insurers into the red in the late Eighties and will in future show more adroit management of its underwriting cycle.

The restructure, on January 1 1992, of the insurance interests into two subsidiaries dealing with short-term (CU Insurance) and life (CU Life), seems to be paying off. Pretax income has advanced an impressive 59% to R93,6m.

But the restructure raises problems with comparisons. Cusaf is no longer a composite insurer, having in effect become three new companies. Still, even without the benefit of being able to compare operating figures, CU Life had a good year. New premiums grew 23% to R241,5m, with the life office contributing R461,8m to gross premium income of R1,02bn, the first time it has passed R1bn. That filters down, through a tax bill which has doubled to R19,3m, to the remarkable 50,5% growth in EPS and 40,8% increase in dividends.

The life fund's investment income grew by more than 9%, not too good though Kinvig points to falling interest rates and a lethargic property rental market. Of course, equities also underperformed for much of the financial year, showing the disadvantage of managing a big portfolio — smaller companies with more flexibility could get better returns last year by juggling portfolios towards gilts and the money market.

(58)

Expenses are not disclosed in preliminary results, though they must be up, with one-off costs from the restructure. Kinvig says these would include the nonrecurring additional advertising costs.

They have been compensated by a handsome R40,8m profit, shown as an extraordinary item, realised when the holding company paid R46,1m to the life fund to raise its share of profit from 5% to 10% in respect of life policies written before the restructure. Payment was in cash, as well as equities which had been held for a long time, being the R40,8m surplus realised on transfer.

When results were released last week, the share price immediately gained R10 to reach R60, a two-thirds increase over the financial year. The yield firmed from 3% to 2,5% and the p:e climbed from 8 to 9,5.

This would suggest the share is fully priced, but some analysts believe it could go as high as R80 on latest results. The fact that the shares are tightly held, more than 90% by three institutions, does not seem to be dampening the price. Which makes the share attractive if it can be found. *Shaun Harris*

ON A ROLL

Year to December 31	1991	1992
Net premium income (Rm)	713	830
Attributable income (Rm)	48,8	73,5
Earnings (c)	488	735
Dividends (c)	142	200

FEDSURE FM 5|3|93

Fruitful investments (58)

Fedsure's expansion into the banking sector is starting to pay. Apart from efforts by Fedlife's own fledgling agency force and a

FM 5|3|93 (58)

move into the broker market, group CE Arnold Basserabie says many life policies have been written by Saambou's broker division, a strategic investment by Fedsure about two years ago.

Operating company Fedlife increased recurring premiums by 22% to R775m and single premiums by 85% to R470m.

Basserabie was criticised for the Saambou investment, as the company struggled to pull out of the red. But he expressed faith in Saambou's new management and must now feel vindicated to see increasing business flowing from the 41% investment.

Saambou, he says, offers Fedsure access to its broad, largely middle-income client base, while the more recent share swap with Investec gives Fedsure entrée to what Basserabie says is a well-focused, high net-worth client base.

Investec is developing its own insurance marketing division. Basserabie expects progress on that front during the year, with provisional work already taking place on joint product development. The spin-off for Fedsure will be a new outlet for its products.

ALLIANCE BENEFITS

Year to Dec 31	1991	1992
Taxed income (Rm)	28,8	51,2
Attributable income (Rm) .	28,8	42,4
Earnings (c)	42,8	51,8
Dividends (c)	30,5	36,75

"We have both done well out of the alliance," says Basserabie. "There's a lot of cross-pollination of ideas in areas like property, treasury and financial management."

The immediate advantage of the tie-up with Investec has been the R223m share capital raised from the issue of 18m new ordinary shares and 8,1m preference shares. Income from the rights issue funds helped boost Fedsure's net attributable income by 47%. The additional issued shares had little effect on EPS — the 21% advance is only one percentage point down on the previous financial year.

Of course, it helps having a strongly performing life office at the core of the business. Fedlife, which increased gross premium income by two-fifths to R1,24bn, gives the holding company latitude to explore and develop alliances and opportunities in the broader financial services field.

Fedlife kept a tight grip on expenses, reducing the ratio of expenses to total income from 7,8% last year to 7,3%. Basserabie says this was achieved by expanding business significantly faster than expenses.

New developments are expected this financial year. Fedlife recently indicated it would be taking up R25m debentures in EP Building Society. And Basserabie says Fedsure is looking at possible trading and investment possibilities offshore. Nothing specific is planned now, but he says potential acquisitions will be in the core insurance business.

The share has performed strongly, gaining

FM 5|3|93 (58)

59% since the beginning of the 1992 financial year to reach 1 250c. It has been rerated, the yield falling from 3,8% when the annual report was published in May to 2,7%. Yet the yield is still below those of comparable groups like Southern (2,5%) and Momentum (2,4%). Fedsure's enlarged capital base and consistent earnings growth suggest the share may climb further.

Shaun Harris

TRANSATLANTIC FM 5/3/93

Gaining credibility

(58)

After an unpromising London stock market debut, TransAtlantic Holdings (TAH), Liberty Life's 54%-owned UK life insurance and property wing, seems to have captured investors' imagination — thanks in no small part to chairman Donald Gordon. At last week's high of 278p, TAH was some 70% above the 1992 nadir and providing some reward for shareholders who took up £149m worth of rights at 250p to finance the joint acquisition of Sun Life with Union des Assurances de Paris.

The first post-listing figures, however, show how hard TAH is having to run in the quagmire of Britain's recession, which still devastates the property sector. Gordon devotes a fair amount of his lengthy statement on the preliminaries to explaining why TAH is in better shape than the bald bottom line of earnings and assets suggest.

There is no real comparability with the 1991 results: a full contribution from the 50% of Sun Life (27,7%) is in, along with the rump of CapCo acquired before last July's listing.

Property income is relatively buoyant at £71,4m (up 14%), with the real boost coming from the near-doubling of Sun Life's contribution to £36,7m — after a 12% pretax rise to £47m — which left the pre-interest surplus some 41% better at £96,4m.

Unfortunately, this is negated by net interest payable of £35,7m (£7,4m), largely the impact of a fall in the amount of debt on property developments which is being capitalised. Thus pre-tax is marginally down at £60,7m, while net attributable is 4,4% better on £35,7m thanks to a 43% drop in minorities.

The increased capital, however, dilutes EPS (after payment of unrelieved advance corporation tax on the dividend) to 9,9p from 14,5p and leaves the 12p (11,5p) dividend uncovered.

Gordon is unhappy about both this and the net asset figure. He complains of advance corporation tax (paid on behalf of shareholders on the dividend) and points out that had TAH paid no dividend, EPS would be 13p (16,6p).

He repeats last year's criticism of the basis of property valuations ("willing seller, best price") imposed by the Royal Institute of Chartered Surveyors (RICS). TAH showed a 16% drop in its UK commercial property values, while shopping centres were only slightly down, because of an upward estimate from £325m to £380m put on the biggest, Thurrock Lake, which is 40% of the British portfolio.

These gripes aside, at least he can take some comfort from the increased credibility of TAH, priced at around its NAV instead of the 40% discount which prevailed at the bottom last year.

John Cavill

AEGIS INSURANCE FM 5/3/93.

Sharing control 58

An intriguing aspect of the deal being negotiated between RMB Holdings (RMBH), Momentum Life, and Norwich Life to acquire 66,7% of Aegis Insurance from Norwich Union Plc is how the two life offices will share control of the short-term insurer.

Discussions are apparently near conclusion, and the deal seems certain to go through. A price is believed to have been put on the table, though nobody is saying what it is. However, with NAV of about R170m, or R27,50 per share, and assuming the SA companies are prepared to pay a premium of about 15% for control of Aegis, a price in the range of R120m seems a realistic estimate.

Norwich SA and Momentum now hold 10% each of Aegis, which if the deal goes through would give them at least 86% of the company before any possible offer to minorities. RMBH is obviously involved as the holding company of Momentum, but one suspects the NBS, which owns 30% of Norwich SA (which in turn has 25% of NBS), and has recently been actively diversifying into financial services, could be involved, though it's not named in the cautionary issued last week.

Apparently the UK parent was keen to sell, as part of a consolidation process (the UK industry is going through a tough period) and as a refocusing of operations in selected countries. It's understood they gave Aegis MD Brian Seach the mandate to seek buyers in SA.

Shaun Harris

Allied board considered firing De Villiers in 1991

(58)

B/D.M) 5/3/93.

SUSAN RUSSELL

THE Allied board considered summarily dismissing MD Kevin de Villiers in early February 1991 for publicly supporting FNB in its battle with the UBS consortium for control of the group, but censured and reprimanded him instead because of the imminent merger.

This and other details of the FNB-UBS-led consortium takeover battle emerged from Allied board meeting minutes submitted as evidence in the Rand Supreme Court yesterday.

The minutes from the takeover period were put to De Villiers during his fourth day as a key witness in a R1,5m claim brought against Absa by marketing company, Tytherley Investments.

The R1,5m represents part payment of a R4,5m agreement, involving Allied's sponsorship of SA yachtsman John Martin in the 1991 BOC race, concluded between Tytherley investments MD Peter Mancer and De Villiers.

Mancer and De Villiers signed the agreement on September 1990, some seven months before Allied merged with the UBS consortium to form Absa.

Absa is opposing the claim on the grounds that the agreement was never intended as a genuine contract.

The banking group alleges the contract was a device to enable Allied to obtain benefits unlawfully under the Income Tax Act which allows exporters to claim deductions on marketing expenditure abroad.

Both Mancer and De Villiers have denied the allegations.

De Villiers also denied the contract was nothing but a sham designed to conceal the fact that a portion of the R4,5m was local advertising expenditure.

Absa counsel M Tselentis SC also put it to De Villiers that his evidence of harassment by the Allied board and his disagreements with them during the months prior to the takover was incorrect.

"Whatever differences there might have been during the second half of 1990 there is nothing which fairly can be described as harassment which arise from these minutes," Tselentis said.

"I disagree," De Villiers replied.

One minute records the anger of Sage chairman Louis Shill and other members of the Allied board when they were informed that De Villiers had made photocopies of shorthand notes from which minutes were drawn up.

It noted that De Villiers was "clearly at variance with every member of the board" and Shill is recorded as saying a "parting of the ways should be considered".

The board had also found there were grounds for De Villiers to be summarily dismissed for publicly voicing his support for the FNB offer, but in view of the merger decided to censure and reprimand him instead.

Referring to the minutes of the AGM where three directors were removed and where De Villiers opposed Shill's re-election, Tselentis asked De Villiers if it was correct that: "Shill in defence of his nomination stated it was necessary to have a strong board of directors to keep you under control?"

"That's correct," replied De Villiers.

Referring to an internal investigation into allegations of insider trading, De Villiers said he had been interested in this inquiry because of the enormous increase in Allied share volumes during takeover negotiations.

The case continues today.

Massacre 'aimed to derail talks'

RAY HARTLEY

THE brutal slaying of six school children at Table Mountain near Maritzburg on Tuesday was a deliberate attempt to derail multiparty talks, Anglican Archbishop Desmond Tutu said yesterday.

Tutu's statement came as the third day of a massive police search for between five and seven gunmen who sprayed a bakkie with gunfire as it carried the children to school turned up nothing despite a R250 000 reward offered for information on the killings on Wednesday. B/D.M

"This is timed to derail important negotiations, such as the ones due this weekend (the multiparty planning conference)," he said after visiting the site of the killings.

Police spokesman Capt Henry Bhudram said the Table Mountain area appeared to be calm following the deployment of additional internal stability unit police there on Wednesday. 5/3/93.

He said no incidents of violence had been reported there since the killing and no arrests had been made. He could not confirm a report that the driver of the bakkie had identified one of the killers.

Sapa reports Tutu was accompanied by SACC secretary-general the Rev Frank Chikane and several senior Natal clergymen on his visit to the area. (106)

"We are all shattered and almost speechless to think anyone could find justification for mowing down children in cold blood," Tutu said.

His delegation, which was later joined by UN observers, peace accord officials and unrest monitors, prayed at the scene.

The group visited the home of local Inkatha chairman Bernard Mkhize to pray and express condolences. Three of his children were killed in the attack.

Greeting Tutu's delegation, Midlands Inkatha leader David Ntombela echoed the view that those responsible for the massacre were opposed to the multiparty planning conference.

DP leader Zach de Beer said yesterday he was "appalled" by the killings.

Bank came to CIB's aid twice

TIM COHEN (58)

CAPE TOWN — The Reserve Bank had assisted the now defunct Cape Investment Bank (CIB) twice, providing it with R15,37m on one occasion, Finance Minister Derek Keys said yesterday.

Providing a glimpse into secret Bank assistance to ailing banks, Keys described a simulated transaction which assisted CIB shortly before its demise.

Keys said that in line with international practice, the Reserve Bank came to the assistance of ailing banks to prevent the domino effect of a breakdown in public confidence spreading to other banks.

Speaking in parliamentary debate on the losses of about R100m incurred by the SA Rail Commuter Corporation following the demise of CIB, Keys said the Reserve Bank had helped other banks before and since the CIB incident.

Between October and December 1990, the Bank had provided assistance to CIB because CIB had liquidity problems and was forced to run down its "extraordinarily large portfolio" of off-balance sheet Eskom stock. The size of the portfolio and the trend in interest rates had made it difficult for CIB to offload its Eskom holdings without incurring losses.

In its capacity as lender of last resort, the Reserve Bank purchased from CIB Eskom stock exceeding R800m at rates favourable to CIB.

In November 1990, CIB's auditors informed the Reserve Bank that CIB's finan-

□ To Page 2

CIB

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(58)

□ From Page 1

cial statements could not be finalised because of off-balance sheet losses of R15,37m Other banks became aware of CIB's predicament and refused to accept its paper in the clearing system.

CIB was instructed to merge with another bank and the Reserve Bank subsequently agreed to provide a final assistance package of about R15m to remove the off-balance sheet losses and finalise the financial statements

The money could not be given "as a present" to CIB because the financial statements would reflect the bank's actual state of finances, so a simulated transaction was launched in which the Reserve Bank lent CIB R300m for 116 days at 1% interest. The capital was then reinvested with the Reserve Bank at a 17% interest rate, providing CIB with its required funds

This was a bona fide arm's length transaction to provide central bank assistance to an ailing bank without attracting public attention or causing a loss of confidence

When it became clear that CIB was still unable to survive, the registrar applied for CIB's provisional liquidation. On the day CIB was provisionally liquidated, the Reserve Bank undertook a limited assistance measure in terms of which all depositors at CIB were compensated up to R5m in order to preserve market stability

Keys gave the explanation in an attempt to make it clear that the blame for the losses incurred by the SARCC could not be laid at the door of the Reserve Bank.

Transport Minister Piet Welgemoed again declined opposition demands to establish a commission of inquiry into the incident, saying the investigation would be conducted by attorney-general.

At the time of liquidation, the corporation's investment in CIB was R269m The outstanding amount at the end of January this year was about R131m

Sapa reports Welgemoed said that in addition to the dismissal of chairman E L Grove and executive director J J Nel, three offficials had been disciplined for negligence and no longer had control over the treasury functions they exercised when the corporation invested with CIB.

"The corporation no longer has permission to borrow money for its operating expenses and ceilings have been set, which will be fully funded by parliamentary votes In this regard, it is proposed that an amount of R1,2bn should be financed by the Treasury for the 1993/94 financial year."

DP spokesman Jasper Walsh said it was appalling that no commission of inquiry had been set up yet to look into the SARCC's loss when CIB collapsed He demanded that Mineral and Energy Affairs Minister George Bartlett, who held the Transport portfolio at the time, and former Finance Minister Barend du Plessis be called to account for their role in the debacle

□ ANC-supporting MP Dave Dalling (Sandton Independent) was ordered out of Parliament yesterday after refusing to retract a remark that Ministers were lying.

Dalling left the joint sitting during a special debate on the public accounts committee report, after saying political heads escaped responsibility for wastage and corruption by first pleading ignorance and then promising remedial action.

"They are lying, and/or incompetent"

Reserve Bank 'bailed CIB out twice' — Keys

68

CT 5/3/93

Political Staff

THE Reserve Bank had assisted the now-defunct Cape Investment Bank (CIB) twice, providing it with R15,37 million on one occasion, Finance Minister Mr Derek Keys said yesterday.

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● ANC-supporting MP Mr Dave Dalling (Sandton, independent) was ordered out of Parliament yesterday after refusing to retract a remark that ministers were lying.

Star 5/3/93

'Reinstate contract'

38

An insurance company underwritten by Lloyds of London has asked the Rand Supreme Court to order Amalgamated Banks of South Africa (Absa) to reinstate a contract worth millions of rands.

Scherre Underwriting Managers (Pty) Ltd claims Absa — trading as Bankfin and Absa Insurance Brokers — did not give it reasonable notice when it cancelled a contract on September 14 last year. The insurance company claims five years would constitute a reasonable period and not the 30 days' notice given by Absa.

Scherre contends Absa had wrongfully terminated a contract on August 26. Absa reinstated the contract on September 2, and terminated it again on September 14.

Star 5/3/93

'Don't act on Masterbond'

(58)

Own Correspondent

CAPE TOWN — A senior official of the South African Reserve Bank recommended to the Registrar of Banks and Building Societies in April 1989 that the Masterbond group of companies should not be prosecuted.

This was two years after the registrar had been sent a report by inspectors from the Financial Institutions Office.

The report was critical of several key aspects of Masterbond's operations, the Nel Commission of Inquiry into the Masterbond collapse heard yesterday.

A summary of an eight-page report by Dr Hennie van Greuning, the Reserve Bank's deputy general manager (bank and building society supervisor) who has since been appointed Registrar of Banks and Building Societies, was read into the commission's record.

Tommy Pretorius, an inspector from the Financial Services Board (formerly the Financial Institutions Office) testified yesterday about four inspections of Masterbond's activities.

Star 5/3/93

Cape bank got secret help – Keys

(58)

CAPE TOWN — The South African Reserve Bank had provided assistance to the now defunct Cape Investment Bank (CIB) on various occasions from October 12 to early December 1990, Minister of Finance Derek Keys said yesterday.

In a special debate on a report of the Joint Committee on Public Accounts, he said assistance had been provided secretly so as not to alert investors of CIB's liquidity crisis and precipitate instability in the banking system and the economy.

He said the Reserve Bank, acting as a lender of last resort, had bought Eskom stock valued at more than R800 million at favourable rates after the CIB was forced to run down its portfolio of off-balance sheet Eskom stock.

The stock was funded by large depositors who were withdrawing their funds from the CIB before the introduction of the Deposit-taking Institutions Act, which restricted off-balance sheet activities by deposit-taking institutions.

The size of the portfolio and the trend in interest rates had made it difficult for CIB to offload its Eskom stock without incurring losses.

In November 1990, CIB's auditors told the CIB board and the Bank that CIB's financial statements could not be finalised because of off-balance sheet losses of R15,37 million.

The Reserve Bank then agreed to a final assistance package of R15,37 million to remove the off-balance sheet losses. But the funds could not simply be given to CIB because this would result in the true state of affairs being reflected in the financial statements.

A simulated transaction, in which R300 million was lent to CIB for 116 days at 1 percent, was instituted. The capital sum would be reinvested at the Reserve Bank at 17 percent as collateral.

The interest differential provided R15,37 million in CIB's favour.

Keys said the funds remained under Reserve Bank control and markets were not substantially affected by the transaction. Because the transaction would expire before the financial year-end of both parties, it had not been necessary to reflect it in financial statements.

The transaction had been neither sinister nor underhand, but was a bona fide mechanism to provide central bank assistance to an ailing bank without attracting the public's attention.

After investigations into CIB's credit risk by its external auditors, the Office for Deposit-taking Institutions and an independent merchant bank in early 1991, it became clear that CIB was unable to survive.

The Registrar of Deposit-taking Institutions, after consulting the then-Minister of Finance, Barend du Plessis, applied for the provisional liquidation of CIB, which was granted in May 1991.

On the day that CIB was provisionally liquidated, the Reserve Bank again provided assistance by compensating all depositors up to R5 million per deposit. — Sapa.

BUSINESS

Sanco's flights of fancy

58

W/Mail 5/3-11/3/93.

By REG RUMNEY

ALONG with Satanism, capital flight from South Africa has attracted a great deal of attention recently.

Tapping into that near-hysteria is a document produced by the End Loans to South Africa group and the South African National Civic Organisation (Sanco). It is titled: "Bank Capital Flight — South Africa's Next Economic Catastrophe".

The authors say capital flight is substantial, mentioning an estimate of $12-billion to $55-billion over the past two decades.

"Massive amounts of money have been siphoned out of the country under apartheid. A wide range of commentators and academics have analysed the issue in depth. While attempts to quantify the exact amounts of money have hit some difficulties, including varying definitions of 'capital flight', there appears to be a consensus that South Africa has been suffering from a serious capital flight problem for some time, involving tens of billions of rand."

The report goes on to dismiss the thoughtful and carefully stated reservations of an eminent bank economist about the sums loosely tossed around as the size of capital flight.

"As information on capital flight surfaced, a rather predictable response downplaying the problem emerged in the form of Nedbank economist Edward Osborn, who in particular questions the quantification of capital flight. However, Osborn does not deny capital flight exists, but simply suggests rather weakly that the major conglomerates would have little reason to misinvoice."

Osborn actually wrote: "But in any case underinvoicing of exports as a general practice is most unlikely in South Africa because of the dominance in the export field of a limited number of large reputable companies that have nothing to gain, and much to lose, from such malpractice."

Osborn's main point is that it is impossible to prove illicit capital movements have occurred and impossible to estimate their magnitude from official statistics. He specifically examines and dismisses previous analysis.

We all know, from criminal cases, that illicit exporting of capital does occur. It should be stopped. Indeed, the document makes one practical suggestion: that a specialist unit be set up to detect and block illegal capital flows from South Africa.

Playing up the problem may be as damaging as playing it down.

The document rightly calls attention to the flight of "funk money". But it confuses capital flight with investment through the finrand, a mechanism whose whole purpose is to neutralise capital outflows. And it links capital flight and banking expansion overseas without a shred of actual evidence, to beat Sanco's favourite dog, the banks.

The focus on "capital flight" itself diverts attention from South Africa's real problems of creating a safe and stable environment in which business can flourish. It is a phrase perforce loaded with connotations of illegality and shady deals though its broadest meaning is only the departure of capital from the country.

The main outflow of capital from South Africa remains capital redemption payments under the debt standstill arrangements. These have been huge, but not contrary to the African trend for private sector foreign investment to flow out rather than in, and began long before the debt standstill. However, those capital redemption payments in turn haven't hurt economic growth because there's been more than enough capital in South Africa to fund the low level of investment we've suffered because of poor business confidence.

South Africa's focus should first be on creating the right conditions for investors to want to invest here.

If there is no confidence in the country's future, capital will flow out, exchange controls or not.

Jitters as rand slips and slides

Star 6/3/93 (58)

A jaundiced view on local counter

WHERE will the buck stop as the rand continues its slide? Our FINANCE STAFF report.

THE rand's precipitate drop since breaching the three-to-one mark against the dollar in November is causing concern among some dealers.

This week, the decline accelerated, the local counter losing more than a cent between Monday and Thursday morning, taking it from R3,1543 to R3,1665.

A dealer said yesterday the rand was expected to fall to R3,20 in the next few weeks as the dollar strengthened in the wake of an expected cut in German interest rates. The rand yesterday lost a further cent against the dollar before recovering near to R3,1575.

Commercial bank currency dealers are taking a jaundiced view of the local counter; this week Standard Bank dealers had the rand on a six-month basis at about R3,26 to the greenback, compared with R3,23 on the same basis less than a month ago.

Face value

Economists are quick to point out that the movements in no way suggest the Reserve Bank is going to let the rand drop out of sight, even if at face value the decline represents an annualised fall of about R1 against the dollar.

However, currency dealers note that the Reserve Bank is conspicuous by its lack of intervention in the market in the form of dollar-buying — a consequence of heavy balance-of-payments pressure on its foreign currency reserves.

Keith Lockwood, of the SA Chamber of Business, plays down the significance of the decline, although he makes the point that it could have an adverse influence on the sentiment of investors.

Weak currencies push up operating costs because they are associated with high import costs, often high inflation and the diminution of returns when dividends are converted into "real money" and transferred abroad.

As yet, the phenomenon is not considered out of the ordinary, even though this week's movements are out of line with the trade-weighted adjustment necessary to compensate for the inflation differential between South Africa and its main trading partners.

According to Lockwood, the nominal exchange rate of the rand against a trade-weighted basket of currencies had, by the close on Wednesday, come down 2,24 percent over the past three months.

"On an annualised basis, that is in the 9 percent ballpark, which approximates with the inflation rate differential between South Africa and an average of its major trading partners."

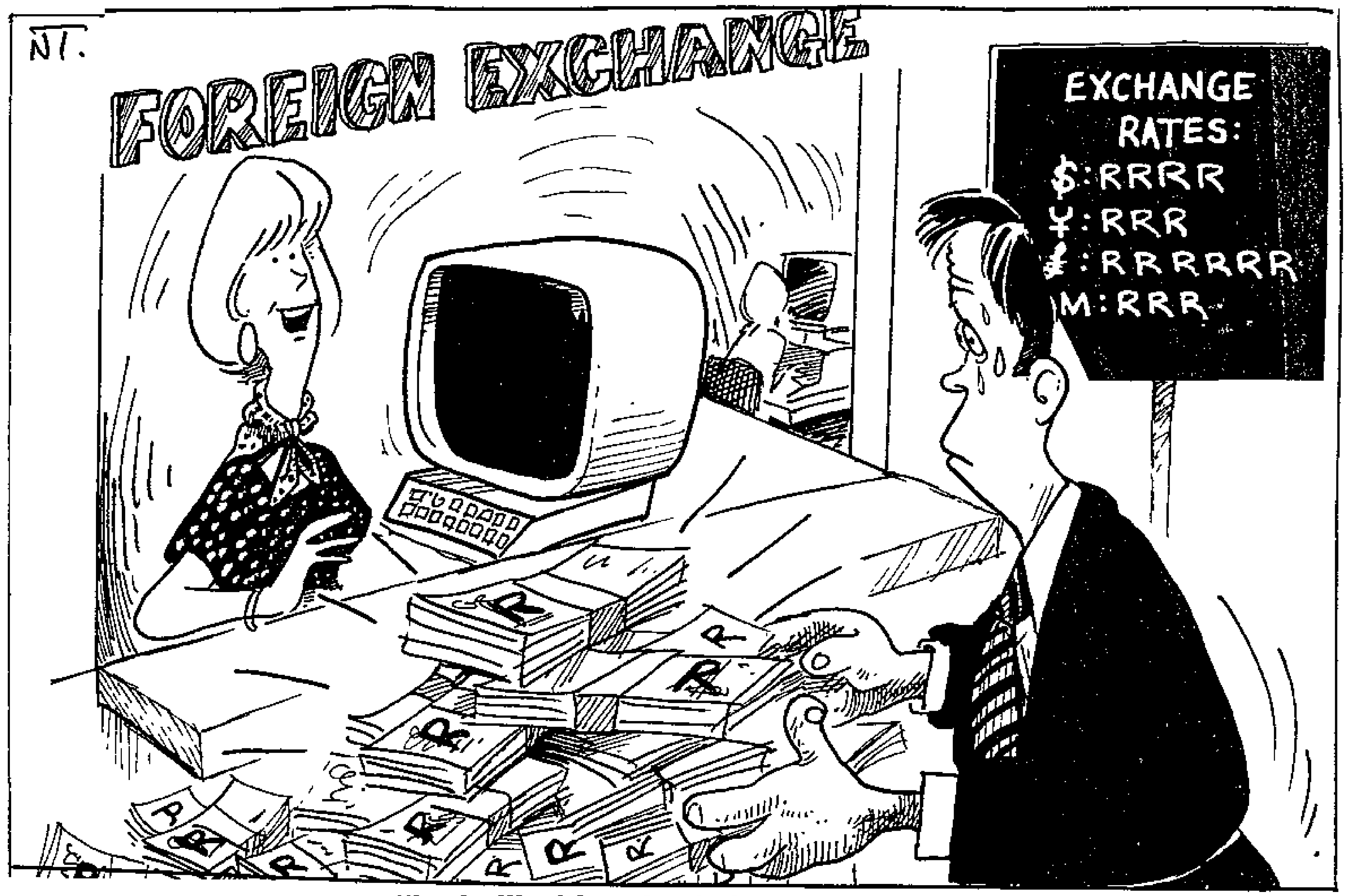
Increase

Nedbank economist Edward Osborne estimated recently the rand would be in the region of R3,30 to the dollar by the end of 1993 — also corresponding to a 9 percent trade-weighted decline over the year. However, say currency dealers, at the rate the rand is dropping, it could end the year closer to R3,50 to the dollar.

An immediate effect of the rand's drop against a number of major currencies came this week when most vehicle manufacturers announced bigger than expected price increases, attributing them to recent hardening of the Deutschmark and the yen.

While SACOB supports Reserve Bank measures to protect foreign reserves by allowing the rand to depreciate, the organisation opposed a recent Afrikaanse Handelsinstituut proposal that the Bank let the currency weaken significantly because of the "unanticipated" consequences this might have.

"The only way the Reserve Bank can allow the currency to drop that way is by greatly increasing the money-supply growth rate, which would be inflationary and exacerbate the cost of imports, further delaying economic recovery," said Lockwood.



"Looks like it's going to be a short trip, sir."

Absa warns of unpopular budget

CT 6/3/93

Business Editor (58) (40)

THE budget on March 17 could be "the most unpopular in living memory", Amalgamated Banks of SA economists Charles Jonker and Carel Gronum say in their Econoweekly forecast issued yesterday.

They expect a VAT increase of 2% or 3%. "Tax on dividends, state pension funds and unchanged tax on marketable securities are in the pipeline".

They think a 1% cut in bank rate can be expected in the middle of the year, with a strong possibility of a second cut in the third quarter.

SAFE BET: *Especially in era of corruption and high inflation*

Unit trusts are mushrooming

Star 6/3/93 (58)

MAGNUS HEYSTEK

THE Association of Unit Trusts' newly elected chairman, Bernard Naicken, has a philosophy which could be adopted as the credo of his industry: educate the consumer aggressively on unit trusts and market them responsibly.

Naicken, who has an executive position at Sage Group, has been involved in the development and marketing of unit trusts for a long time, during which he has seen the industry develop from a "period of hibernation" during the '70s to the rapidly changing industry that it is today.

"During the '70s, in the aftermath of the '69 stock market crash, the industry experienced a net outflow. The situation has changed dramatically, and unit trusts are now reshaping the financial landscape," he says.

Assets

More funds are being created all the time, with a wide variety of applications.

In 1977 the total assets of the local industry were about R350 million.

Today the figure stands at R13,5 billion. A similar trend was seen in the United States, where total assets grew from $50 billion (about R158 billion) to $1,6 trillion (about R5,06 trillion) during the same period.

The reasons for the surge in unit trusts in most Western countries are clear, Naicken says.

"More people have come to realise that unit trusts are a very simple and efficient way to accumulate capital, which has a good chance of growing faster than the inflation rate.

The investment risk is reduced by a diversified spread of investments, they are very flexible investments and also very visible.

"The performance figures of unit trusts are scrutinised by the press, commentators and the public every three months. Unit trust prices are also published daily by all the large newspapers across the country. This all adds up to a greater understanding of the product."

BERNARD NAICKEN: Recently appointed head of association.

In a country where financial scams and corruption are being exposed almost daily, the unit trust industry has an excellent reputation as a result of a very good regulatory framework.

While the industry is largely self-regulating, it does have the Unit Trust Control Act to offer even greater protection. "This is very reassuring in a world of Supreme Holdings and Masterbonds," he says.

However, while the growth in the number of investors and total assets of the industry has been exceptional in recent years, Naicken points out that it constitutes only about 4 percent of life companies' total assets. This indicates that unit trusts still have great potential in the years to come.

Increase

More needs to be done to promote the concept as well as the understanding of unit trusts. Naicken is the first to admit this. But, as he says, this costs money.

A recent increase in the annual service fee from 0,5 percent to 0,75 percent was a step in the right direction.

It will enable the industry to spend more on educating the growing number of people entering the investment world for the first time.

Expanded unit trust info

STAR 6/3/93

58 [redacted]

THE Association of Unit Trusts has decided to start supplying the unit trust investor with better detailed information on the performance of their funds.

The current structure of the information sent out in the daily unit trust table is to be expanded to include the income distribution over the past 12 months, and the high and low selling prices of the fund over the previous 12 months.

The new format has the approval and support of the various unit trust fund managers.

CIB's R50-million Bank guarantee

S Times (Buss) 7/3/93 (58)

RESERVE Bank Governor Chris Stals says guarantees to Cape Investment Bank depositors could amount to about R50-million — more than half of which could be recovered when CIB's final liquidation comes through.

The Reserve Bank agreed to compensate CIB depositors to the tune of R5-million each when CIB was placed in provisional liquidation. "This is part of our function as lender of last resort. Every bank runs into liquidity problems at some point."

Reserves fall by R490m

GOLD and forex reserves fell R490-million or 5,6% in February after dropping R300-million in January.

This dashes hopes of another cut in the bank rate as it gives the Reserve Bank little room to relax its monetary policy, says Nedcor chief economist Edward Osborn.

The Reserve Bank sold 10% of its gold holdings in January, which Mr Osborn says is probably to finance debt repayments, part of which fell due in February. The balance is to be paid in August and December this year.

3,2% more in revenue

S Times (Buss) 7/3/93

REVENUE collected for the Exchequer during the first 10 months of the 1992/3 financial year reflects an increase of 3,2% compared with the corresponding 10 months of the previous financial year. The CSS reports that this amounts to only 74,3% of the 13,2% increase budgeted for.

7/3/93

Productivity building plan

THE CSIR has launched a programme to help increase productivity in the depressed building and construction industries.

The council says that for every 1% increase in productivity in the R8,2-billion industry, savings of R300 000 can be achieved each day.

A new range of electronic information tools has been developed for the smallest to largest companies. Quantity surveyors, architects, engineers, contractors, manufacturers and suppliers of equipment will now have co-ordinated tools for increasing productivity and cost effectiveness.

Netsys wins major deal

PRETORIA-based communications specialists Netsys International has won a contract against five large international companies, including conglomerates from France and the US, to supply a R3-million SA-designed and built computer

Office space

MONEY

New package can insure AIDS victims

S Times (Buss) 7/3/93

UNINSURABLE people — including HIV victims — can now obtain a financial package to help alleviate the financial burden which causes so many sufferers additional stress.

Because HIV positive and those with AIDS are predominantly young high-earners and skilled people, it is vital to find ways for them and their families to meet all the expenses. The question of tax relief and contributions also becomes important.

Steve Jackson, of the Johannesburg-based firm O'Hanrahan and Associates, which specialises in pensions, insurance and tax, has developed a plan with the co-operation of two of the leading life underwriters in South Africa.

Relief

The plan consists of three sections: a pure endowment contract, a unit trust contract and a non-life retirement annuity.

Put together, the policyholder can obtain certain tax relief on his contributions and have cash available in a relatively short period to provide some form of income.

"For example, if a male aged 28 diagnosed as being HIV positive starts contributing R300 monthly to the Medsave plan, by the time he develops full-blown AIDS seven years later and can no longer work he would receive, at a projected annual growth of 15%, R29 000 to pay for medical treatment plus a monthly pension of R250 and R25 000 paid to his dependants on death.

Benefit

"His contributions would be made up of R125 to the pure endowment, R75 per month, increasing at 15% annually, to the unit trust and the balance of R100 per month, increasing at 15% per annum, goes into the retirement annuity contract.

"The latter payment is fully tax-deductible and it is from here that a substantial proportion of the income emerges when the man is unable to continue working."

In terms of the Income Tax Act, it is not permissible to draw a benefit from a retirement annuity before the age of 55 unless the Commissioner considers the person to be totally disabled and unable to carry out a productive occupation.

The development of full-blown AIDS is treated as a total disability.

By ANTHEA DUIGAN

Mr Jackson has negotiated with the insurance companies whereby the terminally ill person is deemed to have attained the age of 65 and, therefore, the annuity payable is much higher than normally would be paid for a person at the normal age.

In addition, he has negotiated with the insurers that the annuity will be payable for life only and that there will exist, without medical evidence provided, a back-to-back policy which will provide, on death of the annuitant, a full return of the capital used to purchase the annuity.

Capital

The annuity quoted has taken into account the cost of this cover. This ensures the dependants of the deceased receive a capital sum to tide them over an extremely difficult time.

Where the victim is a high earner there is no limit to the monthly contributions payable, apart from the limits laid down by the Income Tax Act.

Short-termers reaping high profits

S Times (Buss) 7/3/93 (58)

By TERRY BETTY

THE short-term insurance industry is showing healthy underwriting profits, leading to suspicions that the man in the street is paying too much for insurance.

Martin and Co insurance analyst Richard Jesse says underwriting profits made by some of the short-term insurers are very high by world standards.

Mutual & Federal (M&F) this week reported a 36% growth in half-year underwriting profit to R34,8-million.

Santam has reported a R52-million surplus on its underwriting account — its best in many years — and Commercial Union had a R29,5-million underwriting profit.

All these companies' underwriting profits were in excess of 5% of gross premium income.

Mr Jesse says: "Ratios would not normally be expected to be above 0-5% for any length of time — M&F's is closer to 6%." The profit insurers are making on their personal business is probably even greater, as they have faced losses in commercial insurance.

Santam managing director Jurie Geldenhuys says the entire industry is making money out of personal lines and losing money on commercial business. He says while personal insurers are subsidising commercial business, this is cyclical.

Commercial Union Insurance managing director Jimmy Morrow says commercial business is underrated by about 20%, and there is plenty of room for increasing rates.

M&F managing director Ken Saggers says while M&F's underwriting results were acceptable it was because inflation was down. There have been no major weather-related claims and the crime rate has levelled off, albeit at a high level.

Watch that insurance contract, warns broker

S/Times [Cape Metro] 7/3/93

By FRED ROFFEY

PROPERTY developers and their financiers could find themselves at serious risk if they follow the popular practice of leaving the purchase of insurance to the discretion of various contractors and consultants, warns a leading insurance broker specialising in construction.

"Despite the fact that the money at risk is that of the developer or his financiers, it is common for the insurance requirements to be left to contractors and consultants, resulting in an unco-ordinated parcel of policies which in most cases portects only bricks and cement with no cover for financial risks," says Alan Burton, director of PFV Group Development Services and PFV Construction Group Insurance Brokers.

"Developers should take full responsibility for arranging the entire package of insurances on their projects to ensure cover for the financial risk and avoid possible gaps, duplication and payment of unnecessary premiums

"It is ultimately the financiers who are exposed if the development fails."

Mr Burton points out that contract works and liability insurance is arranged almost automatically and generally provides adequate cover against the possibility of the project being destroyed or damaged before it is completed.

But these policies do have exclusions, particularly damage resulting from defective design.

(58)

"The developer relies on his ability to claim successfully from the responsible consultant for the consequences of a defective design.

Fraud accused points at SADF

PRETORIA — Businessman Albert Vermaas claimed on Friday that senior SADF officials had negotiated with him over the use of military aircraft he had secretly bought from the US Air Force for the war in Angola. 8/0A9

He had mainly talked to former Defence Minister Gen Magnus Malan, he told the Pretoria Supreme Court. 8/3/93.

Vermaas, allegedly behind a fraudulent investment scheme which left more than 500 people destitute when it collapsed in 1988, also said government officials had used aircraft he had bought overseas with investors' money.

He has pleaded not guilty to 154 charges: 106 of them connected to fraud, six to theft and the rest for allegedly contravening exchange control regulations, the Income Tax Act, Bank Act, Companies Act, Insolvency Act and the Arms and Ammunition Act.

Vermaas said negotiations for the use of eight cargo planes by the SA Air Force in Angola had come about because Foreign Affairs had been using his aircraft.

Vermaas told the court about an intricate scheme to buy military and civilian aircraft in the US without his American partner being seen as doing business with a South African. — Sapa.

Final evidence heard in R1,5m suit against Absa

(58)

SUSAN RUSSELL

FORMER Allied MD Kevin de Villiers said on Friday he might still have concluded a R4,5m sponsorship agreement even if marketing company Tytherley Investments had not agreed to perform two existing contracts for free.

De Villiers was testifying on the final day of evidence in a R1,5m claim brought against banking group Absa by Tytherley MD Peter Mancer.

The validity of the contract, involving a number of Allied sponsorships for yachtsman John Martin in the 1991 BOC race, is central to the dispute between Tytherley and Absa.

De Villiers and Mancer signed the deal in September 1990 — seven months before a UBS-led consortium took control of Allied and formed Absa.

Mancer is claiming R1,5m as part payment of the R4,5m.

According to Mancer and De Villiers, Allied acquired the exclusive European TV advertising and marketing rights to the 1991 BOC yacht race from Tytherley for a price of R4,5m on condition that Tytherley performed two other Martin sponsorship contracts for free.

Absa is defending the claim, alleging that Mancer and De Villiers never intended to enter into a genuine contract.

The banking group alleges that the contract was a tax dodge designed to enable Allied to unlawfully claim deductions to which it was not entitled.

It has also been alleged that R2,1m of the R4,5m was actually for local sponsorships and would not have qualified for the tax deductions.

Both Mancer and De Villiers have denied Absa's allegations.

De Villiers spent four-and-a-half days under cross-examination in the witness box.

He said he might still have entered into the contract even if Mancer had not agreed to perform the other two sponsorship contracts for free.

"But I am not 100% sure I would have," he added.

De Villiers said he had been looking for a better deal when he had negotiated the two free sponsorships with Mancer.

He said the tax concessions were important and the Allied would not have gone ahead with the sponsorship if they had not got a favourable ruling from the Receiver in this regard before signing the contract.

At the conclusion of De Villiers' evidence on Friday both parties indicated they would not be calling any further witnesses and the case was adjourned until tomorrow for final argument.

8/3/93 8/0A9

Old Mutual unit trusts pay R9,8m

58

CT 8/3/93

FOUR Old Mutual unit trust funds have paid out R9,8m.

Old Mutual said in a statement that its top companies fund had declared 4,03c a unit, or a total of R2,9m, for the six months to end-December 1992.

The mining fund declared 4,28c (R1,9m) and the gold fund 2,55c (R1,4m) for the same period. A total of 97% of investors in these three funds reinvested their distributions.

For the three months to the end of December, the income fund declared 3,12c (R3,6m). — Reuter

Eviction done as a last resort, says bank

58

Sowetan 9/3/93

■ Claims of legal action against clients in Tembisa:

By Joe Mdhlela

THE NBS Bank only takes legal action against borrowers as a last resort.

This could be averted if bondholders negotiated an alternative arrangement of repayment, spokesman for the bank Mr Gerry Gericke said.

He was responding to claims made by the Tembisa Residents Association (TRA) that the bank had taken legal action against its clients in Tembisa.

The TRA claimed they had "pleaded with the NBS to reconsider their eviction policies in favour of entering into lease agreements with the disadvantaged bondholders."

TRA president Mr Ali Tleane said such an agreement would ensure a steady flow of income to the bank while giving occupants a chance to recover financially.

Tleane said they were left with no option but to embark on an "isolation campaign aimed at the Kempton Park branch of the NBS".

The bank has confirmed that they had been in negotiations with TRA for at least six months in an effort to find an amicable solution to problems.

Gericke said it was the policy of the bank to exhaust all avenues before taking action against defaulters.

"Eviction is the last resort after the bank has exhausted all avenues," he said. He said the problem with some of the clients was that they failed to discuss their financial problems with the bank until it was too late.

In such circumstances the bank would be forced to take action.

Eviction was the last thing the bank wanted to do.

The bank was in favour of "normal lending" but this would be impossible if bondholders failed to meet their obligations, Gericke said.

Signs of improvement for insurance sector in 1993

BRUCE CAMERON (58)
Business Staff ARG 9/3/93

THE insurance industry was in for a tough business year but there were signs of improvements, chairman of Metropolitan Life, Mr Willem Pretorius, said yesterday.

In an interview after the group's AGM, Mr Pretorius said he did not expect the economy to turn around overnight but there were signs that it was starting to pick up.

After a large increase in policy surrenders and lapses last year the position was levelling off and the numbers should be far lower this year.

In the year to the year end in September 1992 individual policies with Metropolitan Life surrendered by hard-pressed clients soared 41 percent to R65,4 million.

He pointed out that surrenders did not cost Metropolitan Life money but lapses of policies under three years did.

Most of Metropolitan Life policy holders were in the middle income group being people such as school teachers who had an annual average premium of R1 050. Mr Pretorius said the policy holders tended to be stable payers of premiums.

● Cape Town businessman, Mr Jan Pickard, stepped down as a director of Metropolitan Life yesterday. The directors would decide on a replacement for him at a later date.

● Business confidence has received a mild boost from the recent cut in interest rates and the successful first-round meeting of the Multi-Party Planning Conference.

The Chamber of Business (Sacob) said yesterday the Business Confidence Index (BCI) had resumed its upward trend in February.

"The upward movement provides further evidence that the recession may now be bottoming out," Sacob chief economist Dr Ben van Rensburg said at a press conference.

Sanco, lenders agree on bond insurance plan

LLOYD COUTTS (58)

THE SA National Civic Organisation (Sanco) and the Association of Mortgage Lenders (AML) have agreed in principle to the establishment of an unemployment bond insurance scheme and "new procedures" for handling arrears, defaults and repossessions. B/DAY 9/3/93.

Sanco president Moses Mayekiso said yesterday the agreements — which included a borrower education programme — had been reached in principle and ratified by the organisation last week. Details would be made known once the AML had given the agreements the green light.

A Sanco statement said Sanco and the AML had agreed to ask the SA Special Risks Insurance Association (Sasria) to develop a government-subsidised bond insurance product, in the light of wide-scale retrenchments. "The banks have agreed they will resort to community structures in various cases in which properties in possession are at issue. The banks must from now on show much greater sensitivity to misfortunes of borrowers from disadvantaged communities — really the same respect they show their blue chip, northern suburbs clients."

Mayekiso would not elaborate on the agreed "new procedures".

AML chairman Martin Milburn-Pyle said issues negotiated with Sanco would be considered by a full AML council meeting next Wednesday. "There has been a lot of negotiation over some months and the minutes of the last meeting will be taken to our council next Wednesday. Then it's over to our council to accept or amend."

The agreement follows the compact between Sanco and Nedcor's Perm division last month on the establishment of education, job creation and development programmes in townships. The compact excludes the Perm from mass action initiated by Sanco.

A Sanco/AML committee will meet again today to discuss 10 unresolved issues, including "red-lining" — a policy of discriminating against borrowers from certain areas — banking services, negative equity and a banking code of practice.

COMPANIES

Prosure reports profit on R23m turnaround

(58)

BDay 10/3/93

ANDREW KRUMM

PROTEA Assurance (Prosure) has moved into the black, reporting R23m turnaround in attributable profit to R12,9m (1991: R10,5m loss) for the year to end December 1992, directors said yesterday.

The company declared a final dividend of 35c a share, bringing the total distribution for the year to 60c (1991: 53c) a share.

Prosure MD Andrew Tainton said the overall improvement was largely due to a dramatic turn in the short-term insurance result in the first half and higher investment returns for the year as a whole.

Tainton said stringent underwriting standards to eliminate unprofitable business had also helped in the turnaround, but affected net premium income, which fell 2,5% to R280m (R287m) in the period.

Prosure reported a R992 000 underwriting surplus for the first six months, which was more than eroded by the R4,9m underwriting loss in the second half. The result was an underwriting loss of R3,9m for the year (1991: R31m loss).

Income from investments rose marginally to R26m from R24,3m in 1991.

He said the life division showed good growth with premium income rising 36% to R57,1m from R41,9m in 1991, and adding R886 000 (R688 000) to operating profit.

However, Prosure spent R9,8m on technology development costs during the year, which came off the bottom line.

"The introduction of the Protea 2000 computer technology base remains on track for completion at the end of 1993, at which stage we can look forward to improved productivity and service levels."

"In line with our objectives we have grown and improved the quality of the company's asset base. Prosure's solvency ratio at 98,5% remains one of the highest in the industry, despite the increased dividend declaration."

Tainton said the company was well positioned for an upturn in the short-term industry, although this was unlikely in 1993.

"Competition will undoubtedly intensify in the short-term industry placing pressure on underwriting profitability."

He said the investment market would remain uncertain, although Prosure's performance levels were expected to exceed the market average. While a newly forged alliance in the life operation would be offset by falling disposable income, and a linked increase in lapse ratios.

Things look up for black homeowners

Sowetan 10/3/93. (58) (10/3) (3391)

LOOKING GOOD Hard talking and bargaining seem to have finally paid off:

THE NEGOTIATIONS OF THE PAST eight months between the South African National Civic Organisation and the Association of Mortgage Lenders (AML) is beginning to pay off, according to Sanco president Moses Mayekiso.

Negotiations were initiated following Sanco's threat of a national bond repayment boycott in the wake of last year's Boipatong massacre.

A Sanco consultative conference of its 14 regions at the weekend ratified a three-part accord reached in talks between representatives of the civics organisation and AML.

The agreement has still to be formally ratified by the "bosses" of the AML representatives who sat on the sub-committee, Mayekiso told a Press conference in Johannesburg.

He said the tentative agreement dealt with an unemployment bond insurance proposal; a borrower education programme; and, new procedures for handling arrears.

Mayekiso declined to reveal details of the tentative agreement because the AML had not yet formally given it the go-ahead.

It is understood however it will involve a request for the Government to subsidise substantially a still-to-be developed bond insurance product. Banks, in turn, will resort to community structures in certain cases concerning bad debts by homeowners.

The Sanco-AML sub-committee will meet again next Tuesday when it will tackle some of the other outstanding issues between them, including the controversial "redlining" of certain inner city suburbs in Johannesburg, by which lending institutions stopped giving loans to potential home buyers, mostly black people.

"The banks must from now on show much greater sensitivity to misfortunes of borrowers from disadvantaged communities. — *Sapa*

Bank takes farmer to court

58 CT 10/3/93

Staff Reporter

JUDGMENT will be passed on Monday in an urgent application by First National Bank to sequestrate a Swellendam farmer for a debt of more than R7 million.

Three companies, Doornkloof Boerdery (Pty) Ltd, Bertus van Zyl (Pty) Ltd, and Bertus van Zyl (Doornkloof) Ltd, which own the farms, have been liquidated and Mr Jacobus O'Kennedy as a director of all three signed surety.

In papers Mr O'Kennedy said FNB was committed to continuing to fund Doornkloof Boerdery by way of an overdraft for as long as the company was viable.

He claimed that when the bank cut off his overdraft facility the farming venture suffered.

In papers Mr Colin Tyndall, a senior local bank official, asked the court to sequestrate Mr O'Kennedy's estate, saying Doornkloof Boerdery was indebted to them for R7 795 160,85, plus interest.

He denied the bank had committed itself to Doornkloof.

Mr I Farlam SC and Mr G Woodland appeared for Mr O'Kennedy. Mr W Duminy appeared for the bank.

Public sector's pension/provident funds: investment

*7. Mr B B GOODALL asked the Minister of Finance:

(1) What percentage of the funds available for investment in the public sector's pension and provident funds is being handled by the private sector;

(2) whether there has been any change in the position regarding the investment guidelines for such funds since his reply to Question No 3 on 25 March 1992?
B335E

The MINISTER OF FINANCE:

(1) 8,12%

(2) No.

Mossgas project: cost

*8. Mr R R HULLEY asked the Minister of Mineral and Energy Affairs:

(1) (a) What is the latest estimate for the final total cost of the Mossgas project and (b) in respect of what date is this estimate furnished;

(2) whether he will make a statement on the matter?
B336E

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

(1) (a) Total Project Cost—R10,7 billion
Peak Funding—R11,1 billion, which excludes interest of approximately R950 million on foreign loans, payable by CEF.

(b) January 1993

(2) No, a statement will only be made once the report of the Auditor-General on the economic viability of Mossgas has become available.

Sasol: tariff protection

*9. Mr R R HULLEY asked the Minister of Mineral and Energy Affairs:

(a) What, expressed in cents per litre, is the current rate of tariff protection extended to Sasol and (b) what was the total value of the protection tariff to Sasol during the 1990–91 and 1991–92 financial years, respectively?
B337E

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

Due to the restrictions imposed by the Petroleum Products Act, 1977, it is not possible to provide detailed information through which Sasol's production can be calculated. However, to assist the hon member, I can reveal that the only products in respect of which Sasol enjoys protection are:

— petrol
— illuminating paraffin
— alcohol
— diesel, and
— liquid petroleum gas.

In reply to the hon member's question, I submit the following:

(a) The average tariff protection enjoyed by Sasol during the 1992 calendar year amounted to 3,1 c/ℓ spread over all liquid fuel products sold in the RSA

(b) R222,5 million and R537,5 million respectively for the 1990–91 and 1991–92 financial years.

Bank robberies

*10. Mr A J LEON asked the Minister of Law and Order:

58

(a) How many bank robberies occurred in the Republic of South Africa in 1992 and (b) what was the total value of the money and valuables stolen in such robberies?
B341E

The MINISTER OF LAW AND ORDER:

(a) 241

(b) R12 687 031,02.

Hoedspruit area: automation of farm lines

*11. Mr P G SOAL asked the Minister of Posts and Telecommunications:

Whether, with reference to the reply to Question No 5 on 18 March 1992, it is still the intention to complete the automation of the farm lines in the Hoedspruit area during the second half of 1993; if not, (a) why not and (b) when is the project expected to be completed?
B343E

The MINISTER OF POSTS AND TELECOMMUNICATIONS:

No.

(a) and (b) The project has been expedited and is now expected to be completed during the first half of 1993.

Will amended by Supreme Court: bequest to children

*12. Adv J J S PRINSLOO asked the Minister of Justice:†

(1) Whether two judges of the Cape of Good Hope Division of the Supreme Court, whose names have been furnished to the Minister's Department for the purpose of his reply, ordered in a recent judgment that a provision in a will be amended so as not to limit the bequest contained therein to White children only; if so, what are the relevant details;

(2) whether he intends taking any steps in this regard; if not, why not; if so, what steps;

(3) whether he will make a statement on the matter?
B320E

The MINISTER OF JUSTICE:

(1) Yes. The following information was obtained from the judgment in the application of *The Trustee of The Marsh Memorial Homes—Re: The late William Marsh Will Trust*, which judgment was delivered on 5 February 1993.

The late William Marsh *inter alia* made provision in his will for the establishment of a trust, which had to be applied to "founding and maintaining a home for destitute white children, upon the same principles as those of Dr Stephenson's Home in London.".

The Court pointed out that over the passing years, through socio-economic changes, the number of white children eligible for entrance to the Marsh Memorial Homes had apparently decreased. There were, however, a number of children of different pigmentation in destitute circumstances, for whom the Marsh Memorial Homes would provide a sanctuary, but could not do so because of the provisions of the will. In view of the needs of destitute coloured and black children, the trustee of the Trust applied to the Court in terms of the Trust Property Control Act, 1988 (Act 57 of 1988), *inter alia*, for the alteration of the will by deleting the word "white" in the relevant paragraph.

The court held that in order to succeed with the application the applicant (trustee) had to satisfy the Court that—

(a) . . . the late William Marsh neither contemplated nor foresaw that a time would come when his charitable act in providing for a home for destitute children would be frustrated by a dearth of persons eligible to benefit therefrom as a result of a qualification imposed by him when he signed his will . .

(b) the provision in question is in conflict with public interest.

The Court granted the application on the statutory ground relied on and held that the particular provision in the will has brought about consequences which the late William Marsh neither contemplated nor foresaw and that—

. . . it was clearly his intention to model the institution he had in mind on one in London to which he referred as "Dr Stephenson's Home". This institution is now known as the National Children's Home; it admits (and apparently always admitted) children of all races. It is today not possible for the Marsh Memorial Homes to function fully and properly upon the same principles as those of the National Children's Home, which it was the intention which the late William Marsh had in mind when signing his will. He certainly never foresaw that his expressed desire to provide here what Dr Stephenson had established in London would, a century later, be frustrated and become incapable of fulfilment because of a limitation on eligibility based on restriction which did not inhibit the good doctor who gave his name to a home in London for destitute children. It was to the care of destitute children that Dr Stephenson devoted his Home; it was

cont →

Major turnaround for Protea Assurance

MARC HASENFUSS (58)
Business staff

PROTEA Assurance achieved a significant turnaround in the year to end December. AKG 10/3/93

The Cape Town-based group posted attributable profits of close to R13 million compared to a R10,5 million loss recorded in the previous financial year.

The dividend payout was increased to 60c a share for the year (previously 53c).

Directors attributed the improved performance to a "dramatic" turnaround in the short term insurance sector. They said the turnaround was facilitated by applying sound underwriting principles to all portfolios.

However, Protea's stringent standards impacted on net written premium levels which dropped slightly to R280 million.

There were also increased contributions from the Life and Investment (R26 million) in the period under review.

Directors pointed out that the results were achieved in spite of expenditure of almost R10 million on technology developments.

Looking ahead, directors said competition would undoubtebly intensify in the short term industry, placing pressure on underwriting profitability.

Uncertainty in the investment market would remain, but performance levels are expected to continue to exceed or equal the market average.

Directors said that while a newly forged alliance would have a positive impact on the Life operation, this would be offset by reduced disposable income and an associated increase in lapse ratios.

The introduction of the Protea 2000 computer technology base was still on schedule for completion at the end of this year. This improve Protea's flexibility, productivity and service levels.

■ Toyota's automotive parts associate **Metair** reported a hefty 48 percent fall in attributable profits to R8,1 million in the year to end December.

The dividend was slashed 46 percent to 40c a share.

Profits were adversely impacted by poor trading conditions and the prolonged strike at the Toyota plant.

■ **Harvest Securities**, an unlisted development company with holdings mainly in second line shares, reported a solid 18 percent increase in earnings a share to 22,4c for the year to end February.

The dividend payout was increased 13 percent to 17,5c a share.

The group's 10 biggest holdings include Santam, Ellerine, Industrial & Commercial Holdings, Currie Finance, WB Holdings, Bidvest, M & R Holdings, Omnia Holdings, NK Properties and Autopage.

Directors noted that in the 10 years since Harvest commenced operations the annual total return to shareholders (dividends paid plus capital appreciation) averaged 28 percent.

Net assets at market value showed an increase of 44 percent to R32 million during the period under review.

■ Sapa reports that **KWV** concluded the past financial year with a net income of R55,5 million, compared with R55,1 million in 1991.

The KWV head office at Paarl said yesterday it was able to maintain its profit level in 1992, despite exceptionally unfavourable trading conditions in the domestic market.

A growth of about 50 percent in the export turnover of branded products and grape juice concentrate was largely neutralised by a drastic drop in sales of brandy and wine spirits to domestic wholesalers, who considerably reduced stock levels.

Due to underestimation of last year's distilling wine pool, an excess of R18,8 million (R4,12 a hectolitres at 10 percent alcohol/volume) was paid out in 1992.

The KWV's recommendation at this year's annual general meeting will be to pay out a bonus of R22,8 million in April to producers who contributed to the pool of wine for distilling purposes in 1992.

It's not so bad being a landlord

Star 11/3/93

58

Property Editor

Landlords here might be having a tough time, but they should take comfort from conditions abroad. So should their tenants.

So says Rodney Timm, MD of the Baker Street Associates brokerage.

Writing in the Rode Report on the South African Property Market, he noted that recession had pushed up office vacancy figures in most business centres around the world — to as high as 18 percent in London City, for example. In downtown New York and Sydney, one-fifth of the available space is empty.

According to his latest figures, only nine percent of Johannesburg's A-grade office space is empty. And even Durban and Cape Town's 13 percent each doesn't look too bad.

What's more, while rent-free holidays have fallen from a peak of nine months in South Africa to between one and three months, landlords abroad are talking in terms of years.

Meanwhile, tenants here are also having a relatively easy time of it, with the highest rents payable being R36/sqm in Rosebank, where the vacancy rate is just five percent.

In Paris, where there is also a five percent vacancy, they would be paying the equivalent of R187/sqm.

And even in Melbourne, with the highest monitored vacancy rate of 24 percent, they would be paying A$45, or about R78/sqm.

In New York, asking rentals are between $37 and $43/sq foot, and in Los Angeles around $29/sq foot.

Rates in London vary from £37,50 to £42,50/sq foot.

Rand's fall may help exports

Blom 11/3/93

TIM MARSLAND

ECONOMISTS have welcomed the recent depreciation of the rand because it improved prospects for the export industry.

Safto chief economist Bruce Donald said recent surveys among the organisation's members showed exporters still saw the rand as an obstacle to export growth.

He said the recent decline in the rand did not compensate for the differential between SA's high inflation rate and those of its major trading partners. Exporters' margins were being squeezed by rising costs on the domestic front.

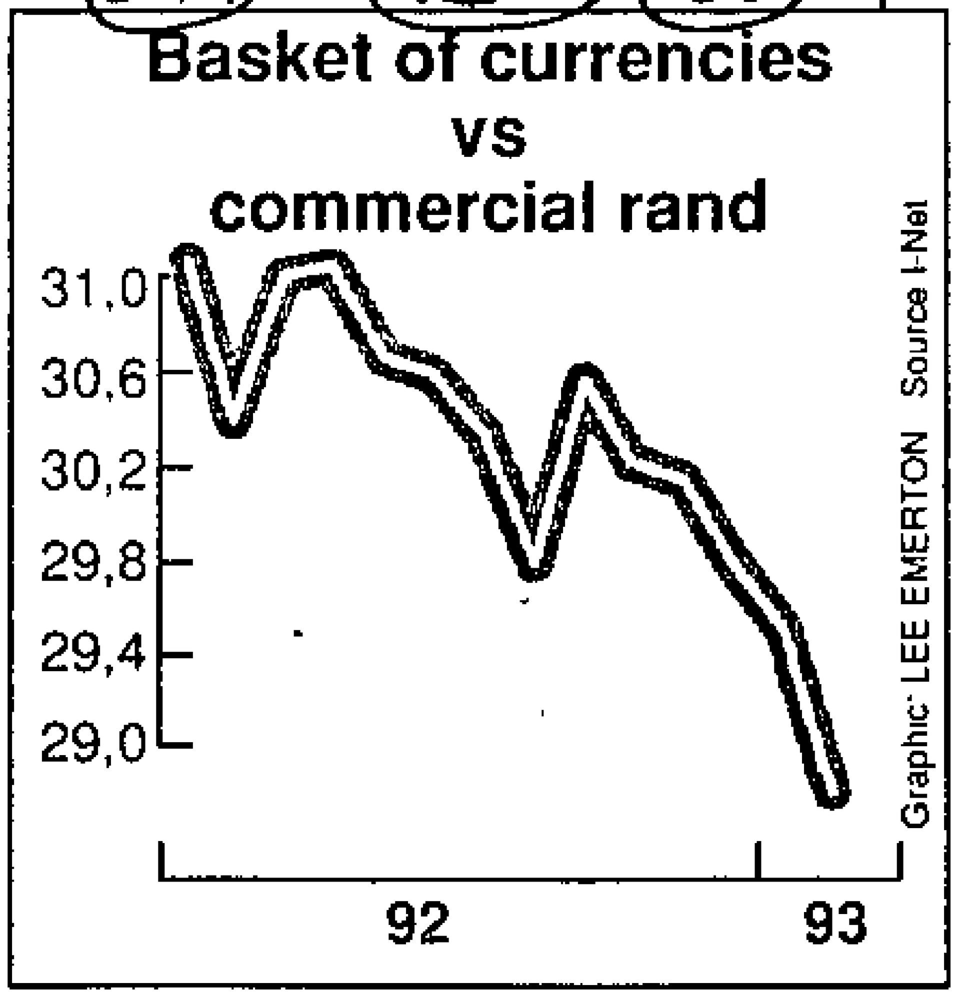
Nedcor Bank chief economist Edward Osborn said the declining rand was providing relief for exporters.

While export volumes would not increase because of the weaker rand, export income in rand terms would.

Commodities and precious metals accounted for about 70% of SA's exports, with the rest from the agriculture and manufacturing sectors.

Importers would be hurt to some extent. However, Osborn pointed out that about 70% of exports were in dollars and possibly 45% of imports were dollar-dominated.

Higher prices importers would have to pay would offset the advantages of the weaker rand to a degree.



Osborn put the rand exchange rate at a conservative R3,30 against the dollar by the year-end.

☐ The basket is a formula used by the Reserve Bank in determining the value of the rand and is made up of the currencies of SA's key trading partners.

The dollar has the largest weighting, followed by the sterling, the lira, the Deutschmark, the yen and the guilder. The Bank has never published the exact formula. The graph is based on an I-Net generated formula.

Investment company asks stokvels to divert funds to Krugerrands

WILSON ZWANE

INVESTMENT company Consortium Consolidated is urging stokvels to divert a portion of their members' funds from savings accounts and unit trusts and invest it in gold coins.

Mervyn Howard, firm's senior financial adviser, says members of stokvels are getting a raw deal from financial institutions in that they are paid "minimal interest rates".

He said "unit trusts have shown progressively poorer returns over the past five years. With the majority of blue chip companies (reporting) poor results, there will not be a dramatic improvement for months in this sector."

It is, therefore, advisable for stokvels to spread their risks, he says, adding that his company is offering stokvels an "investment medium" over which they will have control and which will offer them — among other things — tax benefits.

This medium, Krugerrands, can be used by stokvels as collateral when borrowing money from banks. He has been assured by the Receiver of Revenue that interest payable on money borrowed by stokvels for "constructive purposes" such as cost-effective housing, will be tax-deductible.

The move by Consortium Consolidated to get stokvels to invest in gold coins comes as negotiations between the National Stokvels' Association of SA and the Board of Executors (BoE) on the development of a special investment product for stokvel members continue.

Association consultant Stephen Japp said recently a number of companies in the US and Britain had signalled they would invest in a specially-designed unit trust product for stokvel members, provided it yielded good returns and was "benefiting people on the ground".

Association president Andrew Lukhele has said his organisation planned to alleviate the black housing crisis by diverting millions of rands from banks to specially designed unit trusts, which would serve as collateral for home loans.

The plan, Lukhele said, would allow black savings to be ploughed back into black communities rather than having the money lent to affluent whites.

In 1991, stokvels collected an estimated R83m a month compared " R52m in 1989, recent figures indicated.

Wooltru may issue R100m in paper

(58)

TIM MARSLAND

WOOLTRU was considering issuing unsecured commercial paper worth up to R100m on the money market, Wooltru Finance MD Jon Lavies said yesterday.

The move could make Wooltru the first listed company to do so, sources said.

Lavies said the firm had already issued about R40m of secured commercial paper.

In essence, commercial paper is an IOU issued by a company to a lender and is similar to instruments such as bankers' acceptances with fixed or variable interest rates. Under new rules gazetted in January, companies meeting certain requirements, such as holding net assets of more than R100m, can issue paper that does not have to be endorsed by a bank. B/DAY

This means funding costs are reduced, because having a bank secure debt can be costly. The paper has also to be issued in denominations of at least R1m. 11/3/93

Lavies said it was pointless for larger firms to have banks — which could have smaller asset bases — endorse their paper.

The paper could be issued at a rate similar to the non-liquid bankers' acceptance rate — currently about 12,00%.

Lavies said Wooltru had held talks with institutions and the response had been favourable. But there was no urgency surrounding the possible issue, he added.

Wooltru already had a money market operation, as it managed its debt on a daily basis, so few changes were needed to issue the paper. The paper would have maturities of up to 12 months, he said.

Indian buyers snap up land

58

PETER GALLI

RAND Mines Properties (RMP) has sold commercial, industrial and residential land worth about R30m to Indian buyers in the past few months.

"The Indian business community is taking a positive economic and political view of the future, which is reflected in the fact that they are buying large tracts of land," RMP marketing director Owen Wiggins said.

Almost half of the 30 available stands at RMP's new Crown Extension 7 township have been sold for a total of R4m since the project was launched little more than two months ago.

The land has been bought mainly to build clothing sector-related premises. About R6m is expected to be invested in the construction of these buildings. The R2,7m servicing of the township will be completed by July.

B/DAY

The township lies on the southwest fringe of the city and covers 8,2ha — of which 5,6ha is saleable. These sales come in the wake of the sale late last year of 85ha of RMP land to the Islamic Bank for R25m. The land, situated a few kilometres southwest of the city in the Ormonde Valley, is earmarked for a R200m housing estate.

11/3/93

"These developments reflect the growing awareness of the many opportunities, business and otherwise, that lie in the corridor between Johannesburg and Soweto. RMP is very active in this area and we believe there is strong potential growth," Wiggins said.

The group was also moving ahead with its 8ha Crown 8 township, which fronted on to Main Reef Road opposite the city testing grounds.

Tough year ahead warns Old Mutual

(58) CT 11/3/93

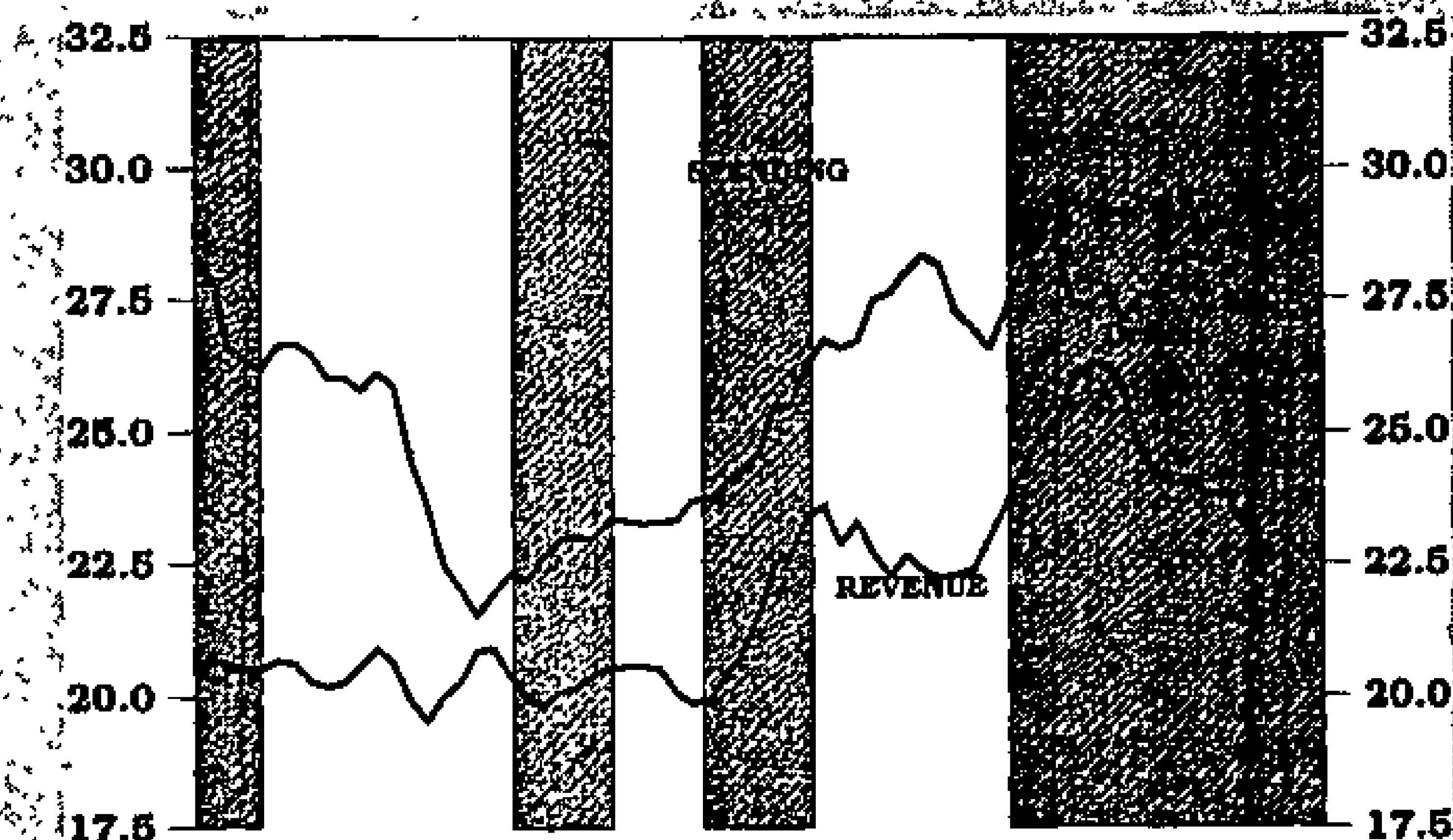
By AUDREY D'ANGELO
Business Editor

THE budget on Wednesday will not be good news for the man in the street, Old Mutual economist Rian Le Roux told a media briefing yesterday, and "there is a tough year ahead."

He expects the government to reduce its deficit before borrowing from nearly 9% to 6,7%.

This will be necessary to avoid the risk of falling into a debt trap, with the government's escalating interest bill taking up an increasing share of revenue.

But it will leave little scope for reducing taxation or lifting social spending in the budget — although there might be slight tax cuts for small companies, which tend to provide jobs, and for low income earners.



DEFICIT SOARS . . This Old Mutual graph shows how the government's deficit before borrowing has soared while its revenue has fallen.

And there is a strong possibility that pensions will rise. This is "a very efficient way of helping the poor."

Le Roux thinks Vat will go up by 2% or 3%. If the rise is 3% there should be an increase in the number of items which are zero-rated.

He also expects petrol to rise by 10c a litre and customs and excise duties to be increased to raise another R0,4bn.

He does not think there will be an increase in direct taxation "but it is not totally impossible".

Le Roux said reducing the deficit before borrowing to 6,7% would not be sufficient — but in its present state the economy could not stand big increases in tax or cuts in government capital expenditure.

The budget could be the worst in history relative to the state of the economy because the Minister of Finance was being forced to tighten up in a recession.

"Viewed from the state of the economy, it will be a very hard one."

Job losses would continue, with both the private and public sector "downsizing" and "rationalising".

Earnings leap for Liberty Holdings

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ANDREW KRUMM

LIBERTY Holdings had again notched up "outstanding" results in the year to end-December 1992, reporting a 26% jump in attributable earnings to R228,6m from R180,5m in the previous period, chairman Donald Gordon said yesterday.

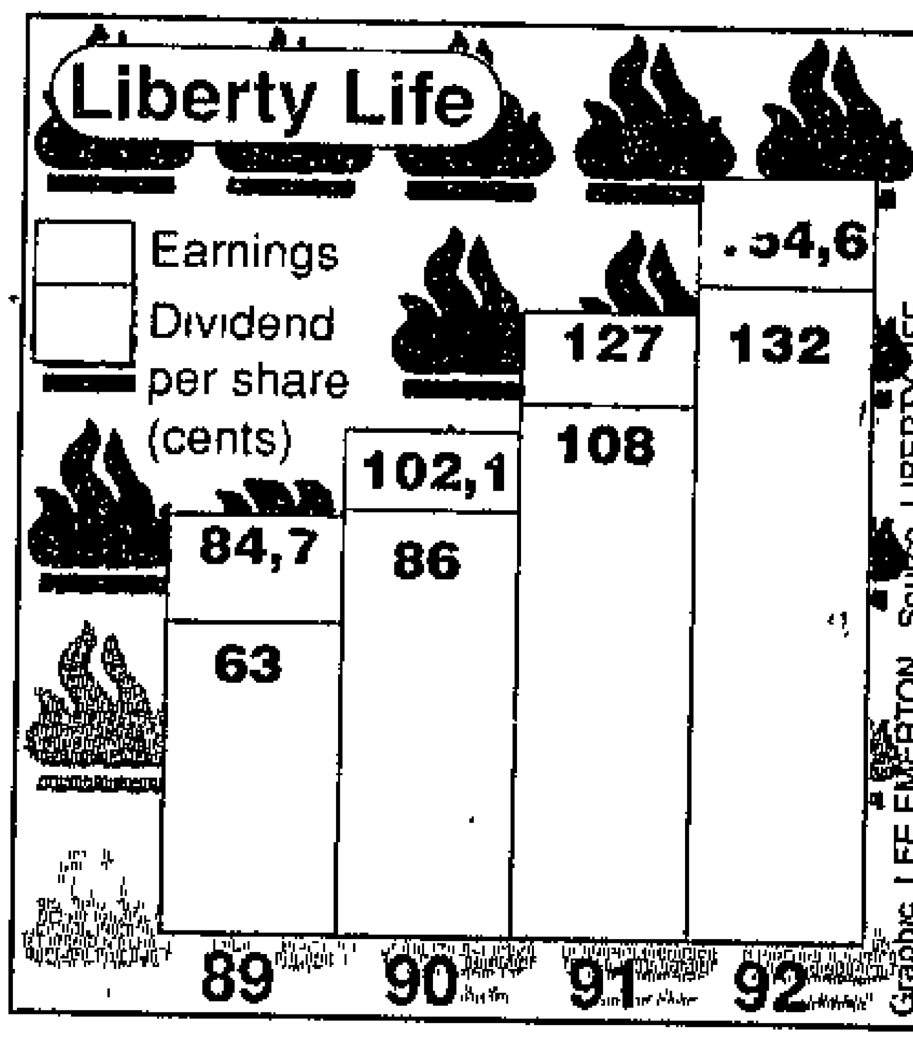
"This represents a 26,4% rise in earnings a share to 500,2c a share (1991: 395,7c), while dividends increased to 360c (284c) a share."

Core insurance subsidiary Liberty Life Association showed a 21,7% increase in basic earnings to 154,6c a share, with its dividend increasing by 22,2% to 132c.

"These levels of basic earnings and dividend growth were achieved notwithstanding the special anniversary dividends paid during the year," he said.

Liberty Holdings declared a special dividend of 300c a share in 1992, while Liberty Life Association sent out an extra 100c a share to shareholders.

Gordon said Liberty Life Association remained the dominant contributor to group earnings, reporting a R352,8m (R275m) net taxed surplus off R4,8bn (R3,94bn) total income. Good contributions also came from other Liberty Holdings subsidiaries and associates such as Liberty Asset Management (R11,7m contribution), Liberty Life Properties (R9,9m) and GuardBank Management Corporation (R4m).



Liberty Life's offshore arm, First International Trust, did not fare as well and dropped attributable earnings to R49,5m over the period from R53,7m in 1991. The dividend, though, was maintained at 20c a share. "These figures are not strictly comparable in the light of major structural changes which occurred in TransAtlantic Holdings in 1992."

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The structural changes include a one-for-four rights issue by TransAtlantic to raise R693m in May 1992, the investment of R1,3bn to acquire a strategic interest in UK-based assurer Sun Life Holdings, and property dealings.

First International Trust now has a 36,8% interest in TransAtlantic Holdings, in addition to Liberty Life's direct 17,4% interest. While TransAtlantic has a 50% interest in UK-based assurer Sun Life Holdings.

Gordon said Sun Life's after tax profits had advanced to R232m from R214m in 1991. "A number of adverse factors affected the profitability of (Sun Life's) long-term insurance business, although the net surplus increased by 20% to R156m."

Turning his attention back to Liberty Life, Gordon emphasised that the average annual compound rate of growth in the assurer's net asset value a share over the 12-year period to end-1992 was more than 40% a year. "These unprecedented results are gratifying and reflect the underlying strength and performance of the Liberty Life Group over a very long period."

Liberty Life's shareholders' capital amounted to R8,5bn in December 1992, making it one of the most highly capitalised life companies in the world, while total assets stood at R35,5bn (R34,5bn).

Commenting on the group's 39% interest in Standard Bank Investment Corporation, Gordon said the wider Liberty Life/Standard Bank grouping had consolidated its position as SA's largest financial services group, with total worldwide investment and financial assets exceeding R160bn. "This includes the assets of Sun Life and other corporations which we jointly control and clients' investment under our management."

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THE LIBERTY LIFE GROUP

LIBERTY LIFE ASSOCIATION OF AFRICA LIMITED
(Reg No 57/02788/06)

LIBERTY HOLDINGS LIMITED
(Reg No 68/02095/06)

GROUP CHAIRMAN'S STATEMENT FOR 1992

Donald Gordon, Chairman

"There is an enormous and time-consuming task which lies ahead in creating an acceptable environment from which to launch a new economic dispensation and to achieve reasonable prosperity, political reform and upliftment for all our people. The political impediments to achieving this goal must be resolved with due expedition by the constructive involvement and realistic compromise of all political groupings. Time is now of the utmost importance."

"Outstanding results were achieved by both Liberty Holdings and its core life insurance operating subsidiary, Liberty Life, which achieved new record levels of earnings, dividends and asset growth in the year under review."

"Following upon the excellent results for 1992 of Standard Bank Investment Corporation, in which The Liberty Life Group has a 39% interest, not only has The Standard Bank Group reaffirmed its pre-eminent role as the leading banking group in southern Africa but the wider Liberty Life/Standard Bank grouping has consolidated its position as the largest South African based financial services group with total worldwide investment and financial assets exceeding R160 billion."

"Against the difficulties being experienced in the South African economy, I am pleased to report that excellent competitive levels of bonuses were declared on the various types of policies issued by Liberty Life. The average levels of bonuses which have been achieved over a 5, 8 and 10 year period, as the case may be, are extremely competitive and have provided a clear immunisation against the inflationary conditions which have prevailed during these periods."

"Total new business of Liberty Life for 1992 amounted to R1,70 billion compared with R1,25 billion for 1991, an increase of 36%."

International background

The world is undergoing a period of considerable change and virtually all the major economies including the United States of America, Germany, Japan, France and the United Kingdom are simultaneously experiencing debilitating recessions. Some of these countries which were stricken earlier by this malaise are beginning to show signs of fragile improvement in their short term economic prognosis. There is certainly some evidence of recovery in the United States feeling the adverse effects of this development and, in relative terms, the position of the United States is broadly advantageous due to the exceptionally low interest rate regime orchestrated by the Federal Reserve which has had the positive impact of substantially improving United States' bank margins and prospects as well as having a beneficial result by inducing a lower United States Dollar and, as a consequence, stimulating domestic growth, stock market buoyancy and export opportunities at the expense of their rivals.

greatly as a consequence of heavily deflated asset values particularly in the real estate sector and equity markets, the consequences of which are now bringing the Japanese financial system into serious difficulty. Massive stimulation of the Japanese economy has been the order of the day and this, to date, has had only a marginal effect on the Japanese property and stock markets where the Nikkei Dow Index at the year end was marginally below 17 000 – a 26% drop from the level at the beginning of 1992 and a near 60% decline from the high achieved three years ago. During the past few years, I have consistently predicted a major drop

Nonetheless, I am still doubtful that the readjustment as yet reflects the fundamentals which will ultimately achieve their correct level as determined by the markets. Although still boosted by massive trade surpluses, albeit with the penalty of vastly reduced profitability in the industrial sector, the ongoing solvency problems of the Japanese financial institutions still represent a major threat with serious global repercussions. The inability to resolve commercial and mercantile conflicts, disagreement over GATT, boycotts, sanctions and restrictive practices of all kinds is exacerbating the gathering trade war. Consequently international economic and political tensions are rising to a level seldom seen before and constitute another threat to global stability and peace in an evolving world heavily reliant on inter-dependability. There is no doubt that most of the leading trading countries of the world regard their fundamental vested interests as being at risk and are likely to react very robustly to actual or supposedly unfair or protective tactics from their perceived competitors.

Following the recent inauguration of President Clinton, his performance is being watched and monitored with enormous concern around the world. His endeavours to improve the American financial fabric, still buffeted by the massive ongoing fiscal and trade deficits as well as the unresolved problems of the United States' financial sector, will have a major impact on the role to be played by the Western world which could be facing an era of diminishing economic influence compared with the burgeoning power of the Far East and the Pacific Rim in which China is now beginning to play an increasingly prominent role. In its role as the leading world power, the United States faces formidable problems in balancing its domestic demands and the often conflicting requirements and vital interests of a wider world. The outcome of these intractable issues, to a great extent, will be determined by the judgment and evenhandedness shown by a President backed by a compatible Congress and Senate with a relatively inexperienced new Administration, taking power at this critical moment in the world's especially complex political and economic inter-relationship.

In the United Kingdom 1992 was a year of traumatic change notwithstanding a narrow and somewhat surprising electoral victory for the Conservative Party in the early part of the year. While the enforced decoupling from the Exchange Rate Mechanism on 16 September 1992 and the consequent devaluation of Sterling should have improved economic prospects in the United Kingdom, there is, however, a strong possibility that these benefits could be partly dissipated by the ballooning budget and trade deficits and a resurgence of inflationary pressures sooner than expected. The United Kingdom economy is especially prone to inflation and the British establishment and political [illegible] determine whether this will be sustainable against the backdrop of the gloom and deepening recession into which most other major economies are falling. Certainly Germany, France and Japan are facing up to many similar consequences and implications of the serious slumps experienced earlier in the United States and the United Kingdom. The sad story of worsening economic fundamentals, rising unemployment, loss of confidence, reduction in industrial output, problems relating to the property sector and loan losses involving massive write-downs by the banks is a common theme in these economies which dominate world affairs. Unprecedented currency volatility has exacerbated the difficulties of achieving a sound global economic environment and the necessary stability and harmonisation of interest rate policies in the leading industrialised nations.

The restrictive and high interest rate policy of the Bundesbank, reflecting the traditional German paranoia regarding inflation, and the deficiencies of the European Exchange Rate Mechanism have played havoc with European prospects of recovery, notwithstanding the negligible interest rate adjustments recently announced. The Bundesbank rigidity, to a large extent, has been aggravated by the internal needs of the German economy to finance the escalating costs involved in the integration of East Germany embarked upon since the fall of the Berlin Wall some three years ago. Germany, on both geographic and political considerations, is also having to bear the brunt of the economic and financial burden arising from mass refugee immigration over the German border and the general disruption and instability of Eastern Europe which is still overshadowed by the once inconceivable disintegration of the monolithic Soviet Union and its satellite states. Rehabilitation of Eastern Europe seems a long way off with the major conflict and escalating ethnic strife in the Balkans offering little immediate prospect of normality and perhaps foreshadowing further strife involving the entire region for a long time to come.

Notwithstanding the increasing tensions in the Middle East in the aftermath of the Gulf War, the unfolding problems in Eastern Europe seem to be the current single greatest threat to world stability. In the light of their own internal problems, clearly insufficient attention is being given by the developed Western countries and other wealthy nations to defuse this potentially explosive situation should the Russians fail in their objective of embracing a democratic system and Western economic standards and ethics. There is limited evidence of any fundamental improvement in the disastrous economic situation which has overtaken the once all-powerful Soviet Empire. The prospects for this region are dire indeed and, for the time being, many of the economic repercussions are falling upon the adjacent German Republic which is having a major adverse influence on that country's economy and which is now sinking rapidly into deeper recession. The rigid interest rate policy and the high level of average wages in Germany is increasing the recessionary prospects while, at the same time, holding the German Mark at too high a level.

This scenario is creating substantial difficulties for international trade where the aggregate world export potential has already been greatly diminished by the global slowdown. In this regard, there is strong evidence of a major international trade war developing where all the dominant exporting countries are manoeuvring vigorously for a share of a diminishing market. Both Germany and Japan are in an attempt to revive its economy which has suffered [illegible] the enormous deflation that had already occurred.

LIBERTY LIFE ASSOCIATION OF AFRICA LIMITED

(Registration number 57/02788/06)
(Incorporated in the Republic of South Africa)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 1992

A. Summarised group income statement

	1992 Rm	1991 Rm	% change
Net premium income and annuity considerations	**2 976,4**	2 274,5	+30,9
Net income from investments	**1 875,8**	1 662,4	+12,8
Total income	**4 852,2**	3 936,9	+23,2
Net taxed surplus	**352,8**	275,3	+28,2
Dividends on preference shares	–	(0,3)	
Net taxed surplus attributable to ordinary shareholders	**352,8**	275,0	+28,3
Number of ordinary shares in issue (000's)	**228 824**	227 756	
Number of ordinary shares on which net taxed surplus per share is based (000's)	**228 197**	216 503	
Net taxed surplus per ordinary share (cents)	**154,6**	127,0	+21,7
Dividends per ordinary share (cents)			
– Interim (declared 19 August 1992 paid 2 October 1992)	**54,0**	43,0	
– Final (declared 11 February 1993 payable 8 April 1993)	**78,0**	65,0	
Total ordinary dividends	**132,0**	108,0	+22,2
– Special anniversary dividend (declared 19 August 1992 paid 2 October 1992)	**100,0**		

B. Summarised group balance sheet

	1992 Rm	1991 Rm
Interests of shareholders of Liberty Life Association of Africa Limited	**4 989,3**	4 433,4
Interests of minority shareholders in subsidiaries	**3 512,9**	3 653,1
Total shareholders' capital and reserves employed	**8 502,2**	8 086,5
Long-term liabilities	**2 567,3**	3 367,7
Life funds	**23 008,4**	20 760,5
– Actuarial liabilities under unmatured policies	**20 350,5**	18 129,8
– Investment surpluses, development, stabilisation and other reserves	**2 657,9**	2 630,7
	34 077,9	32 214,7
Represented by		
Investments	**33 575,0**	31 201,9
Government, municipal and utility stocks	**5 777,8**	4 597,0
Debentures, mortgages and loans	**863,6**	584,2
Properties	**8 602,9**	8 246,3
Shares and mutual fund units	**17 101,3**	16 079,5
Deposits and money market securities	**1 229,4**	1 694,9
Fixed assets	**98,9**	109,5
Cash resources	**683,7**	1 778,2
Other current assets	**1 324,5**	1 432,9
Total assets	**35 682,1**	34 522,5
Current liabilities	**1 604,2**	2 307,8
	34 077,9	32 214,7

Note

Group chairman's statement

Further details of the activities of Liberty Life and its subsidiaries are contained in the Liberty Life Group Chairman's statement for 1992.

On behalf of the board

D Gordon *(Chairman)*
A Romanis *(Managing director)*

Johannesburg
10 March 1993

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4th Floor, 154 Market Street
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PO Box 4844
Johannesburg, 2000

United Kingdom transfer secretaries
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economy, drawing on parallels from the low interest rate and monetary regimes adopted by the US Federal Reserve and the Japanese authorities to justify their approach.

The South African environment

Whilst undoubted progress towards a new political dispensation acceptable to the peoples of South Africa is being painstakingly achieved, the year under review witnessed a period of deepening recession, severe contraction of the South African economy, negative growth, a greatly reduced level of consumer expenditure and a disturbing increase in the number of unemployed resulting in unprecedented levels of crime and lawlessness. This worsening economic environment, although aggravated to a great extent by world recessionary conditions and a devastating drought, is nonetheless powerfully related to a lack of political certainty and business confidence. The level of violence and social unrest worsened during the year and it is of vital importance that the political restructuring necessary to achieve a new democratic South Africa be settled as soon as possible to avoid the very fabric of our economic wellbeing becoming irreversibly destabilised. Fortunately the prospects for agriculture and basic food production are now considerably brighter as the crippling drought seems to have been broken in most areas of the country.

Much will, however, have to be done in the future to facilitate the upliftment of the disadvantaged members of our community and to achieve an acceptable level of economic empowerment by the black community in South Africa. In the event that a new political dispensation, supported by the principles of a free enterprise system, is achieved, this should create a catalyst for the acceleration of the development of our economy which should then be capable of redressing some of the aforementioned difficulties. Nonetheless, until the international recessionary conditions improve with concomitant favourable effects on the South African economy and our export activity centred on our mineral wealth, our ability to extract ourselves from the vicious spiral of recessionary and unstable conditions within South Africa will obviously be restricted.

There is an enormous and time-consuming task which lies ahead in creating an acceptable environment from which to launch a new economic dispensation and to achieve reasonable prosperity, political reform and upliftment for all our people. The political impediments to achieving this goal must be resolved with due expedition by the constructive involvement and realistic compromise of all political groupings. Time is now of the utmost importance and any further delay in the final removal of sanctions and other apartheid restrictions will be self-defeating and will delay normalisation of a post-apartheid economic structure much longer than is perhaps anticipated in many political circles.

Social involvement

The activities of The Liberty Life Foundation and The Liberty Life Group Community Fund strive to ensure that all members of society who wish to do so will be able to

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THE LIBERTY LIFE GROUP CHAIRMAN'S STATEMENT – *continued*

participate effectively in a changed South Africa. Around 900 projects which we actively support include all aspects of education and training, health, pre-school educare programmes, university public administration initiatives, a large number of rural or agricultural development projects as well as innumerable job creation, literacy and skills training schemes throughout South Africa. In addition, we have committed significant sums to ameliorate human suffering and to provide for those in need. Upliftment of the under-privileged and disadvantaged segments of the population at this stage of the transition to a new political dispensation has obviously received priority treatment by the Trustees and Administrators of our social funds.

During 1992 approximately R50 million was committed to, or spent on, various initiatives and projects and many additional long-term proposals are being investigated. In view of the important role which The Liberty Life Foundation and The Liberty Life Group Community Fund play in assisting the under-privileged and disadvantaged sectors of South African society, a brochure has been prepared reflecting details of the initiatives and projects we have undertaken. I am certain that this brochure will give shareholders and other interested parties a clear perception of the excellent work being carried out.

Special anniversary dividends

In order to mark the 35th anniversary of Liberty Life, a non-recurring special anniversary dividend of 100 cents per share was paid in October 1992 and, as a result of such payment, Liberty Holdings received a special anniversary dividend of R120,2 million based on its shareholding in Liberty Life. Liberty Holdings simultaneously declared a special anniversary dividend of 300 cents per share to mark its 25th anniversary at the end of 1992. This dividend was funded out of the special anniversary dividend received from Liberty Life – equivalent to 263 cents per Liberty Holdings' share and augmented by 37 cents out of Liberty Holdings' own retained surplus – to the total of 300 cents per share.

Notwithstanding the payment of the special anniversary dividend declared by Liberty Life out of its distributable surplus at a cost of R228,1 million, the interests of shareholders of Liberty Life amounted to almost R5 billion at 31 December 1992 compared with R4,43 billion at the end of 1991. This represents a net increase of R560 million for the year equivalent to 233 cents per share attributable to shareholders.

The corporate scene

In my review of the operations of The Liberty Life Group for the 1991 financial year, I indicated to shareholders that, in order to facilitate the continued growth and development of our corporate objectives during the balance of the present decade, we had embarked upon a number of major strategic corporate transactions which would [illegible] fundamental political and financial environment which now prevails universally.

Investment funds and property interests entrusted to us for management by major pension fund clients and other institutional investors, including the GuardBank suite of unit trusts and our associate, Guardian National Insurance Company Limited, total investments under The Liberty Life Group's direct control reached almost R48 billion. This excludes approximately R50 billion (£11 billion) of investments in respect of the United Kingdom based life insurer, Sun Life Corporation plc (Sun Life) in which, through Liberty Life's United Kingdom subsidiary, TransAtlantic, we have joint ownership and equal 50% control together with Société Centrale Union des Assurances de Paris (UAP).

Following upon the excellent results for 1992 of Standard Bank Investment Corporation, in which The Liberty Life Group has a 39% interest, not only has The Standard Bank Group reaffirmed its pre-eminent role as the leading banking group in southern Africa but the wider Liberty Life/Standard Bank grouping has consolidated its position as the largest South African based financial services group with total worldwide investment and financial assets exceeding R160 billion. This includes the assets of Sun Life and other corporations which we jointly control and clients' investments under our management.

Based on the market price of Liberty Life's shares on The Johannesburg Stock Exchange at 5 March 1993, Liberty Life has a market capitalisation of R14,5 billion and was ranked as the fifth largest listed company on The Johannesburg Stock Exchange in terms of market capitalisation. It has a market capitalisation on the London Stock Exchange of £2,2 billion which reflects the prevailing discount of the Financial Rand which determines the share prices of South African companies listed on international stock exchanges.

The financial statements of Liberty Holdings, Liberty Life and First International Trust are again combined in this single document and this approach should give shareholders a clear understanding of The Liberty Life Group's inter-related operations in the life insurance and investment fields. Shareholders are also referred to "The Structure of The Liberty Life Group" in the annual report for a full appreciation of the interrelationship of all major companies comprising The Liberty Life Group including its major associates, connections and important interests.

The dividend policy which has been adopted by Liberty Life establishes dividend distributions at a level of not less than 85% of its basic net taxed surplus excluding capital growth relevant to shareholders' investments which under our accounting policies are credited directly to non-distributable reserves. This policy has matching repercussions on the dividend policy within Liberty Holdings whose dividend distribution pattern is naturally influenced by the level of dividend receipts from its subsidiaries and other investments. Liberty Life adopts this approach insofar as the 85% level of distribution relates only to basic income earnings which, to a large extent, emanate from basic operating income and ignores the increase in value of Liberty Life's underlying shareholders' strategic investments which, through capital appreciation, have resulted in a powerful augmentation of shareholders' funds over the years. Consequently, as described above, the true combined return inherent in investment in Liberty Life equity is materially greater than the basic net taxed surplus per share on which the 85% dividend distribution policy is based. For 1992, taking into account the attributable capital surplus and earnings per share, the combined surplus per Liberty Life share amounts to 465 cents, effectively covering the payment of the normal dividend for 1992 of 132 cents per share 3,5 times.

Investment surpluses, development, stabilisation and other reserves within the Life Fund at 31 December 1992 amounted to R2,66 billion (1991: R2,63 billion). These Life Fund reserves include unallocated surpluses on equity and property investments, stabilisation and other reserves which have been retained to facilitate the development of Liberty Life's business, to further augment its financial strength and to provide for the stabilisation of policyholder bonus rates.

Net premium income and annuity considerations received by Liberty Life during 1992 increased from R2,27 billion in 1991 to R2,98 billion. Net income from investments rose during the year by 12,8% from R1,66 billion to R1,88 billion. As a result of the higher income levels achieved in net premium income and annuity considerations and net income from investments, Liberty Life's total income reached R4,85 billion, increasing by 23,2% over the level achieved in 1991.

Claims and policyholders' benefits increased from R1,52 billion in 1991 to R2,08 billion in the year under review in line with the dynamic growth and maturity of Liberty Life's insurance business. Mortality experience during the year was favourable reflecting the professional and sophisticated underwriting standards pursued by Liberty Life. Management expenses of the life insurance operations amounted to R325,8 million compared with R286,0 million for 1991, an increase of 13,9%. This is a satisfactory outcome in the light of the significantly enlarged size and scope of Liberty Life's operations and reflects the success which is being achieved in our efforts to contain management expenses while improving service levels, which is a key element in maintaining our advantage in a highly competitive market place.

Against the difficulties being experienced in the South African economy, I am pleased to report that excellent competitive levels of bonuses were declared on the various types of policies issued by Liberty Life. The average levels of bonuses which have been achieved over a 5, 8 and 10 year period, as the case may be, are extremely competitive and have provided a clear immunisation against the inflationary conditions which have prevailed during these periods. Whilst the equity market did not yield exciting results in 1992, it is gratifying that our property interests produced very solid growth and provided an ideal stabiliser while pedestrian conditions prevailed in the stock market.

One of the key measures of a life insurer's progress is the growth in the level of its new annualised recurring premiums. In 1992 this amounted to a record R577 million compared with R474 million for the previous year, representing an increase of 22%. Individual new recurring premium business for 1992 amounted to R498 million reflecting a 26% increase over 1991. An important milestone was passed in 1992 when total new individual premiums, including single premiums at R1,02 billion, exceeded R1 billion for the first time – an increase of 33% over the 1991 equivalent figure of R767 million.

Total new group and pensions recurring and single premiums amounted to R678 million reflecting a 40% increase over the comparable level of R484 million achieved in 1991. Total new business of Liberty Life for 1992 amounted to R1,70 billion compared with R1,25 billion for 1991, an increase of 36%. These excellent results, particularly in the recessionary conditions prevailing, are indicative of Liberty Life's proven ability to enhance its market share through innovative marketing as further evidenced by the continuing success of the Medical Lifestyle range of products, its commitment to quality and its outstanding investment performance over a long period.

International operations of TransAtlantic in 1992

For TransAtlantic the 1992 year was very much a period of transition, encompassing a series of corporate transactions which transformed TransAtlantic from a holding company, whose major investments were themselves London quoted companies, into a larger and more powerful enterprise with a London listing in its own right. The introduction of TransAtlantic to the Official List of the London Stock Exchange in the life insurance sector on 30 July 1992, in addition to its Luxembourg listing, marked a high point in this process.

The listing commenced somewhat unremarkably and the share price declined initially from its modest opening price of 197p, in part due to indifferent market-making activity on the London Stock Exchange. However, as the special attributes and potential of TransAtlantic became better known in the market, the shares rallied strongly to a level of 273p (ex the 6p dividend) on 5 March 1993 - almost 70% higher than its low point in October 1992.

Since its incorporation in 1980, TransAtlantic has pursued a policy of growth by investing in high quality assets with a prospect of significant capital appreciation and growth in the medium term. In the business sectors with which TransAtlantic is concerned – the life insurance and property markets – the year has been relatively unexciting insofar as there was little reprieve in the poor outlook for the United Kingdom economy and, in particular, the property market resulting from the massive recession, decreased investor confidence and the vicious downward spiral of economic activity and asset deflation which, to a greater or lesser degree, has affected most of the leading nations of the world for the past few years.

these transactions have now been successfully concluded but the process of improving our prospects and efficiency continues unabated. Against the background of world recessionary conditions and global political uncertainty, our corporate objectives have been clearly advanced and we look forward to reaping further benefits from our long-term strategies in the years ahead.

The Liberty Life Group results for the year

Outstanding results were achieved by both Liberty Holdings and its core life insurance operating subsidiary, Liberty Life, which achieved new record levels of earnings, dividends and asset growth in the year under review. The consolidated taxed profit of Liberty Holdings and its subsidiaries for the year ended 31 December 1992 attributable to ordinary shareholders, after deduction of minority shareholders' interests and preference share dividends, amounts to R228,6 million compared with R180,5 million in 1991. This represents an increase of 26,4% in earnings to 500,2 cents per share while dividends increased by 26,8% to 360 cents per share. Liberty Life showed a 21,7% increase in basic earnings to 154,6 cents per share, with its dividend increasing by 22,2% to 132 cents per share. These outstanding levels of basic earnings and dividend growth were achieved notwithstanding the special anniversary dividends paid during the year.

Liberty Life contributed 77% of The Liberty Life Group's taxed earnings in 1992 and clearly remains by far the dominant contributor to The Group's overall profits. After deducting minority shareholders' interests, Liberty Life's net taxed surplus amounted to R352,8 million compared with R275,3 million in 1991 representing a record basic net taxed surplus per ordinary share of 154,6 cents in 1992.

The average annual compound rate of growth in net asset value attributable to a Liberty Life ordinary share over the twelve year period ended 31 December 1992 and, after taking into account all dividend distributions during that period, the real measure of shareholder wealth creation was over 40% per annum compound with a similar rate of combined growth applicable to Liberty Holdings' shares. These unprecedented results are exceedingly gratifying and reflect the unique underlying strength and performance of The Liberty Life Group over a very long period.

At the end of 1992 Liberty Life's shareholders' capital, including R3,51 billion contributed by minority shareholders, amounted to R8,50 billion. This substantial increase in shareholders' funds is mainly attributable to the strong growth in the value of certain strategic investments attributable to shareholders, notably Standard Bank Investment Corporation, The South African Breweries, mainly through the 34% shareholding in Beverage and Consumer Industry Holdings, and The Premier Group. Liberty Life had total assets at 31 December 1992 of R35,7 billion (1991: R34,5 billion).

Taking into account R2,66 billion of disclosed Life Fund reserves, The Liberty Life Group has R11,2 billion of free assets backing its obligations to policyholders and creditors which provides an unprecedented level of security, particularly valuable in the very difficult and uncertain

LIBERTY HOLDINGS LIMITED

(Registration number 68/02095/06)
(Incorporated in the Republic of South Africa)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 1992

A. Summarised group income statement

	1992 Rm	1991 Rm	% change
Profit after taxation	399,1	310,4	+28,6
Minority interests	(157,9)	(116,5)	+35,5
Profit attributable to shareholders	241,2	193,9	+24,4
Dividends on preference shares	(12,6)	(13,4)	
Profit attributable to ordinary shareholders	228,6	180,5	+26,6
Number of ordinary shares on which earnings per share is based (000's)	45 709	45 618	
Earnings per ordinary share (cents)	500,2	395,7	+26,4
Dividends per ordinary share (cents)			
– Interim (declared 19 August 1992 paid 2 October 1992)	142,0	110,0	
– Final (declared 11 February 1993 payable 8 April 1993)	218,0	174,0	
Total ordinary dividends	360,0	284,0	+26,8
– Special anniversary dividend (declared 19 August 1992 paid 2 October 1992)	300,0	–	

B. Summarised group balance sheet

	1992 Rm	1991 Rm
Interests of shareholders of Liberty Holdings Limited	2 958,5	2 590,7
Interests of minority shareholders in subsidiaries	5 802,2	5 703,2
Total shareholders' capital and reserves employed	8 760,7	8 293,9
Long-term liabilities	2 567,3	3 367,7
Life funds	23 008,4	20 760,5
– Actuarial liabilities under unmatured policies	20 350,5	18 129,8
– Investment surpluses, development, stabilisation and other reserves	2 657,9	2 630,7
	34 336,4	32 422,1
Represented by		
Investments	33 832,9	31 384,7
Government, municipal and utility stocks	5 788,4	4 604,2
Debentures, mortgages and loans	863,6	584,2
Properties	8 616,7	8 259,6
Shares and mutual fund units	17 334,8	16 241,8
Deposits and money market securities	1 229,4	1 694,9
Fixed assets	104,5	115,0
Cash resources	950,3	1 977,7
Other current assets	1 240,0	1 312,0
Total assets	36 127,7	34 789,4
Current liabilities	1 791,3	2 367,3
	34 336,4	32 422,1

Note

Group chairman's statement

Further details of the activities of Liberty Holdings and its subsidiaries are contained in the Liberty Life Group Chairman's statement for 1992.

On behalf of the board

D Gordon *(Chairman)*
F B Sher *(Managing director)*

Johannesburg
10 March 1993

Transfer secretaries

Central Registrars Limited
4th Floor, 154 Market Street
Johannesburg, 2001
PO Box 4844
Johannesburg, 2000

collaboration with its major shareholders, a high-calibre international life insurance and investment and property-based financial services group in the English-speaking world. With this objective in view, the 50% equal participation with UAP in Sun Life Holdings PLC (Sun Life Holdings) and UAP's 18% interest in TransAtlantic itself, with The Liberty Life Group owning 54% of TransAtlantic's equity, constitutes a unique and exciting linkage at two complementary levels between TransAtlantic, Liberty Life and UAP, France's premier insurer and the second largest in Europe. The cordial relationship which has been developed between Liberty Life and UAP is becoming an important cornerstone of TransAtlantic's escalating potential.

The 50% interest in Sun Life Holdings has not been revalued from the carrying value of around £400 million (R1,9 billion) at 31 December 1991 on the basis of normal equity accounting procedures and takes no account of changes in embedded value of Sun Life since the acquisition by Sun Life Holdings in November 1991. The consolidated balance sheet does not take account of TransAtlantic's 50% interest in the balance sheet of Sun Life itself, in which total assets increased from £9 billion (R41,9 billion) to £11 billion (R51,2 billion) including Life Fund investment reserves which increased from £737 million (R3,4 billion) to £878 million (R4,1 billion) at the year end.

Sun Life achieved a satisfactory new business performance in 1992 following the exceptional 95% increase in total new premium income achieved in 1991. This outstanding benchmark level was matched at £1,49 billion (R7,4 billion) in 1992 compared with £1,5 billion (R7,5 billion) in the previous year. New single premium income totalled £1,4 billion (R7,0 billion) for the full year (1991: £1,4 billion (R7,0 billion)). Regular premiums fell by 3% to £85,6 million (R425 million) due mainly to the reluctance of employers to commit themselves to increased premium contributions in the prevailing difficult economic climate.

Sun Life's profit after tax advanced from £43 million (R214 million) to £46,7 million (R232 million). A number of adverse factors affected the profitability of the long-term insurance business but, reflecting the strong sales in 1991 and 1992 of unitised with-profits bonds, the net surplus increased by 20% to £31,4 million (R156 million).

Mr Peter Grant, chairman of Sun Life joined the board of TransAtlantic on 14 December 1992, a welcome reflection of the increasingly close association between TransAtlantic and Sun Life.

Through TransAtlantic's 100% ownership of Capital & Counties plc, our important property subsidiary in the United Kingdom, TransAtlantic owns a high quality real estate portfolio valued at over £1 billion (R4,7 billion). Capital & Counties is the market leader in the United Kingdom in the development and management of regional shopping centres and its flagship property investment is the Thurrock Lakeside Regional Shopping Centre located on the eastern perimeter of London alongside the M25 Motorway. Thurrock Lakeside constitutes over 40% of Capital & Counties' United Kingdom property portfolio and represents a unique investment by virtue of its ideal location, the size and population profile of its catchment area, its dominant trading position and the scale and variety of its retail and leisure facilities. It is the only truly regional shopping centre serving London and the South-East, and one of only three similar

whole page (58)

THE LIBERTY LIFE GROUP CHAIRMAN'S STATEMENT – *continued*

out-of-town regional shopping centres in England. The population catchment area of some 11 million people within one hour's driving time has hardly been exploited to date and increased penetration can be anticipated for many years to come as the full attractions of the scale, quality and variety of shopping on offer become known to its immense natural market. Customer utilisation and retail turnover at the centre is rising rapidly necessitating significantly increased parking facilities which are planned to be in place as soon as possible.

A one-for-four rights issue at 250p per ordinary share was embarked upon by TransAtlantic raising £149 million (R693 million) before expenses, and was completed in May 1992. The rights issue was a major factor in the strengthening of TransAtlantic's financial position and in restoring its liquidity, following the aggregate investment of some £270 million (R1,3 billion) in increasing its effective strategic interest in Sun Life to 50% and in subscribing for its pro rata proportion in the Capital & Counties rights issue in August 1991.

The rights issue was followed by a merger of Capital & Counties with TransAtlantic by way of a Court Scheme of Arrangement. The merger, which became effective on 30 July 1992, involved the issue of 25,8 million new TransAtlantic ordinary shares on the basis of five TransAtlantic ordinary shares for six Capital & Counties' ordinary shares and 63,6 million 6% TransAtlantic "B" convertible preference shares of £1 each in exchange for an equal number of 5,75% Capital & Counties' convertible preference shares with equivalent conversion rights. TransAtlantic now has two classes of preference shares in issue which constitute £186 million (R865 million) of permanent capital as both classes, whilst convertible into ordinary shares are not redeemable.

TransAtlantic's profit before interest and taxation increased significantly from £68,6 million (R341 million) to £96,4 million (R479 million), an increase of 41%, including a £7,9 million (R39 million) increase in property investment income, primarily because of new lettings arising from the shopping centre development programme, and a full year's contribution of £36,7 million (R182 million) from the 50% interest in Sun Life Holdings. This compares with the contribution of £18,7 million (R93 million) from Sun Life in 1991 from the 27,7% interest held through most of that year.

Profit before taxation amounted to £60,7 million (R302 million), a marginal reduction on the £61,2 million (R304 million) reported in 1991. The net interest charge increased from £7,4 million (R37 million) to £35,7 million (R177 million) which reflects the significant reduction in interest capitalised on property development projects from £32,4 million (R161 million) to £11,6 million (R58 million), principally because interest capitalised during the development phase ceased at 30 June 1991 on the Thurrock Lakeside Shopping Centre development.

Shareholders' funds before minority interests of £41 million (R190,7 million) increased from £775 million (R3,6 billion) to £948 million (R4,4 billion) reflecting the rights issue and merger with Capital & Counties but after taking account of further provisions and reductions arising out of the annual

Results of other non-life insurance subsidiaries and associates of Liberty Holdings

Liberty Asset Management Limited (Libam)

Libam, which is 100% owned by Liberty Holdings and which is primarily responsible for the supervision and implementation of the overall investment policies of the South African section of The Liberty Life Group, enjoyed a record year. Excellent penetration of the fund management field was secured by Libam with funds under management increasing by R1,5 billion (1991: R693 million). This is indicative of the level of its investment expertise in this highly sophisticated field where the investment performances of its client portfolios have led the market in recent times. Excluding companies in The Liberty Life Group, Libam now administers R10,8 billion of pension funds, unit trusts and other institutional client business and reflects the rapid growth of its fund management and investment activities. The net taxed profit of Libam for the year ended 31 December 1992 was R11,7 million compared with R9,1 million in 1991, representing a 28,6% improvement.

Liberty Life Properties (Proprietary) Limited

Both Liberty Life Properties (Proprietary) Limited and its wholly owned subsidiary, Rapp & Maister Construction, which are wholly owned by Liberty Holdings, had a successful year in 1992. In addition to administration and construction activities performed by these companies for Liberty Life, both enterprises were involved to a significant extent in non-Group activities, achieving for The Liberty Life Group the benefits of economies of scale flowing from the wider utilisation of their facilities. The consolidated net taxed profit of Liberty Life Properties was R9,9 million for the year ended 31 December 1992 compared with R8,8 million for 1991.

Guardbank Management Corporation Limited

Guardbank Management Corporation, in which Liberty Holdings and First National Bank of Southern Africa each have a 50% interest, had a highly successful year with unit trust sales amounting to approximately R470 million. Dividends of R4,0 million were received from Guardbank Management Corporation by Liberty Holdings for 1992 compared with R2,6 million for 1991.

In order to expand the suite of unit trusts available to the public, the GuardBank Industrial Fund was established in April 1992 for the purpose of specialising in financial and industrial shares. This new investment trust has been well received in the market. The combined assets of GuardBank Growth Fund, GuardBank Resources Fund, GuardBank Industrial Fund and GuardBank Income Fund increased from R1,5 billion at the end of 1991 to R1,7 billion at the end of 1992 reflecting the increasing popularity of our unit trusts as sound long-term investments.

the year. This acted as a counterbalance to the lax fiscal policy and succeeded in reducing money supply growth over the year from 12,7% to 8,0% thereby protecting the balance of payments from undue strain. The strict monetary policy was the major contributory factor in the sharp reduction in the inflation rate which, as measured by the year-on-year increase in the Consumer Price Index, declined from 16,2% to 9,6%. This was the first time since June 1978 that the annual increase in the CPI was in single digits.

1992 was one of the few years in the history of South African financial markets in which investment in fixed interest securities was more rewarding than investment in equities. In line with the steady decline in the inflation rate, the Reserve Bank policy enabled the commercial banks to reduce their prime overdraft rate during the year from 20,25% to 17,25% and to 16,25% early in 1993.

The overall South African equity market, as measured by the JSE Actuaries All Share Index, declined by 5,3% in 1992 although this figure masks the vastly varying performance of its underlying components. To illustrate this point, the JSE Actuaries All Gold and the JSE Actuaries Mining Financial indices reflected declines of 29,3% and 16,7%, while the JSE Actuaries Financial and the JSE Actuaries Industrial indices rose by 22,5% and 4,7% respectively. Investors are taking the view that, in the long term, the equity market offers the most attractive area of investment and are prepared to look past any short-term problems which the economy is currently encountering on the basis that all recessions ultimately come to an end and are superseded by an economic recovery.

During 1992 The Group supported a R648 million rights issue by Standard Bank Investment Corporation and subscribed for approximately 4 million shares at R60 per share at a cost of some R240 million. The Liberty Life Group as a whole now has a 39% interest in Standard Bank Investment Corporation. The shares held by Liberty Life itself were valued at approximately R3,2 billion at 31 December 1992 and constitutes the largest individual equity investment owned by the company. The value of this investment has increased by R374 million to R3,6 billion based on the market price on 5 March 1993.

Liberty Life's South African property interests performed well notwithstanding the deteriorating economic conditions which had a severe impact on the general level of retail activity and the take-up of office accommodation.

Following the completion of the refurbishment of and extensions to the Eastgate Regional Shopping Centre which has established itself as the most successful regional shopping centre in the greater Johannesburg area, work commenced early in 1992 on the refurbishment and extension of Liberty Life's other major regional complex, Sandton City. The new 5-star Sandton Sun Towers Hotel, adjacent to Sandton City, is scheduled for completion towards the end of 1993. Upon completion, Sandton City, with its vast retail facilities, large office component and two 5-star hotels will constitute the most strongly integrated regional commercial complex in South Africa.

These two centres which have an aggregate value [illegible]

In each taxed fund, expenses and dividends will generally be treated in the same manner as that applicable to individuals or companies at the rates which are applicable from time to time. The proposed basis should theoretically provide a fairer basis for the taxation of policyholders' benefits. However, it would appear that the total tax payable by life insurers will be very sensitive to movements in investment returns and this will result in fluctuating tax receipts for the Treasury with concomitant effects on budgetary planning.

A further disturbing and unwelcome aspect of the Report is to introduce a mechanism to reduce expense relief pro rata to capital gains even though such gains may be unrealised. This threatens to disturb the level playing fields between competing financial institutions which has been so painstakingly achieved and runs counter to the prevailing practice and principles of the Revenue Authorities.

A key aspect which has not been addressed in the Report is the need for long-term stability in the rate of taxation of life insurance companies who enter into ultra-long-term contracts on the basis of calculations which are highly sensitive to investment returns and taxation. If tax rates are significantly varied (other than in the most exceptional circumstances) this could have serious implications for life insurers' ability to meet policyholders' reasonable expectations.

Table of strategic and significant equity and property interests of Liberty Life and its subsidiaries at 31 December 1992 (which have an individual attributable value in excess of R100 million)

	R million	% of total investments
1. Standard Bank Investment Corporation	3 228	9,6
2. South African Breweries[1]	3 028	9,0
3. Sun Life Corporation (United Kingdom)[2]	1 870	5,6
4. Thurrock Lakeside Shopping Centre (UK)[3]	1 767	5,2
5. Premier Group	1 198	3,6
6. Eastgate Regional Centre, Johannesburg	820	2,4
7. Sandton City Complex, Johannesburg (60% interest)	702	2,1
8. Richemont Securities AG (Swiss)	609	1,8
9. Rembrandt Group	566	1,7
10. Gold Fields of South Africa[4]	556	1,7
11. Anglo American Corporation Group	451	1,3
12. Barlow Rand Group	356	1,1
13. De Beer's Group	354	1,1
14. Anglovaal Group	340	1,0
15. Gencor	332	1,0
16. Sasol	309	0,9
17. [illegible]	[illegible]	0,8

These write-downs served to reduce net assets per share from 310p to 274p, a reduction of 12% and reflected the savage environment for property development projects as rental levels declined further and tenant inducements and rent-free periods became more prevalent. However, the Thurrock Lakeside Shopping Centre has increased its retail dominance and, together with emerging signs of some return of consumer confidence, has exciting prospects for exceptional growth demonstrated by the increased year end valuation of £380 million (R1,8 billion) compared to £325 million (R1,5 billion) in the 1991 year. This valuation incorporates a special assumption in relation to Lakeside's exceptional turnover rent potential.

It is gratifying that, despite having experienced a property recession of unprecedanted severity, TransAtlantic has emerged in such a strong financial position. The prospects for the further development of our life insurance and real estate interests in the United Kingdom and internationally are therefore most encouraging, particularly following the recent listing of TransAtlantic in the life insurance sector on the London Stock Exchange.

Results of First International Trust

First International Trust, which has a 36,8% interest in TransAtlantic, in addition to Liberty Life's direct 17,4% interest, achieved net income attributable to shareholders, after allowing for interest and taxation, of R49,5 million compared with R53,7 million for the previous year.

In the light of the recessionary conditions which prevailed in the United Kingdom throughout 1992, the earnings per share of First International Trust, reflecting the results of TransAtlantic, reduced from 36,3 cents to 27,5 cents. These figures, however, are not readily comparable in the light of the major structural changes which occurred at TransAtlantic in 1992. The dividend for 1992 of 20 cents per share has been maintained at the 1991 level. First International Trust's net asset value per share declined by 21,7% from 859 cents to 673 cents in 1992, converted at the Commercial Rand rate of exchange. The decline in the net asset value per share arose primarily through First International Trust's attributable share of the reductions in the property valuations of TransAtlantic and the realignment of the Commercial Rand/Sterling rate of exchange which strengthened in favour of the Rand by some 10% over the year. However, the equivalent net asset value in Financial Rand was 1 046 cents for 1992 against 990 cents for 1991.

I have been openly critical in the United Kingdom of the methodology and the effect of the definition of open market valuation being applied for the purpose of valuing long-term investment property for balance sheet purposes by the independent professional valuers under the rigid Royal Institution of Chartered Surveyors' valuation rules. I have asserted that the effect of the procedures is that balance sheets of property investment companies are stated on a virtual liquidation basis. This could be said to deviate from the fundamental and traditional principle to reflect a true and fair view of the state of affairs of a company on a going concern basis at the balance sheet date. My views have received considerable media attention and have attracted wide support from many sources within the property industry.

Liberty Holdings has a 45,4% interest in Guardian National, one of South Africa's leading property, casualty, personal lines and marine insurers, with a 50,9% controlling interest being held by The Guardian Royal Exchange Group in London. The favourable trend reflected in short-term insurance company results in the South African market last year continued into 1992. Guardian National achieved a record pre-tax profit of R67,6 million (1991: R52,4 million) made up of an underwriting profit of R6,6 million (1991: R1,6 million) and investment income of R61,0 million (1991: R50,8 million). The South African short-term market has benefited once again from the absence of any really serious weather losses, although this has been to the severe detriment of the farming community which has suffered grievously from the widespread drought during most of 1992.

Bearing in mind the difficult economic conditions which have been experienced, Guardian National's growth in premium income during 1992 of 28,8% gross and 28,1% net is most satisfactory. The excellent results of Guardian National in recent years have been reflected in the market value of Liberty Holdings' 45,4% holding in Guardian National at a value of R174 million at the year end compared with R110 million at the end of the previous year. By 5 March 1993 the market value of this holding had increased to over R250 million.

The net taxed profit of Guardian National amounted to R54,0 million for 1992 compared with R41,2 million for 1991 representing a very commendable increase of 31%. A dividend of 187,5 cents per share was declared for 1992 (1991: 155,0 cents), being a 21% increase for the year.

Investment backgound in South Africa

With all the major international economies having performed poorly in 1992 it was inevitable that the South African economy, which is fundamentally dependent on its natural resource exports, would continue in its recessionary phase which commenced as far back as 1989. By July 1992 the recession had become the longest since the Second World War with its impact on overall business activity becoming increasingly significant. All components of economic activity declined in 1992, with the exception of government consumption expenditure resulting in an overall decline in Gross Domestic Product (GDP) of around 2%.

A disturbing feature of the South African economy in 1992 was the massive increase in the fiscal deficit. The budget presented by the Minister of Finance in March 1992 proved to be significantly over-optimistic in respect of both revenue and expenditure. Accordingly, the fiscal deficit for 1992/1993 is likely to be of the order of R30 billion being 9% of GDP, as compared with the original budget of R16 billion being 4,5% of GDP. A fiscal deficit of this magnitude needs to be reduced expeditiously in order to avoid the country falling into a debt trap leading to ever-increasing servicing costs and ever higher deficits to fund the servicing costs. The inevitable result is steadily increasing inflation and, eventually, a ballooning budget deficit and the level of overall government debt becoming unmanageable.

Notwithstanding the fiscal deficit, monetary policy continued to be very restrictive with the Reserve Bank maintaining a positive real interest rate policy throughout and their enormous success and appeal to South African consumers over many years continues to reinforce Liberty Life's strong belief in the exceptional long-term growth benefits which arise from investments in prime strategic regional shopping centres.

The table set out alongside reflects the major strategic and significant equity and property interests of Liberty Life at the year end, all of which have an individual attributable value in excess of R100 million and ranked in descending order of value. These 30 individual investments, with a total value of R19,02 billion, comprise 74% of all equity and property investments and 57% of Liberty Life's total investments of R33,6 billion. The table is clear evidence of Liberty Life's commitment to high quality strategic investments.

The report of the Jacobs' Committee into the promotion of equal competition for funds in financial markets in South Africa

In general terms the Jacobs' Report, released in October 1992, was reasonably mindful of the problems of the life insurance industry. Specifically, the sentiments expressed regarding competitive neutrality between competing financial institutions and the desire to involve the private sector to a greater degree in regulatory matters are to be welcomed.

On investment matters the Committee quite correctly made the point that life insurers and pension funds deal mainly with trust money and their responsibilities are therefore primarily towards their policyholders and fund members. Consequently their investment policy must ensure that funds are invested with due regard to risk and return. While these institutions are willing to invest in so-called "socially desirable investments", it is clear that before this can occur a vehicle must be established to identify appropriate investment projects. In addition, development agencies with expertise, infrastructure and capacity, as well as appropriate financial instruments, must also be developed.

In an endeavour to achieve neutrality between financial institutions competing for the savings of the South African public, the Jacobs' Committee, after protracted discussions with the South African life insurance industry, has recommended the introduction of the "Four-Fund approach" for the taxation of life insurers, which it recommends should be phased in over a three-year period.

In essence, the proposed basis envisages that each life insurance company will establish separate funds for tax purposes:

- a taxed policyholders' fund to be taxed at an average rate of around 30%;
- a tax-free policyholders' fund, for tax-free pension and retirement funding business;
- a corporate policyholders' fund for corporate policyholders to be taxed at the company tax rate, currently 48%; and
- a corporate fund into which surpluses from the other three funds will be channelled before dividends may be declared. This fund will be taxed on company taxation principles.

19. Liberty Investors	224	0,7
20. GuardBank Growth Fund Units	208	0,6
21. Johannesburg Consolidated Investment Company	200	0,6
22. Woolworths/Truworths Holdings	195	0,6
23. Standard Bank Centre, Johannesburg (50% interest)	185	0,6
24. Tiger Oats	176	0,5
25. Liberty Life Centre, Johannesburg	175	0,5
26. Adcock Ingram	160	0,5
27. First National Bank	156	0,5
28. Libridge Building, Johannesburg	120	0,4
29. Consol Ltd	110	0,3
30. Southern Life Association	107	0,3
Major equity and property investments	19 024	56,7
All other equity and property investments	6 689	19,9
Other investments (including Government, municipal, utility stocks and cash resources)	7 862	23,4
Total investments	33 575	100,0

Notes

1 Combined holdings in South African Breweries and Beverage & Consumer Industry Holdings.

2 The attributable interest of Liberty Life in Sun Life Corporation, which is held through Sun Life Holdings, is R628 million.

3 The attributable interest of Liberty Life in Thurrock Lakeside Shopping Centre is R594 million.

4 Combined holdings in Gold Fields and GFSA Holdings.

Conclusion

The year under review was certainly one of the most difficult periods ever experienced by the South African and international business communities.

Against this background, the achievements of The Liberty Life Group are truly commendable and I am indeed proud of our management team for the sterling efforts which they have made and for the support which they have given to me at all times. I am not unaware of the stress on our people in working in these uncertain and difficult times and I thank them for their tenacity and dedication to the affairs of our Group.

I am also very grateful for the support which we have received from our associates, professional advisers and innumerable supporters both in South Africa and internationally. To all of these friends of The Liberty Life Group, to my co-directors, colleagues and staff, I extend my personal thanks and the gratitude of our shareholders and the vast body of people who have benefited from your endeavours throughout all the areas in which we operate.

Donald Gordon

Johannesburg
10 March 1993

Liberty shines with 26% jump in profit

(58) CT 11/3/93

From ANDREW KRUMM

JOHANNESBURG. — Liberty Holdings had again notched up "outstanding" results in the year to end December 1992, reporting a 26% jump in attributable earnings to R228,6m from R180,5m in the previous period, chairman Donald Gordon said yesterday.

"This represents a 26,4% rise in earnings a share to 500,2c a share (1991: 395,7c), while dividends increased to 360c (284c) a share."

Gordon added that core insurance subsidiary Liberty Life Association showed a 21,7% increase in basic earnings to 154,6c a share, with its dividend increasing by 22,2% to 132c.

"These levels of basic earnings and dividend growth were achieved notwithstanding the special anniversary dividends paid during the year."

Liberty Holdings declared a special dividend of 300c a share in 1992, while Liberty Life Association sent out an extra 100c a share to shareholders.

Gordon said Liberty Life Association remained the dominant contributor to group earnings, reporting a R352,8m (R275m) net taxed surplus off R4,8bn (R3,94bn) total income.

Good contributions also came from other Liberty Holdings subsidiaries and associates such as Liberty Asset Management (R11,7m contribution), Liberty Life Properties (R9,9m), GuardBank Management Corporation (R4m), and Guardian National Insurance.

However, Liberty Life's offshore arm, First International Trust, did not fare as well and dropped attributable earnings to R49,5m over the period from R53,7m in 1991. The dividend, though, was maintained at 20c a share.

"These figures are not strictly comparable in the light of major structural changes which occurred in TransAtlantic Holdings in 1992."

The structural changes include a one-for-four rights issue by TransAtlantic to raise R693m in May 1992, the investment of R1,3bn to acquire a strategic interest in UK-based assurer Sun Life Holdings, and property dealings.

First International Trust now has a 36,8% interest in TransAtlantic Holdings, in addition to Liberty Life's direct 17,4% interest. While TransAtlantic has a 50% interest in UK-based assurer Sun Life Holdings.

Gordon said Sun Life's after-tax profits had advanced to R232m from R214m in 1991. "A number of adverse factors affected the profitability of (Sun Life's) long term insurance business, although the net surplus increased by 20% to R156m."

Turning his attention back to Liberty Life, Gordon emphasised that the average annual compound rate of growth in the assurer's net asset value a share over the twelve year period to end 1992 was more than 40% a year.

"These unprecedented results are gratifying and reflect the underlying strength and performance of the Liberty Life Group over a very long period."

Liberty Life's shareholders' capital amounted to R8,5bn in December 1992, making it one of the most highly capitalised life companies in the world, while total assets stood at R35,5bn (R34,5bn).

Commenting on the group's 39% interest in Standard Bank Investment Corporation, Gordon added that the wider Liberty Life/Standard bank grouping had consolidated its position as SA's largest financial services group, with total worldwide investment and financial assets exceeding R160bn.

No stopping Gordon and Liberty empire

Star 11/3/93

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By Derek Tommey

Donald Gordon, the man who built up Liberty Life into one of SA's big four life insurance companies with assets of R48 billion, and is now engaged in building up TransAtlantic, a major insurance and property company in Britain, has no intention of resting on his laurels.

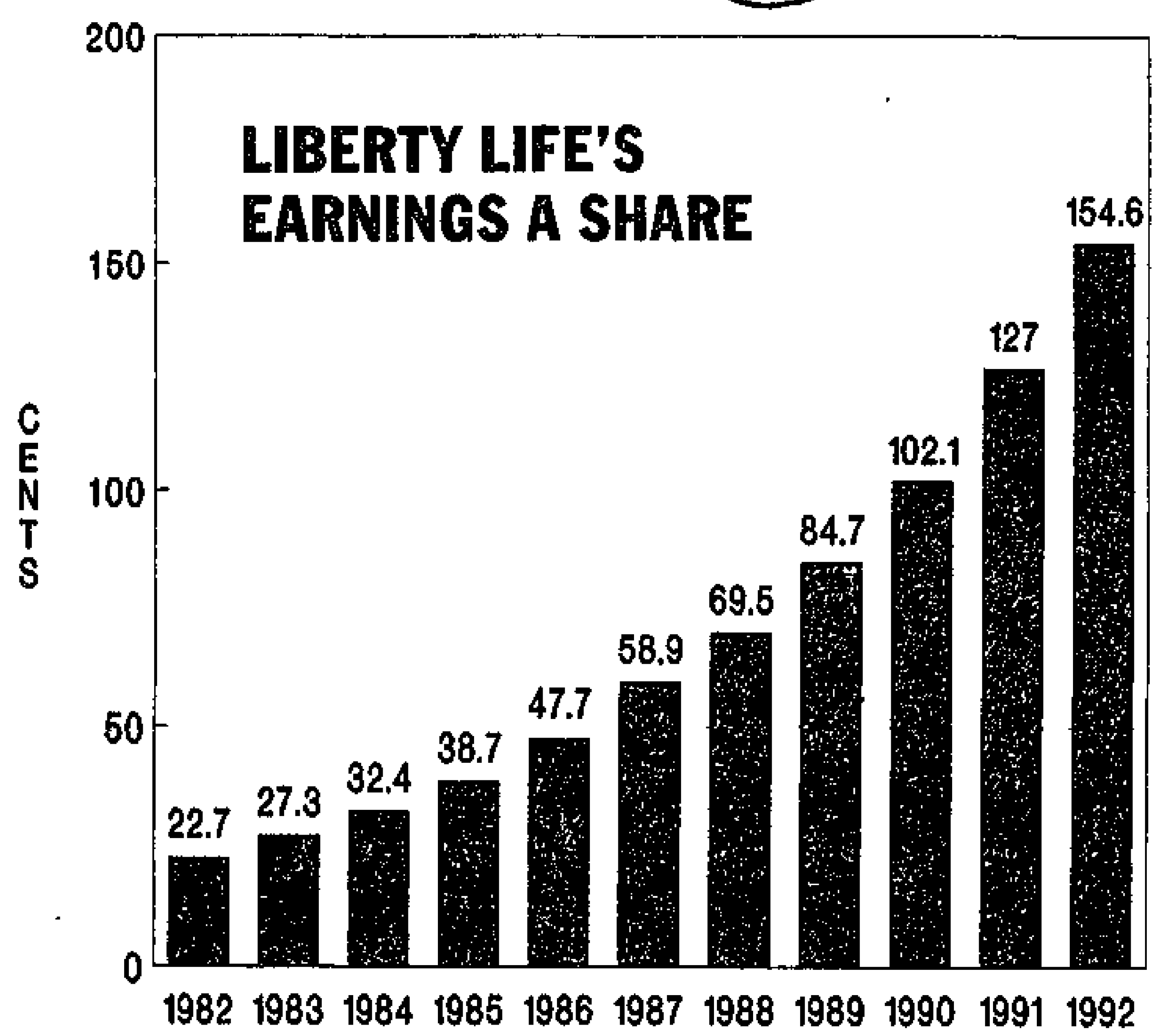
After announcing yesterday a 26,6 percent increase in the net taxed surplus of Liberty Holdings to a record R228,6 million (1991:R180,5 million) and a 28,3 percent increase in earnings of Liberty Life to a record R352,8 million (R275,0 million), he revealed some of his ambitions.

Before "hanging up his boxing gloves", he would like to see TransAtlantic's insurance exposure grow much larger; he would like to consolidate that company's property portfolio through acquisitions; and he would like to acquire a life insurance company in North America.

He expected to achieve these aims in the next three to five years.

Several life insurance companies in North America were considering de-mutualising, said Gordon.

This was an area in which Liberty Life had considerable experience. Liberty was watching what was happening in this field because it probably offered the company the best opportunity for making an American investment.



Liberty Life increased net premium income and annuity considerations by 30,9 percent to R2,98 billion last year.

These excellent results, particularly in recessionary conditions, were indicative of Liberty's proven ability to enhance its market share through innovative marketing, he said.

Its net income from investments rose 12,8 percent to R1,88 billion. Total income rose 23,2 percent to R4,86 billion (R3,93 billion).

Liberty Life has increased its dividends by 22,2 percent to 132c out of earnings of 154,6c a share, while Liberty Holdings is paying 360c, an increase of 26,8 prcent out of earnings of 500c a share.

Gordon said these dividends were equal to 85 percent of basic net taxed surplus and excluded capital growth of investments, which were credited to non-distributable reserves.

If the attributable capital surplus had been included, the 132c dividend would be covered 3,5 times from earnings of 465c.

Claims and policyholders benefits rose from R1,52 billion to R2,08 billion. Management expenses grew by 13,9 percent to R286 million. Tax took R160 million.

Gordon gave details of the tax agreement reached by the life assurance industry with the Jacobs Committee on the promotion of equal competition for funds.

Less tax

He said the new tax system was complicated and it would probably result in the insurance companies paying less tax.

Total tax payable by life insurers would be sensitive to movements in investment returns and this would result in fluctuating tax receipts.

A "further disturbing and unwelcome aspect" was the plan to reduce expense relief pro rata to capital gains, even though they may be unrealised.

There was also a need for stability in long term tax rates, otherwise it would be difficult for insurance companies to calculate premiums.

Commenting on the group's British investments, he said the Thurrock Lakeside Shopping Centre, in which Liberty Life had R1,87 billion invested, would take some time to come right.

ARAB INVESTMENTS

Dollars pour in

58

Arab investors, flush with petro-dollars, are on a buying spree of property in Natal. They have bought properties in Durban's Grey Street, but more money might go into stud farms in the Natal Midlands and the proposed Point Road development project.

Recently, Arab money was behind a failed bid to buy the Fancourt golf estate from the liquidators of Masterbond.

This week, the *FM* learnt that a delegation from Jeddah, Saudi Arabia, is due to arrive in SA soon to investigate other possible investments, specifically in coastal properties. However, the full extent of their investments in SA is hard to estimate because of the low-profile and tight-lipped nature of their dealings. FM 12/3/93.

Ebrahim Vawda, chief executive of Al-Baraka Bank of SA — 50% held by the Jeddah-based Dalla Corporation — confirms investments are being made in office blocks, hotels and industrial land.

Dalla Corporation recently bought the New Republic Bank building at 110 Field Street, Durban for about R15m. The group is also said to have bought a stake in Elangeni Oil and Cake Mills in Durban. The Dalla Corporation has about R20m invested in the Al-Baraka Bank — R10m in capital and R10m in deposits.

Propnet projects manager Roland Brohmer, who is involved in the Point project, says there have been hints of possible Arab investment in it. He says it's possible their interest could have been aroused by ANC backing of the development.

According to Brohmer, over R60m has already been pumped into the city through the purchase of properties in Durban's Grey Street area, the main commercial centre for Durban's Indian community, and home to the Victoria Street market.

A prominent commercial agent in Natal says it's generally known that the Islamic Propagation Centre "is an active player" in the recent property acquisitions It is reported to have bought the Fayani Centre (in which the Al-Baraka Bank is a tenant), on the corner of Grey and Queen streets, since renamed the Islamic Propagation Centre (IPC); the Shahjehan cinema and office block in Victoria Street, now renamed the Ibrahim Al-Ibrahim building (after the nephew of the king of Saudi Arabia); and an industrial building in Gale Street on the periphery of the CBD

IPC spokesman Yousuf Deedat confirms the purchases, adding the IPC also owns the factory and warehouse used by Umgeni Food Products in Stanger, which it bought two years ago. Deedat estimates the organisation's property portfolio at between R20m-R30m. He says there are no immediate plans to buy more, but notes if "well-wishers in Saudia Arabia want to donate more money, it would be welcome."

Deedat says Middle Eastern investors are not necessarily looking for a return on their money invested through the IPC. "It is the cause that is more important to them. These funds are an outright donation." He believes ongoing donations for religious reasons could outstrip money earmarked for return-driven property investement in SA by Arabs.

In Johannesburg, the Islamic Bank says: "We are not in the business of promoting property purchases in SA on behalf of Middle Eastern clientele. Like the other 67 banks in the country, we have bought property around SA for own use." CE Ebrahim Kharsany adds that the bank fully supports the ANC's call for further investment in SA after democracy has been achieved.

"To the best of my knowledge, property purchases have been made in Johannesburg by religious organisations for their own use and not for rental income, as in some cases in Durban The money has come from Arab businessmen interested in furthering the cause of Islam. The investment in Johannesburg funded by the Middle East amounts to no more than R1m. This is the value of properties purchased in Lenasia and Fordsburg with Arab money."

The bank is presently funding a R200m housing development in Ormonde, comprising 550 free-standing homes and 350 cluster and townhouse units. The first of them should be ready for occupation in September and the development is not exclusive to any community

Jeff Oldfield, vice-chairman of Durban council's Management Committee and a racehorse owner, says Arab businessmen see SA's racing industry as an untapped market and have brought two horses to the country to race. It is rumoured they are now looking at buying stud farms in the Midlands.

Director of the Africa Muslim Agency, Mohamed Fareed Chunara, says he is receiving an increasing number of inquiries from the Middle East concerning investment in SA.

"The inquiries have increased in recent months but I know of no specific investments that have been made. The Arabs seem interested in property development, land for development and pleasure resorts along the coast in Durban and Cape Town. Their interest is virtually across the board. They are looking at properties ranging from R500 000 to over R10m," he says, adding that Arab businessmen are impressed with SA's coastal environment, especially when it's compared with those of the US and Europe. "They are not getting the returns they were hoping for from their investments in the US and Spain."

The country's political instability doesn't seem to worry them. Chunara says Arab businessmen see potential here, despite the current level of violence. "SA is the economic gateway to Africa and they know it." ■

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GUARDIAN NATIONAL

FM 12/3/93

Recovery continues

(58)

Guardian National (GN) provides another good example of the recovery which short-term insurers have made since the beginning of the decade and of the strong rerating of the sector.

In a year in which the JSE's All Share index dropped about 11,4% and the Industrial index 2,2%, the Insurance index gained 35,5%. When life companies and composite insurers are excluded, short-term shares appreciated by an average of about 37%.

GN's share price has nearly doubled to a high of R55 over the year, yet with a dividend yield above, and p:e ratio below, most competitors — coupled with the strong growth in premium income and underwriting profit shown in latest results — it probably has some way to go.

Of course, growth of 28% in gross premiums and 313% in underwriting profit, admittedly off a low base, carries the risk of future business strain. For this reason, says MD Keith Nilsson, a substantial transfer was made to the as yet undisclosed unexpired risk reserve.

Net premium income is also not shown in preliminary results, but we are told it increased in line with the gross figure, which puts net premium income close to R510m.

Transfers to the statutory contingency reserve nearly doubled to R19,8m, which must leave the insurer with substantial funds to draw on should the weather turn foul, crime increase, or the industry not get the 15%-20% rate increases they are hoping for in industrial and commercial portfolios — probably the three biggest issues facing short-term insurers now.

GALLOPING GROWTH

Year to December 31	1991	1992
Gross premium inc (Rm)	600	773
Underwriting prof (Rm) ..	1,6	6,6
Investment inc (Rm)	50,8	61,1
Earnings (c)	410,4	536,5
Dividends (c)	155	187,5

Nilsson is obviously happy with the rapid growth but says GN is not chasing market share at the expense of everything else. "We want strong and controlled growth and I think we've done that effectively in the past financial year."

Some competitors, he notes, feel GN is aggressively chasing business. The larger companies frequently complain about rate undercutting, which might be a problem when it's done by a small fly-by-night organisation. But if a respected insurer like GN is offering keen rates, surely that's what the free market system is meant to be about.

Investment income advanced by a useful 20%, though it reflects a change in accounting policy to include realised investment gains of R1,8m. But GN clearly managed its investment portfolio astutely, increasing its exposure to gilts at the right time.

It's a pity such a strongly performing share is largely wrapped up by two institutions, 51%-held by Guardian Royal Exchange Plc and 45,5% by Liberty Holdings. The sharp upward trend which began in November seems likely to continue, something the market seems to have anticipated before results were released. At a 61% discount to NAV, the share offers value.

Shaun Harris

AVINS/AVF GROUP FM 12/3/93.

Dented balance sheets (58)

After two years of substantial write-offs, Anglovaal's unlisted AA Life might be turning profitable again. But the recovery has seriously dented the balance sheets of immediate parent Anglovaal Insurance Holdings (Avins) and top shareholder AVF Group.

The *FM* finds it hard to buy management's decision not to provide comparative figures based on their being misleading due to write-offs of material, non-recurring items relating to AA Life, mostly from previous years. We agree with Avins MD Dave de Beer that the comparative basis is far from perfect, but some basis is needed. Also, with previous 14- and 18-month reporting periods to get year-ends in line, analysts have not yet had a clear view of the group since listing.

A comparison with the previous interim does show AVF's EPS has dropped from 3,9c to 3c, after recording a loss of 74,1c at year-end. But the real effect of earlier transfers to top up AA Life's life fund is seen in shareholders' funds which have halved to R38m.

At Avins' level, which shows EPS of 0,47c after the year-end loss of 52,4c, shareholders' funds remain a negative R32,1m. This is covered by R35m from major shareholders Anglovaal and Absa, which subscribed for zero coupon redeemable prefs in AA Life.

De Beer says various options will be followed to rebuild shareholders' funds in the controlling companies, including a conservative dividend policy. "We believe we have eliminated the need for further provisions against AA Life — we expect it to be at break even by year-end — which will allow dividends from Crusader Life to go out of Avins to AVF, which may be able to pay a dividend by year-end."

He says while the company owes it to shareholders to examine all options relating to AA Life, for now Avins will persevere with returning the assurer to profitability.

Other companies in the stable — associate BoE and subsidiary Crusader Life — are performing well, which will boost results if

FM 12/3/93 (58)

AA Life provides no further strain on capital.

It's hard to understand why share prices of AVF and Avins have picked up strongly since the beginning of the year. Investors might be viewing them as cheap recovery stocks in a strongly performing sector, though they should be prepared to take a long view to see the returns. *Shaun Harris*

MUTUAL & FEDERAL

FM . 12/3/93

Preparing the ground

58

FM 12/3/93 58 FOX

As MD of what is probably the leader of the short-term insurance sector, Mutual & Federal (M&F)'s Ken Saggers must be the most pessimistic insurer in town. After reporting an interim underwriting profit of R34,6m, 36% up on the previous period, he warns of the "negative outlook" for short-term insurers and says the nature of the industry means first-half results will not necessarily equal those of the second half.

Sure, the short-term industry is volatile during the slump, aggravating already high crime claims and the level of suspected fraud. But groups like M&F have made it less so. It was the only listed short-term insurer not to show underwriting losses when competitors were hammered by disaster claims in the early Nineties and, over the past four years, has shown remarkably stable growth in earnings and dividends.

M&F has used the good years to build substantial reserves, like its R60m catastrophe reserve which, barring natural disasters of epic proportions, should ensure sound management of its underwriting cycle in future years.

But Saggers says his pessimism is "the reality of the environment we are living in. We can't look into a crystal ball and say what is going to happen to the levels of crime or fraud, which ultimately have an impact on the insurance industry. That's my concern."

M&F does seem to have had more bad luck than competitors. While most have enjoyed vigorous growth, thanks to the absence of floods or hail, Saggers notes M&F's water-related claims for the six months have been much heavier than in the past two years. And apart from crime, which is affecting all insurers, Saggers says there have been a number of large fire losses, "some of which could well have been arson."

It's clear M&F is preparing the ground for increased rates in its commercial and industrial portfolios, probably by 15%-20%. Sagger says this echoes what competitors are saying, though it seems more likely competitors will follow M&F's lead when it raises premiums.

"We are seeing a lot more fire and crime claims in the industrial and commercial end of the business, a sector where rates are often dictated by overseas competition, like Lloyd's," Saggers says.

Certainly, the industrial and commercial markets in SA are very competitive, but M&F seems well on top of this. Expenses as a percentage of earned premiums have been maintained at the last interim's 10% and

Continue →

FOX FM 12/3/93

M&F's solvency margin, over 130%, is probably the highest in the industry. 58

Apart from the *FM*, the market also does not share Saggers's pessimism. The share has gained about R15 since annual results were published in October, to trade at R47. And it has been rerated to the extent that it is now seeming more useful to compare M&F to the life offices in the insurance sector rather than short-term companies. Its yield of 1,4% is the lowest in the sector (Libvest is on 1,8%), while its 15,8 p:e is the highest among short-term insurers. *Shaun Harris*

JSE DEFAULTS (58)

FNB's scrip poser

Why is First National Bank (FNB) sitting on about R6m of scrip which belongs, apparently, to the clients of defaulting broker Andrew Forbes? Because it was pledged, or so it seems, as collateral cover by Forbes for overdraft facilities provided by FNB.

An angry Forbes client tells the *FM* that the broker lodged scrip held by it in safe custody with FNB to cover bank loans.

"FNB accepted the scrip, clearly without ascertaining that title and right in the stock could, in fact, be passed by the broker. Now the bank's holding on to the paper on the basis that possession is nine points of the law. Meanwhile, innocent shareholders and users of the JSE are being unfairly prejudiced."

Pressed for comment, FNB CE Barry Swart says: "This is a bit tricky and I'm afraid I really can't comment at this stage. I hope you will understand."

The value of the scrip held by FNB at current market prices accounts for about 40% of the total claims of R15,3m against Forbes. FNB's reluctance to part with the paper is curious in view of its earlier willingness to release scrip in relation to the default of broker Hilary Crosby.

The *FM* understands the matter of right and title in the scrip lodged by Forbes with FNB is complex; it may appear straightforward, but legal sources say resolving it could take some time. JSE executive president Roy Andersen says: "The matter was satisfactorily resolved in the Crosby case and I hope the same can be achieved for the Forbes clients."

Meanwhile, the JSE reports that Volkskas has released all client scrip valued at R1,3m pledged by defaulting broker Ben Janse van Rensburg, which has been returned to clients. Claims originally estimated to be around R3,5m turn out, on investigation, to be much less. Unsettled claims stand at R406 000. The bulk, about R394 000, will be settled within a few weeks.

A claim for R2,8m has been lodged with the JSE's insurers in respect of the Hilary Crosby default. That includes R882 000 already paid to clients by the JSE. Indications are that no claims will arise out of the default of Kritzas & Co.

While the JSE is processing many claims arising from recent defaults, the largest — the Forbes debacle — remains substantially unresolved. The argument about who holds title to scrip deposited with FNB has only just begun and the JSE's claim against its insurers, which has been rejected once, seems set to become protracted.

Forbes clients would be unwise to expect a speedy resolution.

David Gleason

FM 12/3/93 (58)

Down the line action lifts Libvest earnings

BIDAY 12/3/93..

(58)

ANDREW KRUMM

BOOSTED by good results down the line, Liberty Investors (Libvest) lifted earnings 21,5% to 29,9c a share in the year to end February 1993 from 24,6cin the previous period, the company said yesterday.

A final dividend of 12,9c (1992: 10,4c) a share was declared, bringing the total distribution for the year to 20,9c. In addition, two special dividends totalling 47,5c a share were paid in 1992.

Libvest director Farrell Sher said the major portion of the company's dividend income flowed from its 50% interest in Liblife Controlling Corporation, which in turn owned 52% of the equity in Liberty Holdings.

Liberty Holdings yesterday reported a 26% jump in attributable earnings to R228,6m (1991: R180,5m) in the year to end December, following a successful year for its subsidiaries.

Farrell added that Libvest's interest in the Standard Bank Investment Corporation also made a contribution to income in the first half, before it was disposed of within the Liberty group.

The sale of the one million Stanbic shares for R70,3m in cash realised a R57,7m surplus, which was distributed to shareholders as a non-recurring dividend of 30c a share.

Given the appreciation of Libvest's 50% stake in Liblife Controlling, Libvest shareholders interest rose to R1,94bn during the year from R1,34bn in 1991.

Appeal to estate agents

BDay 12/3/93

58

PETER GALLI

THE Institute of Estate Agents is hoping to cover an estimated R475 000 deficit for the financial year to end-March through donations and loans from members.

A letter of appeal sent to its 5 500 members from president Ian Taylor requested a donation of at least R100, or a R10 000 loan for two years.

"The Association of Mortgage Lenders will match rand for rand, on a loan basis, all the income we can raise and is also willing to grant a loan on the security of guarantees supplied by members," Taylor said in the letter.

He said the shortfall had arisen due to non-payment of membership subscriptions, tight economic conditions and many estate agents leaving the industry.

Yesterday Taylor said the institute was carefully examining its expenses, subscriptions had been increased and ways of increasing revenue were being looked at.

But, estate agents said yesterday membership had "taken a pounding" as the institute did not represent members.

Its profit-making alignment with Comprehensive Property Services had also come under fire for "stripping the body of its independence and neutrality", they said.

Star 12/3/93

Libvest pays 20,9c interim

(58)

Liberty Investors (Libvest), the pyramid holding company in the Liberty Life group, raised its attributable profits by 21,5 percent to R61,35 million (R50,5 million) in the year to end-February.

Reflecting the strong performances of its subsidiaries, the total dividend is up 25,9 percent to 20,9c (16,6c). — Finance Staff.

Star 12/3/93

Estate agents up against it

(58)

Property Editor

The Institute of Estate Agents (IEASA), facing a budget shortfall of almost R500 000, has turned to the Association of Mortgage Lenders (AML) for help.

However, the AML will apparently only match what the institute can raise from its own members, who are now being asked to make R100 donations in return for a chance to win free attendance at the organisation's annual convention.

In a circular to members, IEASA president Ian Taylor says factors contributing to the shortfall include non-payment of subscriptions and the general economic decline resulting in agents leaving the industry.

However, he says, the financial institutions represented by the AML are willing to help if members are also willing to contribute.

YIELDS FM 12/3/93

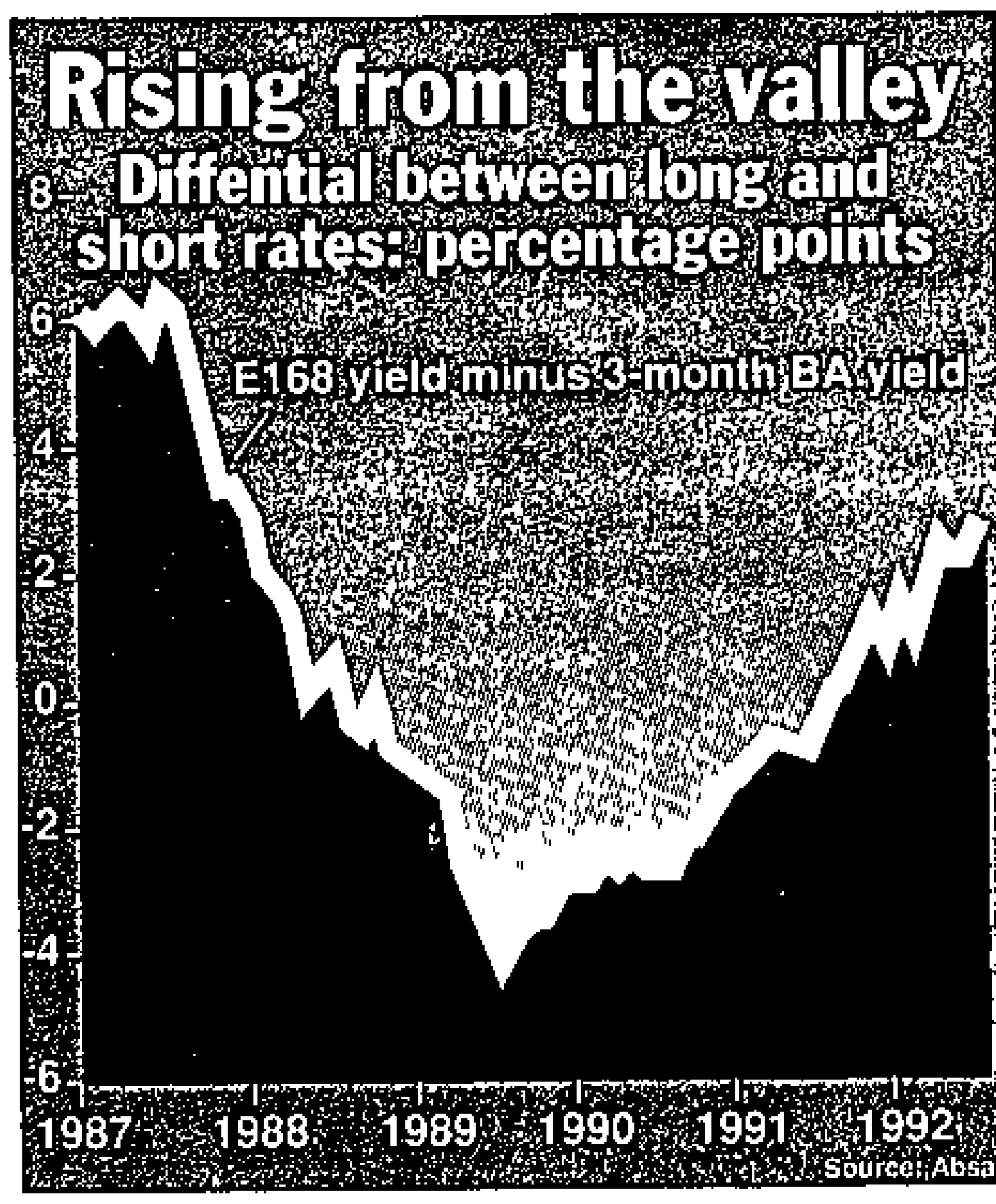
Going for gaps (58)

The gap between rates in the gilts and money markets reflects short-term liquidity, expectations about future inflation, or both.

In late 1989, when Bank rate peaked at 18%, the yield curve was negative — long rates were four percentage points lower than short rates. This was due to the pressure of demand for short-term money and to the fact that borrowers were reluctant to lock themselves into ruling rates.

Now the relationship between long and short rates is very different. As the recession eroded demand, short-term money became more readily available and short rates fell more sharply than long rates.

Last year, the gap shifted from being



negative one to being positive as the Reserve Bank's discount (Bank) rate was cut three times and short-term rates are currently between 2 and 2,8 percentage points above short rates (see graph).

This sort of gap is regarded as "comfortable", since it coincides with the normal premium one would expect on long-term investments to take account of the time value of money and the risks involved in holding long-term instruments — eg, inflation and liquidity risks.

In fact, the gap is relatively small, given the easing in monetary conditions and the rising government deficit before borrowing. This is because long bond rates have not risen against the backdrop of a larger government borrowing requirement, as one would expect.

The Economist noted recently that, because growth in the Budget deficit is often caused by economic recession when tax receipts fall, expectations for inflation are low, which tends to keep bond rates down.

In addition, says Old Mutual economist Dave Mohr, recessionary conditions have meant there is little competition for long-term funds from the private sector. So high deficits may coincide with lower bond yields.

Nedcor Bank chief economist Edward Osborn observes that short-term rates have now stabilised and may even be tending to firm with reductions in money market liquidity, largely because of the overall balance of payments deficit and perhaps because of market perceptions that the steep fall in inflation has come to an end.

Recent surges in the money-market shortage, reaching R5,3bn late last week, could signal a narrowing in the gap. The high shortages recorded since May last year have up to now had little effect on three-month to one-year rates, with liquidity only really being squeezed at the very short end, in call and overnight rates. But last week's shortages saw the 90-day liquid bankers' acceptance rate bob up out of its range of 11,5%-11,6% to between 11,65%-11,75% on Monday.

Osborn argues that short-term rates are negative in real terms, as measured against underlying inflation (excluding mortgage interest payments) of 12,5% whereas the 10-year government bond rate is only about 1,9% in real terms against 4% in the UK and

FM 12/3/93 (58)

USA.

At the long end rates are fairly steady, but eventually are likely to rise again, says Osborn. Mohr adds that when the recovery occurs "there will be major competition for funds from private sector projects and an upturn in rates — unless government spending falls dramatically."

Osborn says it is intriguing that gilts rates have come down so much despite a fall in rates at the short end and a fiscal deficit double that expected at last year's Budget. "The funding of the deficit has been possible presumably because of the continued absorption of non-resident monies through the financial rand, the full utilisation of PIC funds and the diversion of institutional funds from equities to gilts," he says.

"The 1993/1994 deficit — probably over R20bn — indicates the high level of public sector demand for funds. This could put pressure on the markets, particularly if there is an exodus of foreign funding and a swing-back of institutional funds to equities," he adds. ■

CIB FM 12/3/93 (58) [redacted]

For whom the bell tolls

The mystery over the SA Rail Commuter Corp's lost millions, in the liquidated Cape Investment Bank (CIB), deepens. It has now emerged that the appointment of retired Transvaal Judge John Trengove, as arbitrator, was overruled by Cabinet in favour of former Chief Justice Pierre Rabie, who found in favour of the Reserve Bank. This apparently followed high level Cabinet intervention in a secret arbitration between the corporation and the Bank.

The question of the corporation's R249m investment in CIB surfaced again last week during a snap debate in parliament. Opposition spokesmen all called for the resignation of former Transport Minister George Bartlett, following a R100m loss by the corporation after the liquidation of CIB on April 11 1991. On December 18 1990, Prima Bank, in a Bank-inspired takeover, took control of CIB.

The secret arbitration, on which the *FM* was first to report (*Current Affairs* September 13 1991), followed a settlement proposal by former Judge Oscar Galgut, during a S417 liquidation application in Cape Town. Judge Galgut called attorneys representing the Bank and the corporation together and suggested that the parties settle on a 80/20 basis, with the Bank taking the 80% loss and the corporation a 20% loss.

After Judge Galgut's proposal, all parties, including former corporation MD Kobus Nel and attorneys Antonie Gildenhuys and Alec Brooks (of Hofmeyr Van der Merwe) returned to Johannesburg to discuss the settlement. At that stage, then corporation chairman, Bart Grové, who has since been fired over the debacle by Transport and Posts & Telecommunications Minister Piet Welgemoed, had been in touch with Bank Governor Chris Stals to discuss the matter.

According to *FM* sources in the corporation, a meeting was held at Stals's office in about September 1991 to discuss Judge Galgut's settlement proposals. The meeting was attended by former Finance Minister Barend du Plessis, his Cabinet colleague Welgemoed, Nel and Grové, accompanied by Gildenhuys, and Registrar of Deposit-Taking Institutions' Hennie van Greuning. Justice Minister Kobie Coetsee was also present at the meeting.

The *FM* has also learnt that the meeting took place, in what has been described as "unpleasant circumstances." According to *FM* sources, it was clear that Galgut's settlement proposals would not be acceptable to Cabinet. To those present it was also clear that Du Plessis held Grové responsible for the corporation's losses. This, according to the *FM's* sources, was not disputed by Welgemoed.

Why Coetsee was present at the meeting is unclear. However, in 1991 highly confidential documents were sent to the Justice Department to explain why a R25m claim by the Bank, against CIB, had twice been denied by the Master of the Cape Supreme Court. The documents were for the attention of Justice Department Director-General Jasper Noeth, after he had intervened in the matter.

As a result of the meeting in Stals's office and, it seems, through direct Cabinet intervention, it was decided that the settlement proposals would not be accepted. Parties then agreed to resort to arbitration.

According to *FM* sources, attorneys for both parties, Roodt & Wessels representing the Bank and Hofmeyr Van der Merwe the corporation, agreed to ask Judge Trengove to chair the arbitration proceedings. Judge Trengove was contacted by attorney Louis Wessels and two dates were put to him, which, according to *FM* sources, suited him.

However, at a later stage, Wessels again called Judge Trengove and informed him that they (the parties) had made other arrangements. At that stage, the *FM* was told, Cabinet had opted for former Chief Justice Rabie to act as arbitrator.

In his findings, Judge Rabie said the Bank never had any intention of entering into a loan agreement with CIB, despite having placed a R300m deposit with the bank. The deposit, said the Judge, was nothing more than a "simulated transaction" which, in the evidence of Stals, was described as merely being "an instrument" to transfer R15,37m (in interests) to CIB.

Judge Rabie's finding was criticised by the corporation's legal team which — in correspondence — claimed that the arbitrator had not dealt with the numerous legal arguments which had been raised during arbitration. As a result of Judge Rabie's finding the corporation dropped three other claims against the Bank.

Earlier it had been suggested that the Bank had persuaded corporation GM Willem Louw to roll over R103m which was due to have been paid out earlier to the corporation. Two days later, on March 30, the Bank withdrew its R300m deposit. This was four days before Prima Bank MD, the late Johan Bellingan, had agreed to take over the corporation's R103m debt into Prima's books.

During last week's parliamentary debate, Welgemoed said Bank officials claim they had never requested the corporation to roll over its payment. "There has been no finality (uitsluitsel) over these differences of opinion."

However, in evidence during the liquidation application of CIB, deputy Registrar of Deposit-Taking Institutions, Christo Wiese, testified that the Bank's Carel Oosthuizen, had persuaded Louw to roll over the R103m.

In a conversation between Louw and Oosthuizen on March 28 1991, Louw asked Oosthuizen: "How should we handle the things (die goed) which expire today? Do we have to extend (verleng) it?"

Oosthuizen replied: "Yes." He then added: "I think that at this stage we have to roll it over on a day-to-day basis, unless you have prescriptions which indicate that it should be rolled over on a monthly or three-month basis."

Later, in a sworn statement, a copy of which is in the possession of the *FM*, Louw said that, during a Burgerspark Hotel breakfast meeting with Van Greuning and Oosthuizen in December 1990, Van Greuning had allegedly told him: "Do not withdraw your money now because there is an amalgamation with CIB and the announcement will follow in the press." Louw said that Van Greuning had also told him that the corporation would be informed on a regular basis of developments.

Finally, Van Greuning said: "In the light of the information which I have given to you the corporation will not suffer any losses," alleged Louw in his statement. *Eddie Botha*

PROPERTY MANAGEMENT (58)

Is it profitable? [redacted]

FM 12/3/93

Investec Property Group's recent announcement that it was closing its residential property management division, trading as Kupers, as it was unprofitable, followed by its 11th-hour sale to the Landsec-Compeg Property Group, raises questions about the profitability of residential property management.

Though Investec qualified its statement about Kupers' profitability, saying the operation distracted management from commercial property activities, the questions remain. But Kupers' competitors claim to be doing well.

MD Neville Schaeffer of H Lewis Trafalgar — SA's largest residential management company with more than 30 000 units on its books — says the residential administrative market has changed dramatically, mainly because the rental market has diminished and red-lined areas have become harder to manage. Kupers has traditionally been strong in such areas.

Firms now need a broad base and sophisticated infrastructure to be profitable. H Lewis Trafalgar has the advantage of being concentrated in Cape Town — about 70% of its business is in the sought-after southern and Atlantic suburbs.

For these reasons, says Schaeffer, SA will see fewer new administrative companies enter the residential market.

Size is critical for profits, he says. "Our national spread of representation and portfolios is the key to our success. The division contributes at least 20% to group turnover. We are aggressively trying to increase market share by providing a comprehensive property service."

Over the past 18 months, H Lewis has acquired two residential management companies: Sectional Title Secretaries in Johannesburg and (bought in January) Andrews & Timberlake in Port Elizabeth. Andrews managed 1 000 sectional title units.

FM 12/3/93. (58) [redacted]

Schaeffer says residential buildings are increasingly being converted to sectional title and few nonsectional title buildings are being built, which means the rental market has shrunk.

Yet, even with the number of sectional title units and body corporates rising, he still sees "tremendous" room for growth in administration. "We firmly believe that this sector is still profitable."

He says numerous spin-offs, mainly through the resale of individual units, have warranted involvement in residential management. His firm's estate agency activities have gained more business but administering body corporates is also providing business such as insurance and cleaning.

Schaeffer says 60%-70% of his clients are investors. So the company lets these units. And higher margins can be earned on individual flats, where commissions of up to 10% can be achieved, compared with an average 5% on blocks.

In the past five years, Schaeffer reports, the company has been approached by leading financial institutions and property companies to handle the marketing, sectionalisation and administration of buildings. Money here has been made mainly through the conversions to sectional title and marketing. Profits in administration flow from dealing in large volumes.

JHI, another long-standing competitor, also claims to be doing well in the market. ■

Engen told to stop building

ARG 13/3/93

OIL giants Engen and BP are locked in a major court battle over the development of a new petrol station in Natal.

Mr Justice Broome ordered Engen to stop work on a site near Cato Ridge.

DIAGONAL STREET

So what's in a Name?

S/Times (Buss) 14/3/93.

58/

By Julie Walker

ANDREW BAILEY's intention is to get South Africans talking about Lloyd's around the dinner table. "But not about how much they've lost — the market is improving."

Bailey represents London company Octavian, one of Lloyd's 80-odd managing and member agents. His visit to SA to attract new Names to Lloyd's has a strong drawcard: being a Name is one legal, South African Reserve Bank-endorsed way of building assets outside the country.

How could you resist being a Lloyd's name? If your net assets are lower than £250 000 and you can't raise a bank guarantee for £75 000, read no more.

"In the past," says Bailey, "the Reserve Bank has allowed South African Names to leave a percentage of their profits overseas. Obviously, this has been an advantage during the past three years because of the first run of losses in more than 20 years."

Octavian was formed eight years ago in a buyout when management took 80%. Reinsurer Skandia has 10%, an important shareholder because it facilitates expansion by acquisition. Octavian now has 750 Names, manages £300-million and represents 40 of the 500 South African Names.

It attaches priority to research and client communication, despatching summarised information and bulletins as well as the wads of statutory matter.

Lloyd's is two things; as a body corporate it is not the risk-taker but provides the regulatory framework and mechanism for underwriters (risk-takers) and agents; secondly, it is a society of all the Names.

As a members' agent, Octavian manages its clients' affairs and advises them on which syndicates to support. Lloyd's controls the amount of premium syndicates can receive each year, based on the level of support from Names.

Nearly half the 1989 total of 401 syndicates have disappeared due to poor performance, resignation of Names and the need for economies of scale.

The advantage of being a Name is that your money works twice for you. The drawback is that it can also work against you. When a Name enrols and lodges a bank guarantee of 30% of his or her premium limit, a 5% return gears up to a 16,7% return on capital employed. But the potential for unlimited liability — "the last collar-stud of a gentlemen or earring for a woman" — remains.

Lloyd's results take three years to be declared because of the need to study how claims develop.

"The results this June for the 1990 trading year will be very disappointing," warns Bailey. "There will be an estimated £2-billion loss out of the market capacity of £10-billion, giving an average 20% loss.

"But the business written in 1992 will be profitable and this year's has the best potential for profit for at least a generation."

Since the late 80s Lloyd's has repositioned itself as a reinsurer of worldwide catastrophes. Underwriters have drastically reduced the amount of cover they will offer and charge premiums typically five times higher than 1989's figures.

"In 1989, Hurricane Hugo caused $4-billion of damage and hammered Lloyd's, but the 1992 Hurricane Andrew, which did between $14-billion and $18-billion of damage, didn't affect Lloyd's nearly as much."

One of the two American insurers each carrying a quarter of the cost of Andrew had decided it was big enough to handle the possibility of a hurricane without laying off risk. Its holding company, Sears, is believed to have taken about a $1-billion knock this year towards those costs.

"More than 300 American insurers have collapsed during the last three years, with great loss to their policyholders. Yet Lloyd's is still there paying claims after more than 300 years of business."

Bailey concedes that Lloyd's has not been without its problems, too. New chief executive Peter Middleton is drawing up business plans.

Bailey says only a few of the South African Names have left Lloyd's (only a couple of dozen have taken a bath). His aim is to reassure existing Names and heighten awareness.

Being a South African Name provides a hedge against a falling currency — providing that the rest of the world is not falling apart. Sterling losses can wipe out the wealthiest randlord.

ANDREW BAILEY . . . in SA to reassure and heighten awareness

FSB no for Rowinvest

58

S/Times (Buss) 14/3/93.

FINANCIAL Services Board executive officer Piet Badenhorst announced in Friday's Government Gazette that the approval of Rowinvest to act as a portfolio manager has been withdrawn.

Rowinvest had approval to manage client portfolios in securities listed on the JSE, which includes equities, debentures and traded options.

Warning on syndications (58)

ST Times (Buss) 1
THE Public Property Syndication Association, the newly formed division of SAPOA, has issued a warning about property syndications subject to mortgage bond finance, saying it poses an additional risk to investors. 16/3/93

PPSA chairman John Dickson says when bonded properties run into trouble, bondholders receive preferential treatment above investors who are no more than concurrent creditors.

C/Press 14/3/93

Afprop will not sue City Press

58

FRANS Badenhorst of African Property Development Company (Afprop) this week withdrew his claim for defamation against City Press and agreed to pay the newspaper's legal costs.

Badenhorst was suing City Press for defamation as a result of an article in September last year reporting the declaration of Afprop as a harmful business practice by the Minister of Trade and Industry.

Afprop and Badenhorst were thoroughly investigated by the Business Practices Committee, which has the power to recommend to the Minister whether a business constitutes a harmful practice.

The committee recommended that "the business practice be declared unlawful whereby Mr Frans Badenhorst and Afprop, or any business in which the parties have an interest, sell land, erect buildings or receive remuneration, prior to the land becoming capable of being registered as the subject of a separate title deed".

The committee found Afprop's financial affairs to be in "complete disarray" and found that Badenhorst's personal finances and those of Afprop were "commingled".

Meanwhile, Afprop has been liquidated and liquidator Felix Gay of CA Trust is winding up the company's affairs.

It is not yet known whether the estimated thousands of people who paid money to Afprop for houses which they never got, will get any of their money back.

The Housing Rights Unit at Lawyers for Human Rights is co-ordinating claims by creditors.

LHR is researching other ways creditors, most of them poor, homeless people, could get back any of the money they lost in the Afprop venture.

FNB rolls into Switzerland

58

S/Times (Buss)

By CHERILYN IRETON 14/3/93

FIRST NATIONAL BANK is speeding up its international expansion with the opening of a branch in Switzerland in July. FNB claims to be the first SA bank to open a branch in Continental Europe following its successful application to the Swiss authorities for a full banking licence.

"The new branch — in Zurich — represents a great step towards achieving our overall internationalisation plan," says FNB managing director Barry Swart. "Zurich is an ideal location for servicing European customers."

The move follows FNB's £57,8-million acquisition of British merchant bank Henry Ansbacher Holdings, which is the base from which the FNB Group will spearhead its operation in the European marketplace.

"Although the Zurich operation will function as a full branch of FNB it will not enter the personal retail banking market," says Mr Swart.

"We will concentrate instead on international trade finance and servicing the needs of our southern African customers with foreign interests and international customers with business links to southern Africa."

Monies raised in FNB's rights issue last year were earmarked to fund the offshore expansion. However, Mr Swart says that the Zurich operation, being a branch, will not be subject to capitalisation requirements.

"We established a representative office in Zurich many years ago and have maintained this presence ever since. We now need only convert that operation rather than establish one from scratch," says Mr Swart.

The Zurich branch will be headed by a Swiss local, Peter Siragna, and Pieter Myburgh, of FNB's International Division, will be seconded to Zurich as deputy chief manager.

The branch is expected to be fully operational by July.

Liberty Life posts record yet again

S Times (Buss) 14/3/93. (58)

Business Times Reporter

LIBERTY LIFE's results, published this week, shows its earnings per share has exceeded 20% for the last 20 years and the average compound growth rate in net asset value has exceeded 40% over the last 12 years.

This is as well as Liberty Holdings producing new record levels of earnings, dividends and asset growth in the year to December 31 1992 — its eps increased 26,4% to 500,2c and dividends increased 26,8% to 360c per share.

Based on the market price of its shares on the JSE at March 5, Liberty Life is the fifth largest JSE-listed company, with a market capitalisation of R14,5-billion.

Liberty Life vice-chairman Dorian Wharton-Hood attributes the success to excellent investment returns, product innovation, quality service, marketing skills and a highly trained sales force.

In his chairman's statement, Donald Gordon points out the strong growth value of strategic investments, such as Standard Bank Investment Coporation, SA Breweries and the Premier Group.

"We have also managed to contain our costs below inflation over the past two years," says Mr Wharton-Hood.

He says the number of life assurance companies will halve over the next decade as the smaller ones have a limited ability to contain costs. They also do not have the access to the vast amounts of capital neeed to fund rapid growth in new business.

Slim, trim plan for corporations

(232)

Draft legislation would be introduced to support the unbundling process of the country's large corporations, said Finance Minister Derek Keys.

He said unwieldy corporate pyramid structures had developed due to company acquisitions, mergers and reconstructions resulting in cost inefficiency in the use of capital.

"The growing need experienced by groups to shed these structures is a very positive development that calls for encouragement," Keys said.

The draft legislation was to be introduced during this session of Parliament. (58)

"Moreover, the new 15 percent tax on distributed income will not apply to unbundling-related profits," he said. — Sapa.

First National to open Zurich branch

TRACY SCHNEIDER 58

FIRST National Bank (FNB) had been granted a full banking licence by the Swiss authorities and would open a branch in Zurich by July this year, FNB MD Barry Swart said at the weekend.

FNB had a representative branch in Zurich and this would be converted to the new branch, Swart said.

"Although the Zurich operation will function as a full branch of FNB, it will not enter the personal retail banking market. Instead, we will concentrate on international trade finance and servicing the needs of SA customers with foreign interests and international customers with business links to southern Africa."

Cash raised in FNB's rights issue last year was to fund the organisation's international expansion. However, Swart said, the Zurich operation — being a branch — would not be subject to capitalisation requirements. FNB's recent acquisition of British merchant bank Henry Ansbacher Holdings gave it a base to spearhead its European operation.

BDay 15/3/92

MONEY MARKETS by Tim Marsland

Liquidity expected to ease over rest of month

BIOM 15/3/93 (58)

THE money market seems to be over the worst of its liquidity problems for now.

Friday's shortage at the window dropped to R4,159bn. Seen against the recent record high of R5,287bn, it is far more palatable, although still some way off the R3,5bn it has averaged over recent months.

Banks have been using bankers acceptances at the window, which has been costly, so treasurers will be relieved when it's back to using Treasury bills and the like.

Liquidity will continue to ease for the rest of the month. Government is expected to spend about R4bn this month, which will come out of its account at the Bank.

Short-dated rates have yet to match earlier levels, something the central Bank may be not too upset about.

It may feel that rates were perhaps too low anyway, so it would like to see them hover around these levels for a while. Treasury bills are now near the levels set in November, which the Bank might be more comfortable with.

The market overreacted in January when some players took rumours of a two percentage point reduction in Bank rate as fact. In the end, the Bank rate was cut to 13%, so yields of above 12% in the money market are more acceptable.

It has taken the market a while to drift back into line with reality.

Nervousness surrounding the liquidity has seen corporate borrowers switching away from the overnight market into the three-month and one-year area.

On the capital market, players have been jobbing away their days over the past few weeks. This will change on Wednesday when the Budget is unveiled.

There are likely to be hushed silences when it comes to the deficit — the storm will probably follow afterwards. A light shower at first, with the real thunder on Thursday and Friday once the Budget has been digested. Brollies are recommended.

Deficit predictions range from R22bn to R28bn. It would be wiser — no matter what the official deficit — to tread cautiously.

Government's crystal ball is notoriously badly tuned when it comes to deficits.

An interesting feature on the market this week was the tiny parcels of municipal bonds that have changed hands on the JSE floor. These seldom trade, so it seems someone has taken advantage of the lull to engage in portfolio switching.

Bank clients could claim

(58)

Staff Reporter CT 15/3/93

A JUDGMENT against Volkskas Bank in Warrenton in the Northern Cape last week for contravening the Usury Act may lead to another 2 000 legal actions being launched against financial institutions.

So says Mr Jaap Spelt, a Pretoria financial consultant and former banker who has developed a computer programme that enables customers of banks to check if there has been any interest over-charging on their accounts.

"This judgment was a real breakthrough for my firm. It is the first finding against a bank under the Usury Act," said Mr Spelt

According to press reports, Volkskas paid a R600 admission of guilt fine for contravening Section 10(6) of the act by failing to notify a client in writing within a stipulated time of a change in interest rate applicable to his overdraft.

This is a criminal charge. The client, a Mr William Saunders, is also bringing a civil action against the bank for alleged overcharging.

Of the 2 561 accounts with various institutions that Mr Spelt had checked for customers, 2 012 had been incorrect, he said. Claims in these amounted to R28 million, so he concluded that what financial institutions had charged their customers was out by "hundreds of millions" over many years.

LOA expects Keys to scrap Sixth Schedule

Star 16/3/93

(58)

By Sven Lünsche

The life insurance industry is expecting the abolition of the Sixth Schedule of the Income Tax Act to be announced in the Budget tomorrow.

The Life Offices Association (LOA), the umbrella body for the industry, has issued a note to its members advising them of a "code of conduct" to apply between the announcement and amending legislation in the Insurance Act.

Lifting the Sixth Schedule will enable life insurers to issue investment products for a five-year period with no life cover requirements. At present, life office products have to have a minimum term of 10 years and a life cover component.

The repeal of Sixth Schedule and the "four-fund" approach to life offices taxation were key recommendation of the Jacobs Committee inquiry into the industry.

The LOA expects Finance Minister Derek Keys to commit the Government to both these principles tomorrow, although the four-fund approach is only likely to be phased in over three years.

Elaborating on the impending changes, Old Mutual's manager, product research, Peter Spreeuwenberg, said yesterday the Sixth Schedule had made the primary function of the industry — the provision of long-term insurance and the protection of future income — an administrative nightmare.

"With a democratic process starting to unfold, and especially the pressures of a prolonged recession, the abolition of the schedule cannot be postponed anymore," he said.

In terms of the code of conduct, the LOA advises that the prescriptions of the code should be interpreted as if they were law, as amending regulation for the repeal of the Sixth Schedule may still undergo changes between now and the eventual amendment.

"We were told that one of the considerations would be the conduct of the industry during the imterim period which will now commence," the LOA says.

The code prescribes that products should adhere to the following guidelines:

- A demarcation period of five years, allowing for limited cash values within this period.
- Limiting premium increases to 20 percent per annum, applicable to both new and existing business, but containing lifestyle protection and inflation-fighting clauses.
- A go-ahead for single investments, which would have certain tax benefits, but would not attract tax penalties upon early investments in the underlying portfolio.
- Allowing for limited premium-paying terms.
- No minimum life cover requirements.

Spreeuwenberg said business shorter than five years was clearly the domain of banks and building societies.

"To prevent life assurance instruments even closely marketing any cash benefits within the first five years, we envisage that cash values within this period will be limited to a return of premiums compounded by five percent interest."

He added that the simultaneous phasing in of the four-fund approach also had certain inherent benefits for the insurance industry.

In terms of this approach, life office operations are split into four funds for purposes of taxation — an individual policyholder's fund, an untaxed policyholder's fund, a corporate fund and a corporate policyholder's fund.

The key benefit of this approach is that income earned by funds of individual persons would attract a tax rate of 30 percent, instead of 48 percent.

Weak rand falls through key barrier

TIM MARSLAND

THE rand broke through key psychological resistance of R3,2020 against the dollar yesterday before recovering in thin and cautious trade, dealers said.

The rand ended at R3,1976 to the dollar from R3,1933 on Friday. Against other major currencies it also ended weaker, finishing at R4,5825 against the pound from Friday's R4,5553.

A dealer said sentiment towards the rand was being hurt by a number of factors, chiefly the strength of the dollar. He said if the dollar rose to DM1,72 in the next few months from its current level of DM1,66, the rand could fall to R3,35 against the dollar. Also weighing on sentiment was the dwindling gold and foreign exchange reserves, as well as the coming negotiations on the debt standstill.

Another dealer said exporters had been active in the market above the R3,20 level, which helped the rand off its lows.

A market analyst said the Bank might have entered the market in support of the rand, but it would probably not regard R3,20 as a key level, since it took a long-term view of the rand.

The financial rand continued to lose ground and ended at R4,6580 against the dollar from R4,6150. Dealers said the fin-rand would be in "dangerous territory" if it fell below R4,68 to the dollar.

BD 16/3/93 58

Banks are working on communicating

BIDAY 16/3/93. (58)

MARCIA KLEIN

MARKETING has become the cutting edge for the financial services sector as product parity has necessitated new thinking on how to differentiate one institution from another.

Pentagraph MD Joe Keyser said last week that financial institutions had changed during the past 10 to 15 years.

Product parity meant that their "parental attitude" had to be replaced by a more service-orientated approach. This led to the concept of convenience banking, or relationship banking.

Keyser said the new approach was also precipitated by technological changes, which brought about changes in the layout of banks, reduced transaction periods and access to banking facilities for longer hours. Banks had become convenience and customer service centres.

The industry had also become more competitive, with building societies entering the financial services sector as banks.

Keyser said banks had begun to work hard at communicating to consumers, as improving service was one of the few ways in which they could gain a competitive advantage.

Product innovations in the banking industry would be picked up and adapted by all the banks within months of a new product launch.

This meant financial institutions had to focus on a stronger brand image, corporate identity and brand perception, Keyser said.

Sources in the advertising industry said there were marketing risks in the Absa merger because consumer loyalty lay with the underlying brands — such as United, Allied and Trust Bank — and not with the umbrella corporation.

Historically, image management which emphasised the umbrella company and ignored the greatest asset value — loyalty to the brands — did not work, Keyser said.

Companies were viewed from different perspectives: internally, by the trade, by the investor and by the consumer. These different perspectives should each be facilitated by distinctive stand-alone identities.

Companies concluded deals from a business point of view, but while mergers of different companies made sense at this level, consumers were not interested in synergies, only in the image they had of the company with which they did business.

Financial institutions had to market harder than other sectors in order to show an approachable face to the consumer, said Keyser.

Commercial & Industrial Properties

A Star survey

The first quarter of 1993 has seen a surge in rental inquiries for commercial and industrial property, particularly on the Witwatersrand. Industry leaders say our progress out of property's current downturn could be faster than in previous cycles. SUSAN RAMWELL reports.

Hyde Park Lane almost 40 pc let

Southern Life Properties low rise collection of six office buildings forming Hyde Park Lane is almost 40 percent let — four leases were signed in a ten-day period this month and a further 1 500 sq m was under negotiation at the time of going to press

The development, set in an attractively landscaped complex in a prime location in Hyde Park, "is one of the only available office developments with a Hyde Park address", says Tony Moore, regional manager, Transvaal, of Southern Life Properties

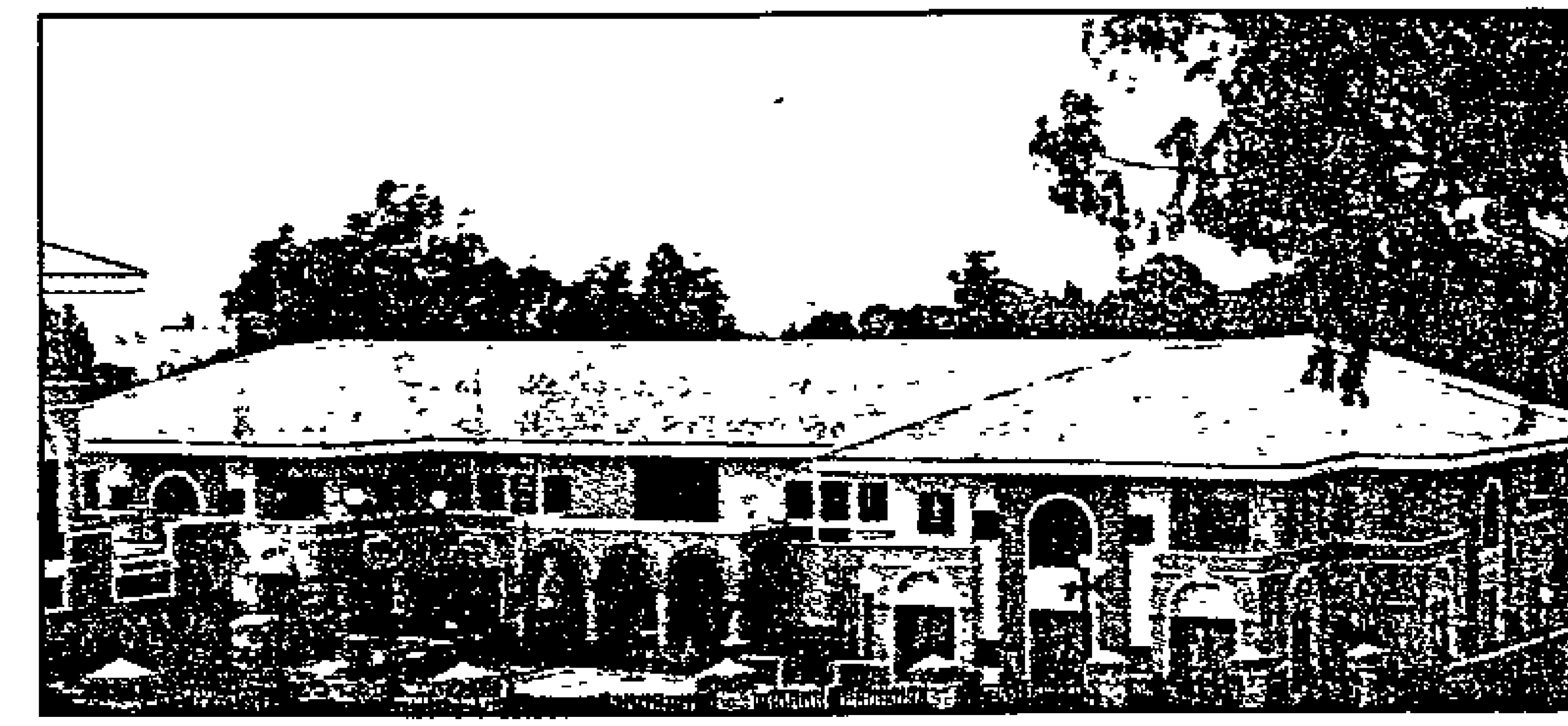
The present tenants are Standard Bank, Sagentra, Prime Cut and Grinaker, and Southern Life Properties is also relocating its corporate headquarters to one of the six individual buildings.

Southern Life leasing manager, Kendal Probert, said the advantages of Hyde Park Lane included easy access, a good position relative to the prime business nodes of Rosebank, Illovo, Sandton and Randburg, and most importantly, that it allows for individual tenants to have their own building

One of the six has been designed to cater for smaller tenants of 100 sq m and upwards, and a further two buildings that will house tenants in the 500 sq m to 1 200 sq m range

The buildings are named after the gates at Hyde Lane in London — Victoria, Lancaster, Grosvener, Edinburgh and Rutlard

The total office space created is 12 626 sq m with a generous parking ratio of four bays per 100 sq m.



Prime property . . . Southern Life Properties' Hyde Park Lane "is one of the only available office developments with a Hyde Park address", says Tony Moore, regional manager, Transvaal, of Southern Life Properties.

RENTALS HARDENING and 'time is running out for tenants looking for bargains'

Market will turn within six months – brokers

STAR 17/3/93.

■ **Upswing ahead:** Most leading brokers in Johannesburg have reported a surge in demand for office and industrial property since January.

Improved inquiry levels and take-up of space for both office and industrial property on the Witwatersrand began in January and has continued throughout the first quarter, report the city's leading brokers.

J H Isaacs director of office leasing and sales Steven Kesler reports an unexpected "surge in demand", particularly in decentralised office nodes in northern Johannesburg that was beginning to fill pockets of available space and "shift the market away from the tenant and in favour of the landlord"

Kesler says there has been a discernable firming of rentals in the north of about 5 percent in the past two months.

Tony Moore, regional manager (southern Transvaal) Southern Life Properties, says "It's not all gloom It's harder to get deals but they are there We noted a big upswing in tenant inquiries and leases signed from January, particularly in industrial space We're hardening up on tenant concessions Generally, it's wise to stick to shorter leases ahead of an imminent upturn"

JHI industrial leasing and sales director, Wayne Wright, reports a "phenomenal increase in activity" for the first quarter With reference to his own portfolio, Wright said there had been demand for 130 000 sq m of industrial space since December 1992, compared with 87 000 sq m for the comparable period the year before — an increase of 60 percent.

Although this does reflect relocation demand as tenants move to take advantage of keener rentals, it does also reflect extended activity in the industrial owner occupier market, says Wright.

"Lower interest rates and the promise of further cuts in prime have made it more viable to buy property Expectations of reduced inflation, improved export potential and better prospects for a political settlement are also fuelling some demand for more space by industrialists "

No broker is denying that vacancy levels are high, rentals are soft, tenants are driving hard bargains, and the market will remain a tough one for landlords at least until the year-end and possibly until mid-1994.

The point they are making, however, is that the situation shows marked improvement in the past three months It is a sign that four years of one of the worst property down cycles is bottoming out without having reached low rates of investment return comparable with those in Britain and the United States where capitalisation rates (net annual rental divided by initial investment in the building) have reached as much as 25 percent and in some inner city areas, even 50 percent

Since capital values on SA's buildings have come down in the recession at a similar rate to rentals, capitalisation rates have remained relatively steady, peaking at about 10,5 percent for offices and 11 percent for industrial space by end 1992, as measured by Real Estate Surveys

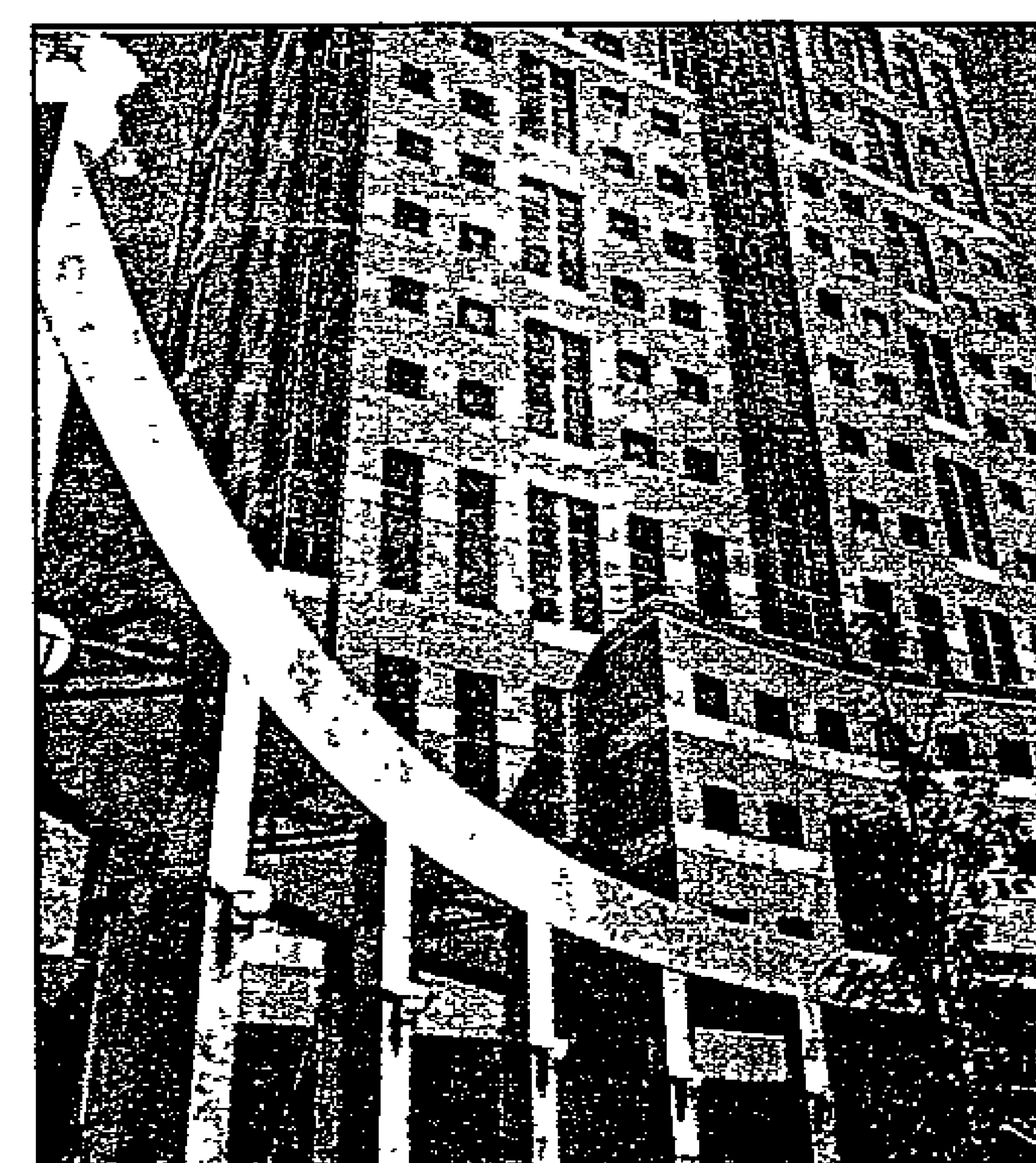
The lowest rate reported was 9,5 percent for Witwatersrand regional shopping centres.

Tony Moore says "Time is running out for the tenant who is looking for a bargain deal. Rentals are hardening."

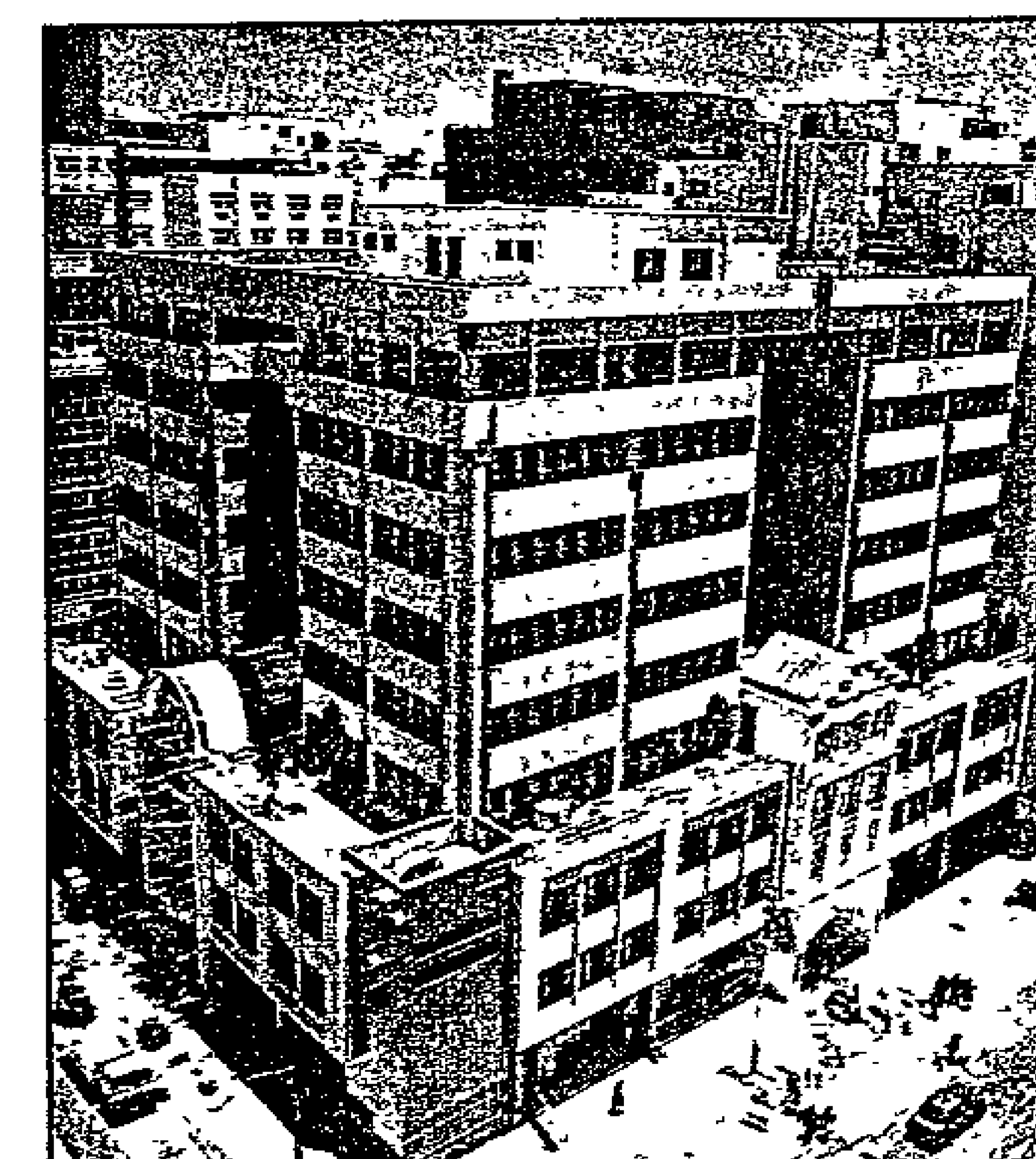
Taking a cross-section of views, landlords believe the turning point in the current tenant's market could be within six months, depending on the timing of an election in SA and the success of multiparty talks

While the largest proportion of vacancies are in B and C grade properties, there is still enough of a vacancy factor in A grade buildings to offer tenants excellent opportunities.

RMBT's Stan Arenson believes tenants can take best advantage of the current market by taking long-term business requirements, rather than price, into account in choosing a location.



Landmark with a difference . . Braamfontein's Jorissen Place, with its spacious plazza, archways and trees, is drawing a lot of attention. Liberty Life has relocated its head office to this building.



Old and new . . . Old Mutual Properties' latest inner-city development, Surrey House, has just been completed and comprises eight storeys, 9 300 sq m of office space.

Star 17/4/93

Financial rand set to go, market-watchers predict

By Magnus Heystek
Finance Editor

A strong rumour that the financial rand could be scrapped by Finance Minister Derek Keys in today's Budget swept through financial markets yesterday.

Several callers to The Star suggested that this could be the surprise element in today's Budget, which so far has seemed fairly transparent and predictable.

Such a move, if implemented, would have a major impact on financial markets and would, inter alia, lead to a sharp devaluation of the commercial rand of up to 20 percent.

It would also have a major impact on shares on the Johannesburg Stock Exchange, and capital market rates could soar.

However, Mike Brown, economist at stockbroking firm Frankel, Pollak Vinderine Inc, played down the possibility of such a move, saying this would have a negative impact on the country's foreign exchange reserves. (58)

The scrapping of the financial rand — South Africa's "investment currency" — could be done only if it were accompanied by a sharp decline in the value of the commercial rand.

Yesterday the finrand was trading at R4,70 and the commercial rand R3,20 to the US dollar, a difference of 32 percent.

While SA's two-tier currency system protects the foreign exchange reserve levels of the country, it discourages foreign investment to a certain extent as the financial rand is volatile.

A stable currency is a prerequisite for renewed foreign investment in the country.

A sharp drop in the value of the rand would have a negative impact on the inflation rate but would boost the export sector, especially sectors directly influenced by dollar prices, such as the gold mining industry.

● Keys starts delivering his Budget speech at 2.15 pm.

RTY

Portfolio management farmed out

B/DAY 17/3/93

(58)

PETER GALLI

PLACING administration of part of its property portfolio with private portfolio managers is showing benefits, says Old Mutual Properties property investment manager Ian Watt.

"We placed about a third of the buildings in our portfolio under the management of J H Isaacs, Baker Street Associates and Russell Mariott & Boyd Trust a year or so ago.

"In that time we have been able to make better use of our in-house resources and have brought in new management skills that were previously not available to us," he said.

As the portfolio had grown so had the need for additional employees to manage it. Using an outside company had the advantage of supplying specific management skills.

The management of an institutional portfolio was quite different from that of a private portfolio, and Old Mutual was allowing the process of placing this with outside firms to evolve.

"We will consider placing more buildings under outside administration when we feel the time is right," Watt said.

The buildings involved were smaller, management intensive properties that utilised the specific skills offered by the management companies.

Old Mutual's "big earner" buildings were still administered and managed internally, Watt said.

"Each of the companies has a small parcel of properties to manage at this stage as we wanted them to start with a meaningful portfolio that could also be structured." Their contracts run for a year and have a cancellation period.

RMBT director Roger Hunting said placing a small tranche of buildings at a time worked well as each building had a character of its own. "We need to get to know each building well before we can manage it effectively," he said.

Sanlam Properties GM Banus van der Walt said the group was not really actively involved with placing its properties under outside administration, except in areas like Namibia where it did not have an office of its own.

"Not more than half a percent of all of our buildings are administered by an outside company, and these tend to be those that we own jointly with others."

Sable feels the pinch of lower rates

BDAY 17/3/93

PETER GALLI

58

PROPERTY group Sable Holdings posted an 11% drop in earnings to 64,8c a share in the six months to end-December from 72,8c a share in the comparable period in 1991.

This was the first earnings decline since 1986 and came on the back of depressed market conditions and lower interest rates on cash deposits.

Pre-tax income, 12,5% lower at R7,62m (R8,71m previously), was declared and, after a tax bill of R2,9m (R3,26m), resulted in net income of R4,85m (R5,45m).

"The results are satisfactory and are in line with forecasts. The earnings decline is due to a decline in residential sales and lower money market returns," chairman Paul Nash said.

The company was planning new residential developments for sale rather than converting existing blocks.

Cash resources had been depleted by the R45m or 600c dividend a share paid at the end of last year and, as a result, net income in the second six months was expected to decline further.

That dividend represented accumulated earnings for several years and reduced the capital base by 46%.

The share hit an annual high of 1 800c on December 11 — the last day to register for the special dividend — and then fell to an annual low of 800c on December 31. It was untraded yesterday at its 900c ruling price.

"However, the board expects earnings to exceed 100c a share for the full year to end-June, which takes into consideration the probable deterioration in trading conditions.

"The group remains virtually ungeared and is well placed to make acquisitions in the property and industrial sectors," he said.

The group has also invested R6m in the Don Apartment Group, which is involved in the furnished apartment business. It has 200 furnished apartments at present. The number of apartments will be increased in the short to medium term.

COMPANIES

Dismay at scrapping of liquid BAs

BT (S8) JIM MARSLAND

LIQUID bankers' acceptances had been scrapped with effect from March 10, money market analysts said yesterday.

In terms of the Government Gazette issued on that day, liquid BAs "effectively ceased to exist". BIDAY 17/3/93

Angry money market dealers said yesterday they had not been aware of the move. One expressed dismay at the ruling, as it "should have been better publicised".

Previously, the liquid BA could be used as collateral for borrowing at the Reserve Bank's window while the non-liquid BA could not. Because the liquid instrument had a higher status, it traded at a lower interest rate to the non-liquid instrument. Now there will be a single BA instrument.

A market source said Bank Governor Chris Stals would clarify the position at a meeting with bankers on March 24. Until then, the Bank would continue accepting liquid BAs for rediscounting purposes.

One dealer said he would ignore the ruling until further clarity was received. He expected the scrapping of the instrument to be phased in over a longer period.

Dealers said the liquid BA rate, at present at 11,80%, would probably rise in line with the non-liquid instrument, which normally traded 20 points above the liquid BA.

The Bank proposed last year that the liquid BA lose its status at the window and that it no longer qualify as part of banks' core holdings of liquid assets.

Absa was the first bank to stop quoting a liquid BA rate on its screen yesterday.

FOREIGN INVESTMENT the joker in the pack

Take-up improves for prime building stock

STAR 17/3/93.

■ **Quick reaction:** Recovery in the property sector normally lags the general economy by about 18 months. But, Anglo American Property Services director Graham Lindop believes, the next upturn will be different.

Property developers have put the lid on virtually all speculative development, effectively putting the lid on current high vacancy levels.

"In all my 23 years in property and four recessions I have never seen such a total halt to building activity," says Anglo American Property Services sales and marketing director Grahame Lindop.

Usually, recovery in the property sector lags the general economy by about 18 months. Grahame Lindop believes that, unlike other recessions, this one will be different.

"I don't believe the lag will happen this time. Once the economy improves, the take-up of vacant space will happen rapidly," says Lindop.

While low economic activity in SA has meant a real decline in local demand for commercial and industrial space over the past two years and most new lease deals concluded represented little more than tenants playing "musical chairs", new foreign investment is, in the words of Sanlam Properties investments general manager Fanie Lategan, "the joker in the pack" that could underpin long-term improvement.

Without that factor, Lategan does not see significant property sector recovery before the end of 1994. Demand could come from disinvested foreign companies returning to SA as well as companies with bases elsewhere in Africa relocating their headquarters to SA.

Brokers also report that an improved political scenario is bringing a rising level of demand for office and industrial space from foreign companies.

One of the most notable and publicised deals was that concluded recently by RMS Syfrets — the sale for R7,5 million of a new 2 500 sq m building in Skeen Boulevard, Bedfordview, to a Chinese company, the Great Wall Group.

Southern Life Properties have signed up a number of foreign companies in new lease deals, including for their recently completed Georgian-style low-rise office park, Hyde Lane on the corner of William Nicol and Jan Smuts Avenue.

A Belgian import and export company, Sagentra, is among new tenants and inquiries have come from companies in Mauritius, India and the United Kingdom.

SAPOA's Office Vacancy Survey indicated that demand for space in Johannesburg central business district and Braamfontein was still falling up to August 1992, however, RMBT's Stan Arenson, who also chairs the CBD Association, believes take-up of A-grade CBD space has improved in the past three months.

According to Arenson, with the CBD crime rate (excluding car theft) on the decline since December because of tighter security, perceptions are gradually improving.

He believes that it is not a fair reflection to consider the masses of "C" and "D" grade vacant CBD space in vacancy statistics. These are buildings which, according to Dunlop Heywood, senior property valuer, Charles Walker, have come close to the end of their useful life and can be regarded as "written off".

"They may well be renovated and upgraded but certainly not before the next major wave of investment, and financiers won't be rushing into that in a hurry," he said.

RMBT's statistics put A-Grade Johannesburg CBD vacancy at 6,6 percent which compares with a vacancy factor for Sandton A grade space of 14,7 percent, for Braamfontein of 19,2 percent and for Bedfordview of 19,9 percent.

The CBD's "B" grade space vacancy factor of 20,8 percent is disturbing but could, with an economic upturn, improve rapidly.

"Any tenant that is a large employer of blue-collar workers and people dependent on bus transport is committed to remaining in the Johannesburg CBD. We are retaining and gaining big tenants," Arenson said.

"There are at present about 450 000 people working in the city centre. In just two big tenants — the Standard Bank with the new phase 3 of Standard Bank Centre, and First National Bank's third and fourth phase of Bank City — means a total of 250 000 sq m of pre-let space coming on stream.

"More and more people will be working in the city and stimulating demand for services and commercial and retail space," said Arenson.

A number of institutions and property owners have mothballed older buildings meaning these will disappear from vacancy figures in their portfolios.

Old Mutual's Ian Watt says this is one of the major reasons for an 11 percent drop in the portfolio's vacancy factor in the past two months, combined with new deals signed with tenants who are looking for "more flexible, more efficient space".

Watt is careful to note that he does not see that drop in vacancy as new demand in the marketplace.

"Landlords and property owners must concentrate on protecting their existing tenant base and definitely not developing unless it is tenant-led," says Watt, adding that he believes the property market will remain tough for another two years.

"Landlords must recognise the changing face of SA business. Tenants of all categories are suffering. They can't just go on paying," says Watt.

Drop in rate spurs investment

"Private investors either fence-sitting or previously more exposed to the stock market are showing more interest in prime property investments," says J H Isaacs investment sales director (Tvl) Hank Franco.

"With interest rates coming down, our perception is that good properties are becoming more valuable. Added to that is the effect of a poorly performing stock market for investors who view property as the more stable investment in the current climate."

Franco says that institutional and fund demand has also become more buoyant. Although yields have come down, Franco says that investors can still obtain attractive capital returns.

"Property investment acts as a strong hedge against economic and political volatility. We certainly don't anticipate any major movement out of property in the foreseeable future."

Four-fund approach for life offices to be promulgated

B/DAY 18/3/93 (58)

LINDA ENSOR

CAPE TOWN — Legislation to give effect to the four-fund approach to the taxation of life offices would be promulgated during the current parliamentary session, Finance Minister Derek Keys said in his Budget Review.

The date for implementing the new scheme would be determined after consultation with life assurers.

Also to be introduced in the session was an amendment to the Insurance Act introducing new conditions for life policies.

Keys said the Sixth Schedule to the Income Tax Act which prescribed the kind of business assurers might conduct might be replaced by simplified provisions under the Insurance Act once the four-fund tax system had been implemented.

"Provided new policies issued in the interim comply (with the new conditions) it should be possible to also scrap the Sixth Schedule in relation to existing non-standard policies," Keys said.

In terms of the four-fund approach, assurers would be taxed on income received from policyholders under the trustee principle as if it were income in the hands of policyholders. Non-policyholder income would be taxed on company tax principles.

Keys said the four-fund approach would require the compartmentalisation of assurers's assets into tax-exempt retirement funds, policyholders' funds, corporate funds taxed at the company tax rate and a fourth fund for the balance of the assurer's assets, to be taxed at the corporate rate.

□ Our political staff reports that Keys announced that all social pensioners would receive an increase of about 7,5% from July 1. This applied to other social allowances and would cost the state R521,5m.

The equalisation of pensions will take place on September 1, and will cost R694,1.

Keys said that although inflation had fallen greatly, it continued to erode the purchasing power of pensions. An increase in civil pensions was therefore required. These would be raised by 5% from July 1.

This applied to civil pensioners whose last working day was July 1 1992. Those retiring between this date and July 1 1993, would have their pensions raised by 0,42% for each month since retirement.

With regard to military pensions, Keys said a backlog had to be made up and these pensions would be increased by 9%.

□ Sapa reports that the provisional tax threshold for some people older than 65 would be raised from the start of the 1994 tax year, Keys said.

He said some individuals older than 65 were now exempt from paying provisional tax if their annual taxable income did not exceed R25 000 and consisted exclusively of remuneration, interest or rent from the lease of fixed property.

Since the tax threshold for married people older than 65 had already reached R24 881 for the 1993 tax year, it was proposed that the exemption threshold be raised from R25 000 to R35 000. This should mean that from the start of the 1994 tax year, a smaller number of the elderly in the lower income brackets would need to make provisional tax payments.

In a cautionary announcement, the a dividend.

Private hauliers 'now becoming more efficient'

TRACY SCHNEIDER

PRIVATE sector hauliers were becoming more efficient in the face of a deepening recession in the transport industry, said Road Freight Association business development manager Hugh Sutherland.

Latest Central Statistical Service (CSS) figures for road and rail transport showed October 1992's tonnage for public goods transporters down 11% on October 1991. However, total earnings over this period increased 16,2% and total kilometres travelled increased 7,5%.

"Hauliers are becoming more efficient, carrying high-rated goods with less tonnage over longer distances", said Sutherland.

BDAM 18/3/93.

Tonnage levels had fallen consistently since 1989.

CSS figures showed this trend persisting, with tonnage falling 13,8% for the third quarter of 1992, compared with the corresponding quarter in 1991. Seasonally adjusted figures showed performance in the third quarter down 8,2% on the preceeding quarter.

Transet performed better than private hauliers, recording a 0,5% increase in tonnage for the third quarter of 1992 over the preceeding quarter.

Metropolitan Life tops industry charts

BDAM 18/3/93. (58)

ANDREW KRUMM

METROPOLITAN Life's managed pension portfolio topped industry performance charts, posting a 20,1% return for the five years to end December 1992, an Absa Consultants & Actuaries (Absa C & A) survey showed.

UAL Merchant Bank came in a close second, giving pension fund investors a 20% return on equal monthly investments over the period, while Liberty Life was placed third with a 19,3% return.

Metropolitan portfolio manager Phillip Morrall said the portfolio's performance stemmed from getting the market risk element right in a generally dismal, low yield, share market. "Last year we took the stance that equities were not the place to be."

At end December 1992 the Metropolitan portfolio was 45% (1991: 50%) invested in equities, 18% (17%) of its assets held in property, 14% (20%) in cash with a 23% (13%) investment in fixed interest instruments.

Absa C & A operations manager Johann Grobler said it was "remarkable" how higher returns from fixed interest instruments had generally stabilised returns over the period, while the normally volatile equity market was at a low ebb.

This phenomenon could be seen in the small difference between actual yields and risk-adjusted yields for each portfolio, he said. (After adjusting for risk Metropolitan offered pension fund investors a 21,2% return, UAL gave 19,7%, while Sage Life — which moved into third spot — offered a 19,6% return.)

Meanwhile, the survey put the inflation rate over the five year period at 13,3%, which all portfolios, with the exception of Momentum Life, managed to beat. However, over the three years to December 1992, a larger number of managed portfolios — including the two biggest — had not outperformed the inflation rate.

"This is worrying, although it must be remembered that this resulted in part from the market being down on the day the index prices used in the survey were calculated," Grobler said. The equities market had picked up slightly since December.

The three top performers in the three-year period were Rand Merchant Bank with a 21,9% return, Metropolitan Life (16,5%) and Liberty Life (15,6%).

Noting it was preferable to look to retirement funds' longer term performances, Grobler said all funds had beaten the 14,3% inflation figure over the ten years to end December 1992.

BIDM 18/3/93

Modest earnings rise for Minorco

BIDM 18/3/93

JONO WATERS

MINORCO, Anglo American's cash-flush mining and minerals associate, reported a modest 3% rise in earnings before extraordinary items and increased its interim dividend by 6% in the six months ended December 31 1992.

Earnings before extraordinary items rose to US$0,60 a share compared with $0,58 a share in the comparable period in 1991. The dividend was increased to $0,19 ($0,18) a share.

Turnover amounted to $608m ($558m) and Minorco reported pre-tax earnings of $109m ($106m). The Luxembourg-based group paid $17,1m ($13,9m) in tax resulting in marginally improved after-tax earnings of $92,1m ($91,7m).

Minority interests in subsidiary companies brought in $9,3m ($6,3m) in earnings before extraordinary items increased to $101m ($98m).

Extraordinary losses resulted from the decision to sell the remaining non-agricultural business in US-based Terra Industries, the sale of the remaining WestGold mining operation and the restructuring of the Berait tungsten mining operation in Portugal.

These were offset by extraordinary gains recorded by associates Charter Consolidated — the UK industrial group — and Anglo. Earnings after extraordinary items fell marginally to $99,6m ($107m).

Chairman Julian Ogilvie Thompson said the company was in a strong financial position with $1,67bn in cash and short-term deposits.

However, analysts have questioned the pace of the group's transition from an investment to natural resource-based operating company, given Minorco's huge but idle cash bundle.

Minorco and Empresa Minera de Mantos Blancos SA jointly purchased a one-third interest in the Collahuasi joint venture in Chile for $190m in October last year.

However, the group's offer to buy BP's interest in the Australian copper and uranium mine Olympic Dam for $456m failed as Western Mining, which had pre-emptive rights on BP's share, announced it would buy the stake.

Ogilvie Thompson said Minorco's healthy balance sheet and continuing efforts to improve the efficiency of its operations had served to protect the company during economically uncertain times whch were characterised by weak commodity prices. It would benefit from an improvement in the economy.

In the year ended June 1992, turnover amounted to $1,67bn and pre-tax earnings stood at to $253m. Earnings after tax and extraordinary items amounted to $216m equal to $1,22 a share. Minorco declared a final dividend of $0,54 a share.

BIDM 18/3/93

Bank will still accept BAs

THE Reserve Bank said liquid bankers' acceptances (BAs) would still be discounted by the Bank, in spite of the fact that they had lost their liquid status.

Reserve Bank GM Andre Kok said in spite of notice of the scrapping of liquid BAs in the Deposit-taking Institutions Amendment Act 1993, published in the Government Gazette of March 10, the Bank would "for the time being" continue accepting BAs at the discount window.

"The Act was promulgated last week so legally speaking they (BAs) no longer qualify as liquid assets, but we have always had accommodation arrangements separate from the Act," said Kok.

He added it was likely Reserve Bank Governor Chris Stals would spell out the new accommodation procedures at a meeting with bankers next Wednesday.

The Bank proposed in a discussion document released last June that liquid BAs lose their status at the discount window. — Reuter.

EXECUTIVE SUITE By William Wells and Jack Lindstrom

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EXECUTIVE SUITE By William Wells and Jack Lindstrom

Star 18/3/93

R2 stamp duty to go

(58)

Stamp duty is to be abolished on all agreements and contracts not specifically listed in the Schedule to the Stamp Duties Act, Minister of Finance Derek Keys said in his speech.

He said duty of R2 was at present levied on every agreement not listed in the schedule. Its application had raised a host of practical problems.

It was therefore proposed that this stamp duty be abolished on April 1.

It would mean a loss of revenue of R10 million for 1993-94. — Sapa.

New laws on estate duty in pipeline

Star 18/3/93

58

Draft legislation is being drawn up for a more efficient system of taxing the transfer of estate assets and wealth, according to the Budget Review. The review says that from 1986 until 1992, revenue from estate duty fell by an average of 9 percent a year.

Inland Revenue had given the Tax Advisory Committee a discussion document on the issue, and the committee had recommended that the Estate Duty Act be combined with the Income Tax Act and adapted to offer a more effective system of taxing the transfer of wealth.

Referring to self-assessment for company tax, the review said more of the fiscus's discretionary powers would be removed from the Income Tax Act this year. — Sapa.

Vat, duties to hit top of property market

Star 18/3/93

58

By Meg Wilson
Property Editor

On property, the increase in VAT and in some transfer duties stipulated in the Budget will have most effect on the top end of the market.

VAT, which applies to the purchases of newly built homes, is to be increased from 10 to 14 percent.

This, says Camdon's national franchise chairman Scott McRae, will have a negligible effect for buyers who were existing homeowners, as the increased value of their homes will offset the increased cost of the new purchase.

For first-time buyers, however, home ownership will become less affordable in the medium term, since the increase in VAT will push up building costs.

Commissions

The increase in VAT will also affect estate agents' commissions, raising the amount payable from R770 on a R100 000 house to R980 — and on a R250 000 house from R1 750 to R2 450.

Pam Golding Properties director Ronald Ennik said the increase in VAT could cause a hiccup in the imminent upturn in the property market due to the erosion of disposable incomes.

"It could also have an inflationary effect on developments and projects where developers of new properties will need to increase the price of the units to counter the increase in VAT.

"However, we accept that this medicine is necessary if the Keys plan is to succeed. Within this plan, the property market will have a rosy future."

For transfer duties, the exemption threshold is to be raised from R50 000 to R60 000 for residential houses and flats, and from R20 000 to R24 000 for unimproved land purchased for building a dwelling.

The rate of duty for natural persons will be adjusted to 1 percent on the first R60 000, 5 percent for amounts between R60 001 and R250 000 and 8 percent above R250 000.

The rate will rise from 7 to 10 percent for companies.

Absa economist Christo Luus comments that this will mean some relief for buyers at the bottom end of the market, but will steeply increase costs on houses over R250 000.

"On a R100 000 house, the duty payable will in fact decrease from R3 000 to R2 600 but on a R250 000 house, it will rise from R18 000 to R22 000."

Anglo American Property Services (Ampros) said it would absorb the 4 percent increase in VAT on all residential land sales until the end of June.

Ampros sales and marketing director Grahame Lindop said the special offer applied to all purchasers who qualified for a VAT input credit.

It was regrettable, he said, that the Minister had not been able to exempt residential property from VAT, or tax it at a lower rate.

"An increase in VAT is another cost for potential homeowners, which for many will push ownership even further out of their reach."

DERek COHEN

Putting size into perspective

FM 19/3/93

58

Derek Cohen is chief executive of Mercantile Bank

There is no textbook or other official definition of a small bank. Whether a bank is classified as small depends on perspective. From the perspective of the major Japanese banks, for example, all SA banks are small.

The commonly used measurements of size include any one or a combination of:

☐ The size of share capital and unimpaired reserves;

☐ Total deposits;

☐ Total balance sheet size, for instance total assets and liabilities; and

☐ The all-embracing standard in SA which views any bank other than the three or four largest as "small."

These commonly used yardsticks can be misleading. For instance, should one classify as small an institution with say R50m capital if it is 100% owned by one of the top five banks in the world? How do you compare this with a domestic bank with R3bn capital?

Size is relevant to a range of attitudinal issues within and towards banks. In dealing with these, I will restrict myself to a generalisation. The larger the bank, the less likely the client will deal with the bank's decision-makers and transact his business in a non-standard manner.

This is because:

☐ The top management of large banks, by definition, must be more concerned with strategic and policy issues than with the day-to-day business of the bank;

☐ The bigger the bank, the better it is able to afford the costs of the checks and balances inherent in a multi-tiered management structure; and

☐ Large banks need a production-orientated infrastructure to cater for large volumes and create economies of scale.

This is not intended to be a criticism of large banks. As a result, they acquire an impeccable reputation for long-term solidity and controlled growth in profits and size. This is because their business is substantially conducted in accordance with tried and trusted principles and, therefore, the room for error is materially reduced.

However, this allows smaller banks to position themselves in the market, providing personal service and innovation.

As small banks are unable to be all things to all people, they must focus on particular areas, offering a superior level of expertise and service, to obtain an acceptable economic return.

The issue of risk evaluation of banks is a highly technical matter. Measurements of risk do not change with the size of the bank; an overstretched big bank is as dangerous as an overstretched smaller one — the BCCI debacle is a case in point.

The issues which must be evaluated before choosing a bank are:

☐ In the context of the business I wish to transact, what size bank should I be using? and

☐ Does my chosen bank clearly understand its limitations on the scale of innovation to solidity?

At present, the information available to the layman is generally insufficient and one must sympathise with depositors, counterparties and investors who are not able to assess:

☐ Liquidity policies;

☐ Deposit mixes and maximum amounts per deposit;

☐ Provisions and write-off policies;

☐ Capital adequacy ratios;

☐ Trading strategies; and

☐ Risk exposure policies and the like.

These complex and interrelated subjects have to be assessed in toto before any risk assessment can be made. The issue of relativity must not be forgotten: there is a wide choice of banks good for a deposit of R1m but few for a deposit of R1bn.

Risk assessment will improve with the new accounting disclosure requirements, which banks will have to comply with, and the development of a credit rating system which is orientated towards the public rather than the institutions.

LIBERTY LIFE FM 19|3|93

(58)

High on shopping lists

What, no special dividends at year-end? Poor Liberty Life shareholders, after receiving a dividend in specie in financial 1991 and a "35th anniversary" dividend in October, de-

continue →

Liberty's Gordon ... *innovative marketing*

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clared with interim results, had to be satisfied with an ordinary payout at the December year-end — and that only 22,2% up on 1991 when the dividend was lifted 26%.

It seems to be a tough time to be a shareholder in SA's biggest listed life assurer. Funny, but we don't hear any howls of protest out there.

That's probably because Liberty, with the exception of two years in which chairman Donald Gordon almost woefully notes that EPS and dividend growth dropped "as low as 17% or 18%," has increased earnings and dividends by more than 20% a year for the past 35 years, with a fair smattering of special dividends in between.

Latest results continue the trend, though 1992's 21,7% increase in EPS and 22,2% increase in dividends are slightly lower than the previous period, when EPS advanced 24% and dividends by 26%.

As usual, immediate holding company Libhold did even better, recording EPS up 26,4% to 500c and dividends up 26,8% to 360c. Ultimate holding company Libvest increased EPS 21,5% to 30c and dividends by 25,9% to 20,9c.

At the operating level, Liberty has at least one record to claim in latest results, and this time it's the 36% increase in total new business written, which amounts to a staggering R1,7bn. Gordon attributes this to innovative marketing and the quality of Liberty's products.

"To enhance market share, we have to introduce new policies and make changes to existing policies," he says. "A lot of the growth is from the success of our Medical Lifestyle products — it seems we caught competitors flat-footed on that one," he says.

The interests of shareholders in Liberty Life increased by 12,6% to nearly R5bn. What is noteworthy about this is that the R560m increase comes after the special dividend in 1992 of R1 a share, which took a total R228,1m out of Liberty Life's distributable surplus. No wonder Gordon regularly declares special dividends.

Another notable feature in the accounts is

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the 12,8% growth in investment income, compared with 9,2% in the previous period. This comes during a fairly flat year in equity markets, though Liberty must have one of the most heavyweight investment portfolios around, headed by the Standard Bank Investment Corp and SA Breweries in SA, and by UK investments Sun Life Corp Plc and Thurrock Lakeside Shopping Centre.

Gordon notes that pedestrian conditions on the JSE were stabilised by the "very solid growth" of Liberty's property interests. On the equity side, he wryly notes: "If we were able to invest in ourselves, investment income would have been even better."

It's hard to disagree. Despite Liberty, Libhold and Libvest being among the most strongly rated shares in the insurance sector — all well below the average yield of 2,9%, which would suggest they are fully priced — they continue to appreciate better than most. With the consistent growth in dividends, it's not surprising the shares remain high on institutional shopping lists. *Shaun Harris*

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SABLE HOLDINGS

Adverse interest swing

In sharp contrast to Sable's compound annual earnings growth of 51% over the five years to 1992, its EPS fell 11% to 64,8c in the six months to December. Financial director Andrew Bolleurs blames this mainly on reduced residential sales and lower interest rates.

Sable's trading/residential sales division, which had been contributing half of pre-tax profit, provided only about a fifth of the latest interim figure and Bolleurs expects it will be about 16% at the June year-end. Conversion of existing blocks into sectional title is no longer a major profit contributor.

Because of this, Sable is diversifying. Much of future profit will be from new residential and office park developments. A townhouse project in Glenhazel is to come on stream at mid-year and other such developments are being planned.

The group has also increased its activity in commercial property development. It has been involved in developing office parks in Sandton and Randburg.

Another new interest is the R6m investment in the Don Apartment group, which is in the furnished apartment business. Furnished apartments are seen as a growth sector because they offer lower rates than hotels. This investment was funded from debt.

The investment property portfolio performed satisfactorily, with vacancy factors of 10%. It contributed 34% of interim pretax profit.

With rates declining, little can be done about the adverse effect on interest income. After the sale of Steiner to Bidvest in 1991, funds exceeding R40m were attracting interest of 17%-18% at the start of 1992. In the six months to December, interest was at only 13%-15%. And, as Sable is almost ungeared, there was little relief to be gained from lower finance costs.

The balance sheet has remained strong even though a R45m — or R6 a share — dividend was paid on December 21. Cash had accumulated from past earnings and the board declared a large dividend to "reward" shareholders. But it means interest income will decline in this half. Bolleurs expects full-year EPS to exceed 100c (1992: 164,5c).

Though trading volumes remained low, the share rose to a record high of R18 in December and, after going ex-dividend, it dropped to R12,50; it fell a further R4,50 in January. After the interims, the p:e almost matches the property sector average of 9,3.

Kate Rushton

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LIFE OFFICES

(58)

Just one hurdle

FM 19/3/93.

Dividend income accruing to policyholders of life funds is one issue Keys skirted. Dividends, paid out of profits already taxed at source, are not taxed in the hands of individuals: but they are when applied to enhance policyholders' funds.

Apart from that, life offices got all they wanted. The sixth schedule to the Income Tax Act, which circumscribes the types of policies the industry may sell, is to be scrapped on a date to be decided.

The principle that policyholders' funds are simply held in trust by life assurers has been enshrined — with the adoption (also on a date to be decided) of the so-called four-fund approach which places policyholders on a different tax footing to life office shareholders. The only exception remains the taxation of policyholders' dividends.

This issue, suggests Old Mutual chief actuary Theo Hartwig, may have been ignored for the moment because of its political sensi-

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tivity. Dividend income is seen by some political groups as the prerogative of the wealthy. Far from wanting to see tax exemptions extended to life policyholders, some of these groups have suggested the reintroduction of a tax on all dividends.

But Liberty Life vice-chairman Dorian Wharton-Hood believes dividend tax on policyholders' funds will be eliminated, even though Keys did not mention it. Sanlam MD Desmond Smith says some fine tuning must be done before the trustee principle is completely in place, including the dividend aspect. He does not expect life offices' dividend tax to be eliminated immediately.

The four-fund approach was expected. It separates shareholders' funds, in the case of proprietary life companies, from policyholders' interests and provides for shareholders' funds to attract tax at normal company rates. A second fund, representing retirement savings, will remain tax-exempt. Policies bought in the name of corporate savers will attract tax according to normal company tax principles.

Funds held for ordinary policyholders will be taxed on investment income at 30%, which is estimated to be the average tax rate and is 2% lower than the life offices suggested when they first lobbied for the four-fund approach. At present, individual policyholders' funds attract 43% tax.

Keys spelt out a formula for valuing corporate funds of the two mutuals, Old Mutual and Sanlam, to tax them on a similar footing to proprietary offices. Also, to counter creative accounting, "the year-end value of assets in various funds may not exceed the minimum needed to meet the liabilities concerned. All surpluses must be transferred to the assurer's company fund, where they will be taxed at the ruling company rate."

Life Offices chairman Neal Chapman says there will be more negotiations over what expenses can be deducted against the various funds but, as the systems will be phased in, there was no reason to delay the introduction of the new tax base.

As the sixth schedule disappears, life companies will emerge with new savings plans based on five-year endowment plans which they have been designing in anticipation of the schedule's departure. Wharton-Hood confirms that some offices have been selling policies which would be nonstandard according to the schedule, and therefore not tax-efficient, in anticipation of the schedule being scrapped. Liberty, he says, did not.

Eliminating the sixth schedule will have some impact on the competition for funds between banks and life offices. Life company products, to be efficient, needed a term of 10 years, now reduced to five. That could attract funds which, until now, have found their way to banks as medium-term deposits.

Hartwig welcomes the new company tax structures. They will, he says, encourage the retention of profits in developing organisations and so tend to create jobs. "It's a behaviour tax — we'll see a sudden difference in the way companies handle profits." ■

INTEREST RATES (58)

Not very accommodating

FM 19/3/93

Banks are facing higher costs as the Reserve Bank attempts to simplify its accommodation procedures which could cause the general level of short-term interest rates to firm despite sagging demand.

Banks are accommodated at the Reserve Bank discount window to finance their cash shortages at the end of each day. The rates at which they are allowed to borrow depend on the liquidity of instruments offered as collateral. Together with the size of the shortage, the rates charged and the instruments available for discounting at each rate are important cogs in the Bank's monetary policy.

Now, amending legislation to the Deposit-Taking Institutions Act, to be known once more as the Banks Act, strips bankers' acceptances (guaranteed bills of exchange) of liquid asset status. This deprives the banks of a security which can be rediscounted with the Reserve Bank at a favourable rate.

Further amendments have been proposed which will put banks at an even further disadvantage by forcing them to pay even higher penalty rates.

Under the present system banks are accommodated over a spread of seven rates: Treasury and Reserve Bank bills at Bank rate, while penalty rates, 4,75 percentage points above Bank rate, are charged on long-term gilts. Until the amending legislation was passed this month the 91-day liquid bankers' acceptances played a crucial role in banks' financial management as they were rediscounted at only one percentage point above Bank rate.

The Bank now proposes to narrow the spread to three rates. Liquid Treasury bills, Reserve Bank and Land Bank bills, with a maturity of up to 91 days, will be accommodated at Bank rate. The same bills, with maturity between 91 days and three years, will be accommodated at a rate "to be set by the Governor." But all other instruments (including BAs) will be accommodated only at a higher, penal rate — above prime.

Rates could tick up because banks, which are short of liquid assets just prior to seeking assistance at the discount window, would have to bid up their deposit rates to avoid

... continued

FM 19/3/93 (58)

paying the penal rate — creating a ratchet effect on the rate structure Volatility of deposit rates would also be increased which exposes banks to greater interest rate risk To pay for the reduced margins and the uncertainty about costs, banks may have to increase some of their lending rates.

So, while the Bank will have an even more effective means of containing money supply growth, corporates' funding costs could be much higher — a serious consideration in the current recession.

Another implication of the higher accommodation costs could be a growth in the interbank and commercial paper markets, as banks seek other means of financing their cash shortages. However, the extent of higher interest rates will depend on prevailing monetary policy of the time and the extent to which the Bank manipulates the market shortage (through redeeming and issuing paper).

But not all banks believe the changes will be disruptive Standard Bank's Henry Shaw says. "It is likely the Bank will reduce liquid asset reserve requirements even further than the 12% against short-term liabilities currently in place. So banks should have a bigger pool of liquid assets to play with."

Shaw believes banks have the stocks of semi-liquid paper necessary to allow them to keep down accommodation costs even though the range of rates has been reduced.

Patrick Lawlor

BADENHORST'S MEN (58) FM 19/3/93.

The secret seven

The trouble with many of SA's big companies is that media attention is often focused on CEs, with the teams around them remaining unknown.

Absa CE Piet Badenhorst, arguably SA's most influential banker, is among the first to concede it would be impossible for any man to manage SA's largest bank through an absorption and then rationalisation without relying heavily on a small, select and vital executive team.

Badenhorst's boys share some characteristics: most were recently appointed executive directors, they're loyal to him and Afrikaans-speakers.

Stung by criticisms that this proves Badenhorst's antipathy towards English-speakers, he says he acknowledges the implied imbalance in Absa's hierarchy but adds there is not much he can do about it if the talent is not available.

"We are going out of our way to develop managerial talent which shares a common SA culture and approach but it's not something I can achieve overnight."

The team Badenhorst has put together, and on which he relies so heavily, is committed — almost zealously — to ensuring the success of Absa, a bank which might be SA's biggest but is also the country's newest. Badenhorst says he has been involved in a long, continuing process at Absa. "First it was the whole matter of deciding to take United into mainstream banking. Then it was putting together all the components of a major group. I can assure you that I would never have attempted projects as large as these if I hadn't been certain of the support of this group of executives."

Absa's two deputy CEs are **Danie Cronjé** (46) and **Mike de Blanche** (55). **De Blanche** joined the United Building Society (UBS) in 1957 and has been close to Badenhorst for 28 years. Married to the daughter of an Italian World War 2 prisoner — "I can speak enough Italian to get into trouble" — De Blanche, who cherishes a dry sense of humour, started his career as a clerk in Pietersburg, eventually becoming the branch accountant. "That made me," he says, "a pretty big fish in a small pond."

Transferred in 1965 to the UBS head office in Johannesburg, De Blanche joined Badenhorst's organisation & methods department. "I was transferred for training. They never got around to cancelling it." That makes him Absa's longest-serving trainee.

He is now responsible for the bank's support functions including information technology, human resources, marketing, accounting and internal audit.

Along the way, De Blanche has collected a BCom from Unisa and a CIS part-time. Absa is a far cry from the organisation he joined 36 years ago, but De Blanche says its development has been the most exciting feature of his long career. "Our emphasis," he says,"is to make sure Absa isn't just the biggest. We have to ensure we are the best in terms of client service — providing the highest quality at an affordable price."

De Blanche says there is a need for SA banks to expand their operations globally. He says: "We need to break out of the laager mentality forced upon us in the Seventies and Eighties. SA bankers have to develop a much wider vision."

De Blanche believes there is too little appreciation of how much SA was isolated during the years of sanctions and how that damaged the development of key national resources.

Danie Cronjé is described by Badenhorst as "a man who is very different from me, particularly in his approach to problems and the way he thinks things through. But we get on well and I have the utmost respect for his abilities."

Cronjé holds a doctorate in economics from Potchefstroom. After his studies, he joined Volkskas Merchant Bank (VMB) where he worked for a long time with Laurie Korsten. Following the appointment of Peter Morkel as Volkskas CE, Cronjé was transferred to the bank's head office and became the commercial bank's joint MD. In 1987, he accepted responsibility for Volkskas's Johannesburg operations and was appointed MD of the group a year later.

Cronjé negotiated the first cross-shareholding arrangement between Volkskas and United and has maintained a close relationship since then with Badenhorst. The ultimate merger of Volkskas with Absa was a logical continuation of an earlier strategy.

Alewyn Burger (41) is one of those charmingly clever people who contrive swiftly to make their interlocutors feel faintly uncomfortable. Burger obtained five distinctions in matric and went on to acquire a doctorate in mathematical statistics from Unisa in 1981.

Lecturing at RAU, Burger says that, with a master's degree and four years' teaching experience, he was earning the princely sum of R800 a month. In a Damascene-like conversion, Burger joined UBS as a research officer in 1979 and, in the process, adopted a new career path, this time in computers.

Badenhorst and his men ... Claassen, Cronjé, Noeth, De Blanche, Bosman, Burger and Brown

In just six months, Burger absorbed 60 education courses provided by IBM's training department. He rose to lead UBS's computer division and was in at the creation of the strategic plans drawn up to take the building society into banking.

Burger's main task now is to rationalise Absa's four widely differing systems and move the bank into the forefront of applied computer technology. Allied's nationwide systems are already merged with United's. The next step will be to link Volkskas and Bankorp. Burger says that will be done by the end of next year, when Absa will have one system.

Jean Brown (49) says he is a natural example of the new SA. "When did you last hear of an Afrikaner who combines English and French in his name without ever giving a clue that he's a boertjie?" The head of Absa's merchant bank and executive director responsible for corporate banking poses the question with a glint of mischief.

Brown began his working life as a clerk with the Transvaal provincial administration. Later, he acquired a BEcon from Pretoria and then joined Central Merchant Bank where he worked under Piet Liebenberg. Following a short spell as a stockbroker with George Huysamer, he returned to bank-

P.T.O

ing with Bankovs, in which Volkskas subseqently bought a controlling interest. That took Brown into VMB under Korsten, whom he succeeded as MD in 1986.

Of his new responsibility supervising Absa's corporate banking division, a job he took over at some speed from the disgraced Bob Aldworth, Brown says: "It's not new, but it's that much larger." Brown is the longest-serving member of the Merchant Bankers' Association.

Another Absa self-starter is executive director responsible for commercial banking **Nallie Bosman** (48). And he makes it clear that he lives for his job: "I'm a career banker," he says, "and I enjoy every minute of it." Bosman also devoted himself to the pursuit of knowledge: first he acquired a diploma in banking, then a BCom followed by an honours degree and finally an MBL, all part-time and all from Unisa.

A structured, pragmatic man, Bosman says he is a great realist. Responsible for 28 000 employees, he needs to be. After joining Volkskas in the eastern Cape town of Cradock in 1963, Bosman relocated to United in 1987. "I'm a bad golfer," he says wryly. He also went from clerk to the first MD of the newly launched United Bank.

"Why do you think I l ve grey hair?" asks Absa executive director responsible for finance, accounting and treasury **Alwyn Noëth** (48). While he doesn't answer his own question, it's plain he is enjoying himself.

From the northern Cape village of Griquatown, Noëth's first job with the Registrar of Financial Institutions was followed by a brief and uninspiring spell with a western Transvaal co-operative before he joined the UBS in Pretoria in April 1969. "The headquarters of the co-op was in Leeuwdooringstad," explains Noëth. "I don't know if you've ever been there," and he says it with a suggestion of a grimace. "I was on the point of getting married. There was no accommodation available to rent and the hotel was well beyond what my pocket could bear. To cap it, my boss was a former schoolmaster with a fixation on precision which was tantamount to an obsession."

Before his shift to the UBS, Noëth had obtained a BCom from Tukkies through part-time study. He has been a confidant to Badenhorst since 1971, an initial meeting which traces his early transfer to Johannesburg and his subsequent moves through UBS's accounts department, internal audit, and then to succeeding Arthur Kelly (Sechold CE) as head of treasury in 1978.

Completing Badenhorst's inner circle is **Petrus Claassen** (38), now considered formidable for his recently revealed role as Aldworth's unrelenting interrogator. Claassen comes from a Postmasburg sheep and cattle farming family and is loaded down with academic qualifications which culminate in his doctorate from RAU.

Absa executive director responsible for human resources, Claassen's role in an organisation which has grown like Topsy and is in urgent need of rationalisation, is critical given the need to preserve and foster confidence amid uncertainty. He says that amalgamating 13 pension funds, seven car schemes and five medical aids has been something of a nightmare.

He is acutely conscious of the need to ensure Absa's training programmes are equal to the demands of an increasingly sophisticated area of business. To achieve this, Claassen and his team have installed a substantial training programme designed to equip Absa personnel with all the financial tools they require as well as a sound knowledge of local, national and international requirements.

He acknowledges the uncertainties have resulted in Absa losing some good people. But he insists that, irrespective of how accommodating the organisation is, in the end, the reason for employment is to provide a profit to the employer.

In a sense, Claassen has had the least exposure to Badenhorst. A man with a strong military background (five years in the SA Defence Force), Claassen has served with Eskom on two occasions and in the SABC's manpower planning department. Absa is his first private-sector job. ■

HOME LOANS

FM 19/3/93 ([redacted])

Reslicing the cake

(58)

Despite the recession and depressed property market, banks are adding rapidly to their home-loan portfolios Monthly reports to the Reserve Bank show the major lenders (see graph) increased the value of their combined home-loan portfolios nearly 18% to R68,8bn in the 12 months to December. This is a rate almost double the inflation rate in the period.

Some of the impetus is coming from facilities which provide revolving credit against the security of fixed property. This product, introduced in 1988, has become increasingly popular since 1991, when a new system for risk-weighting assets was introduced by the Department of Banking Supervision. Mortgage loans are now risk-weighted at only 50%, compared with 100% applied to other

FM 19/3/93 ([redacted]) (58)

types of loans, and the capital which banks are required to hold against these assets is accordingly lower.

This has added a new dimension to the already intense competition for mortgage business, which started with the deregulation of building societies in 1986.

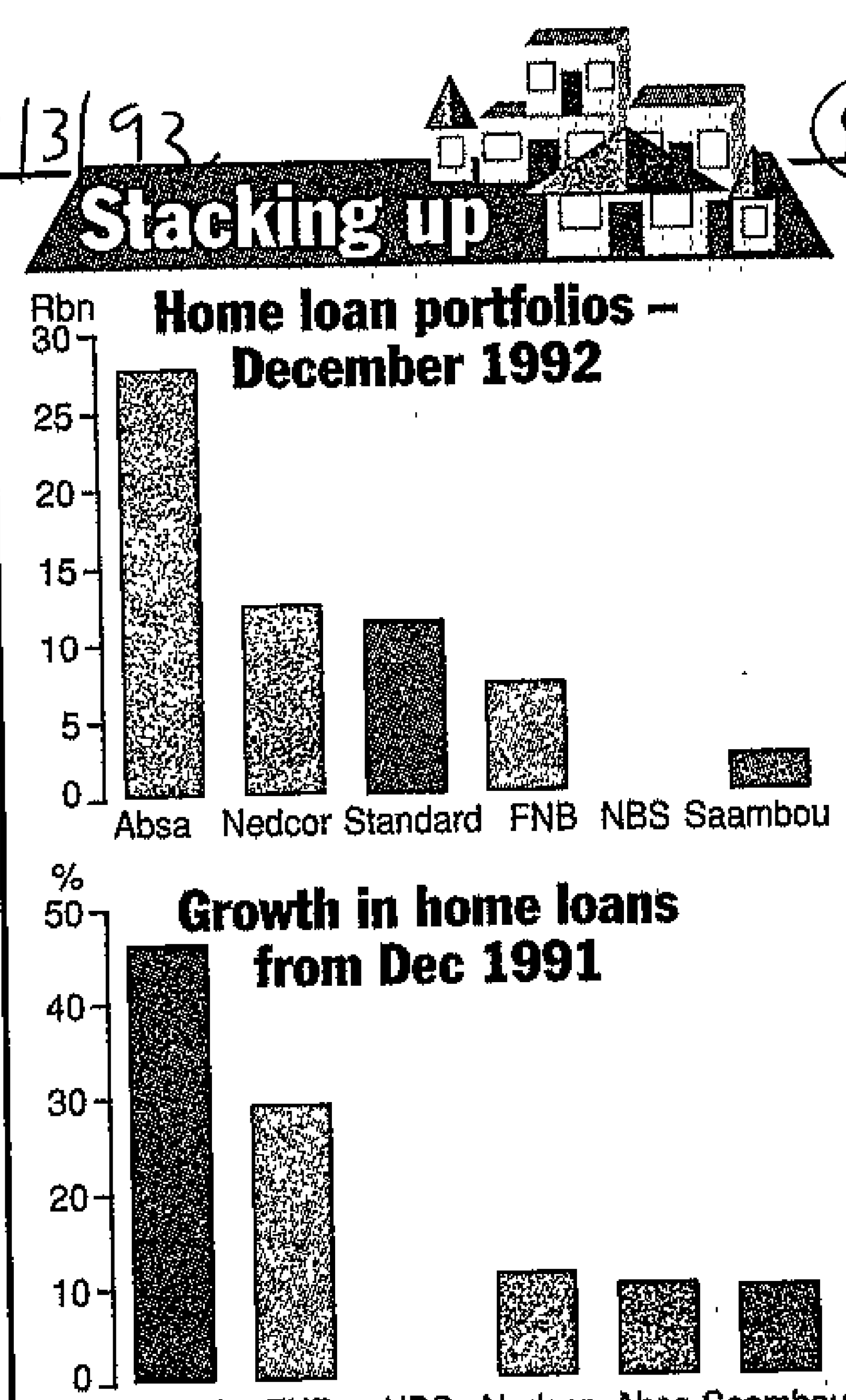
In 1992, the former building societies lost substantial ground to the traditional banks. The greater percentage growth of Standard Bank and First National Bank is, of course, off a smaller base. And it is assisted by the relatively big proportion of new loans — the more mature portfolios of the former building societies are more vulnerable to cancellation and capital redemption.

An analysis of the figures shows:

□ Standard Bank increased mortgage advances to individuals 46,7% in the year to R11,7bn. This pushed its share of the R68,8bn market (of the six major players) from 14,5% to 17%;

□ FNB 29,7% to R7,6bn — moving market share from 10,6% to 11%;

□ Absa (which includes former building societies United and Allied, as well as the banks Volkskas and Bankorp) 10,6% to R28bn — market share down from 43,5% to 40,8%;



□ NBS Bank (formerly Natal Building Society) 15% to R5,8bn — market share 9,2% to 8,4%;

□ Nedcor Bank (which includes former building society The Perm) 11,8% to R12,8bn — market share fell from 20,5% to 18,6%; and

□ Saambou Bank 10,2% to R2,9bn — market share 4,6% to 4,2%.

A large cheque account base is giving banks a marketing edge. Standard Bank's Duncan Reekie says the bank is marketing directly — largely to existing clients — through the mail.

Absa's Tienie van der Berg and NBS's Trevor Olivier report that clients are being tempted away with offers of preferential rates from banks where they have cheque accounts.

Absa is fighting back. Says Van der Berg: "Since becoming banks, United and Allied have experienced a substantial growth in cheque accounts. Together with cheque accounts introduced to Absa by Volkskas and TrustBank, this places the group in a favourable position to defend market share."

Saambou's approach is different. Says MD Johan Myburg: "We're not attempting to expand home loans, which already make up 85% of our lending. We are trying to expand personal loans and motor car finance." ■

INVESTMENT FM 19/3/93

Changing gear

58

South Africans have lived with double-digit inflation for so long that investors automatically add it into calculations and make decisions accordingly. Now that the official inflation rate has dropped to single digits, and a target of 5% by 1997 has been mooted in official circles, investors are rethinking their strategies.

Traditionally, inflation has been bullish for equity markets because shares generally keep pace with inflation. This has given them a competitive edge over bonds; when inflation drives up nominal interest rates, the value of bonds declines.

When inflation is low, bonds will become relatively more attractive and bondholders could reap substantial capital gains as interest rates fall.

However, according to the Bank of Lisbon International's latest issue of *Economic Focus*, equities will not suffer. Though prices might not record the dramatic nominal increases of the past, they could perform better in real terms — with the effect of inflation stripped from the price.

The journal says that, by distorting the price mechanism, inflation stunts growth and generates uncertainty, which is the enemy of investment. If businessmen are unsure about the future level of prices, and hence of real interest rates, they will be less willing to take risks and to invest, especially in long-term projects.

Though tight monetary policy restricts company profits in the short term, equity markets benefit from lower inflation medium- to long-term, owing to the improved economic growth prospects. When the general price level is stable, the market

FM 19/3/93

58

economy functions more efficiently. Old Mutual senior portfolio manager Adrian Allardice says statistics from the UK and the US indicate falling inflation has been good for long-term bonds and equities.

But the causes of lower inflation are material to investment strategy. Expectations of low inflation will in general result in capital gains on bonds (as nominal interest rates fall in line with the lower inflation). When inflation is reduced through tight monetary policy, the fall in interest rates is steeper than it would be if low inflation came from currency appreciation.

As SA's monetary policy has been restrictive, investment in bonds would provide substantial capital gains should inflation decline further.

Because equities and property have often been held as inflation hedges, Martin & Co senior analyst Richard Jesse believes the weighting of bonds in an investment portfolio should rise where inflation is low.

Property will be the greatest casualty of reduced inflation. Investments could become less attractive as the motto "buy now, pay later (with cheaper money)" will make less sense. Also, institutional investment in property could plunge. Institutions have argued that, with inflation high, the cost of holding empty space is less than the increases in the value of building The situation is reversed when inflation falls sharply.

Renting could then be a more attractive alternative and fewer buyers could mean lower home prices. The combination of poor economic growth and disinflation in countries such as the UK and the US has been accompanied by major declines in property markets. But Allardice believes commercial property investment will continue to play an important part in portfolio management as it enables the fund to diversify resources.

Analysts who believe equities are fully priced in the short term suggest bonds might be a better investment, assuming low inflation. ■

Old Mutual's lettings surge

CT 19/3/93

58

Property Editor

LETTINGS in Old Mutual's industrial portfolio in the Western Cape soared in the past four months with the equivalent of eight Newlands rugby grounds being taken up.

Letting manager Orin Varney said in all 42 890m² has been let since November with two newly completed industrial parks in Montague Gardens and Epping accounting for more than a quarter of the take-up.

"Out of 14 units in Montague Gardens Industrial Park we have let five comprising 7 564m² with a further two units under negotiation.

"The second new industrial park, Omupark in Elliot Avenue Epping 2, is also filling up well with the first four units comprising a total of 5 145m² having been let. Two of the remaining five with space ranging from 500m² to 3 600m² are under negotiation."

He said CBD retail lettings had also picked up with deals covering 2 517m² being negotiated in Old Mutual Centre, Sun Gallery, Foretrust Building, Pelin Park and Cartwright's Corner House.

REPUBLIC OF SOUTH AFRICA

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GOVERNMENT NOTICE

SOUTH AFRICAN RESERVE BANK

No. R. 491 (58) **19 March 1993**

SOUTH AFRICAN RESERVE BANK ACT, 1989 (ACT No. 90 OF 1989)

REGULATIONS RELATING TO MINIMUM RESERVE BALANCE TO BE MAINTAINED BY BANKS

The Minister of Finance has under section 36 (dA) of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), made the regulations contained in the Schedule.

SCHEDULE

Definition

1. In this Schedule "the Act" means the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), and any word or expression to which a meaning has been assigned in the Act shall bear the meaning so assigned thereto.

Form of return regarding minimum reserve balance

2. (1) The return a bank is in terms of section 10A (11) of the Act required to furnish to the Registrar of Banks referred to in section 10A (2) of the Act shall be so furnished in the form of form DI 310 prescribed in Annexure 11 to the Regulations Relating to Deposit-taking Institutions published under Government Notice No. R. 2799 of 30 November 1990, as amended.

(2) The provisions of regulation 43, as amended from time to time, of the Regulations Relating to Deposit-taking Insitutions, referred to in subregulation (1), shall be applicable with regard to the completion by the reporting bank of the return referred to in subregulation (1).

GOEWERMENTSKENNISGEWING

SUID-AFRIKAANSE RESERWEBANK

No. R. 491 **19 Maart 1993**

WET OP DIE SUID-AFRIKAANSE RESERWEBANK, 1989 (WET No. 90 VAN 1989)

REGULASIES AANGAANDE MINIMUM RESERWESALDO WAT DEUR BANKE IN STAND GEHOU MOET WORD

Die Minister van Finansies het kragtens artikel 36 (dA) van die Wet op die Suid-Afrikaanse Reserwebank, 1989 (Wet No. 90 van 1989), die regulasies vervat in die Bylae uitgevaardig.

BYLAE

Woordomskrywing

1. In hierdie Bylae beteken "die Wet" die Wet op die Suid-Afrikaanse Reserwebank, 1989 (Wet No. 90 van 1989), en het 'n woord of uitdrukking waaraan in die Wet 'n betekenis geheg is daardie betekenis.

Vorm van opgawe insake minimum reserwesaldo

2. (1) Die opgawe wat 'n bank ingevolge artikel 10 (a) (11) van die Wet verplig is om aan die Registrateur van Banke bedoel in artikel 10A (2) van die Wet te verstrek, moet aldus verstrek word in die vorm van vorm DI 310 soos voorgeskryf in Aanhangsel 11 by die Regulasie Aangaande Depositonemende Instellings afgekondig by Goewermentskennisgewing No. R. 2799 van 30 November 1990, soos gewysig.

(2) Die bepalings van regulasie 43, soos van tyd tot tyd gewysig, van die Regulasies Aangaande Depositonemende Instellings, bedoel in subregulasie (1), is van toepassing met betrekking tot die voltooiing deur die verslagdoenende bank van die opgawe bedoel in subregulasie (1).

Period of maintenance of prescribed minimum reserve balances

3. A bank shall maintain the minimum reserve balances contemplated in subsections (2) and (3) (b), respectively, of section 10A of the Act during the period from the fifteenth business day of the month following the month to which a particular return on form DI 310 relates, up to and including the fourteenth business day of the month following the month in respect of which the next such return is to be furnished by the reporting bank.

Tydperk van instandhouding van voorgeskrewe minimum reserwesaldo's

3. 'n Bank moet die minimum reserwesaldo's beoog in, onderskeidelik, subartikels (2) en (3) (b) van artikel 10A van die Wet in stand hou gedurende die tydperk met ingang van die vyftiende sakedag van die maand wat volg op die maand waarop 'n bepaalde opgawe op vorm DI 310 betrekking het, tot en met die veertiende sakedag van die maand wat volg op die maand ten opsigte waarvan die volgende sodanige opgawe deur die verslagdoenende bank verstrek moet word.

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FIRST NATIONAL BANK

Creditors claim R28m

First National Bank will shortly receive a summons issued on behalf of the creditors of liquidated KPL Etsa alleging the bank was party to reckless trading. The action, involving a claim for R28m, in terms of Section 424 of the Companies Act, is unusual because it seeks to prove that actions of the company's bank caused losses to other creditors.

KPL Etsa's liquidator is Ernst & Young Trust's Phillip Reynolds, who is overseas. But, according to the attorney representing the liquidator, Hugh Eiser of Eiser & Kantor, Reynolds gave instructions for the summons to be issued and the particulars of the claim are now being settled.

Eiser says no case is being made against

Continued on page 39

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KPL Etsa's former directors in their personal capacities for recovery of money due to creditors.

After the liquidation, there was an inquiry in terms of Section 417 of the Companies Act. The *FM* is not allowed to name witnesses or quote evidence from the inquiry. Apparently there were only three witnesses, two of them officers of First National Bank.

The issue seems to be that, as the company entered bad times, the bank became so involved in its affairs that it was, effectively, in control. Some of the creditors reported the case to the Office for Serious Economic Offences (Oseo) and are accusing the bank of being in de facto control while the company was trading recklessly. The Act specifically embraces "any person who was knowingly a party" to reckless trading.

But there are other aspects to the case which one source close to the matter describes as "hair-raising."

Oseo, after opening its own file, has left it to the creditors to pursue their unusual line of action — while still keeping a watch on the case. Eiser says the 417 inquiry will reconvene at the request of FNB on April 20 for a witness to be recalled. He adds: "We don't believe anything will change. A summons against FNB will be issued." He says every effort was made to reach settlement without proceeding against the bank. "We sought a meeting with FNB chairman Basil Hersov, but this was redirected. We were met by members of general management and were unable to reach agreement with them."

The claimed amount of R28m excludes claims which FNB has against the liquidated company.

FNB senior GM Viv Bartlett comments: "As the largest single creditor with charges over certain assets of the company, the costs of the 417 inquiry are largely being borne by us. In the interests of the full facts and the bona fides of the bank being established, we are happy to accept this position. If a summons is issued, however, we will have to seriously reconsider our position and work in the interests of minimising any loss." ■

Bartlett ... *in the interests of the full facts*

Stretching mortgage finance

Star 20/3/93

(58)

AN INCREASING number of homeowners are consolidating their financial positions to achieve savings in interest charges and to improve their monthly cash flows.

According to the latest Reserve Bank quarterly bulletin, mortgage loan advances during 1992 rose sharply despite the downturn in the residential property market.

In the mortgage market the net amount of mortgage advances paid out by banks and mutual building societies increased from a monthly average of R1 billion to R1,1 billion in the fourth quarter of 1992.

These institutions' total holding of mortgage loans increased from R66,5 billion in 1991 to R78,5 billion in 1992, according to the Reserve Bank.

This type of credit remained attractive to borrowers because of the flexibility of some mortgage schemes — which allowed funds to be used for other purposes — and because of the relatively low mortgage interest rate, which improved the cash-flow position of the borrower.

Addressed realistically

The banks and building societies actively promote this type of credit because of the low capital requirements applicable to such advances.

NBS Transvaal general manager Gerry Gericke says: "Financial consolidation via a home loan is proving extremely effective.

"As long as it is addressed realistically according to individual needs and commitments, borrowers can enjoy

Your bond can cover almost anything

CONSOLIDATING borrowing in a flexible home loan scheme is attractive because of the relatively low mortgage interest rate. However, such financing is not without danger, writes Finance Editor MAGNUS HEYSTEK.

competitive interest rates on mortgage loans as opposed to higher finance charges on other types of loans."

Last June NBS launched a new mortgage-based financial package called Actionbond, enabling qualifying homeowners to tailor credit lines based on the increasing value of their properties.

This meant they had access to extra credit — and not just the portion repaid.

"NBS actively encourages clients to use their homes as a base for all their financial needs but urges borrowers to review responsibly their other financial commitments and monthly living expenses before taking further financial decisions," says Gericke.

"Your conventional mortgage access products focus on the bond amount and on the outstanding balance. Actionbond, however, takes into account the equity that accrues to a homeowner as a result of rising property values.

"Depending on personal circumstances, Actionbond gives homeowners access to up to 10 times their normal re-advance limit."

For example, on a house bought in 1988 for R100 000 with a R90 000 NBS-registered bond — repayable at 16 percent over 20 years — the amount available for re-advance four years later would be only R3 465, in other words, the capital amount repaid.

"However, with inflation the value of the property might have increased to R175 000. With access to 90 percent of the accumulated equity in the property, the Actionbond client is now able to borrow R70 965 at the prevailing mortgage rate — which is lower than normal instalment financing such as hire purchase," says Gericke.

"Actionbond offers a one-stop finance package specifically designed to enable borrowers to manage effectively their total financial situations via their home loans.

Compare to an HP option

"This type of bond can be used to consolidate short-to-medium debts for home improvements, education, cars and furniture — and by refinancing these items at the prevailing mortgage rate over the same period, borrowers will achieve real monthly savings on interest charges as well as improve their cash flows.

"For example, by using this facility to acquire a R45 000 car, clients can save R200 a month when compared to an HP option at 24 percent over five years."

However, there is danger in continuously using mortgage finance to repay short-term debt. A homeowner might end up at retirement with a house that has yet to be paid off, and find himself having to use his retirement package to relieve his bond.

New chapter for SA Library, 175

50

ARG 20/3/93

The South African Library in the Company Gardens, which is undergoing extensive renovations, turns 175 today. Weekend Argus Reporter **LIBBY PEACOCK** took a stroll through its corridors.

THE oldest educational and cultural institution in South Africa — the majestic South African Library in the Company Gardens in Cape Town — turns 175 today.

Established in 1818, the library was founded within four years of the Cape being ceded finally as a colony to Britain.

It collects manuscripts, maps, photographs, newspapers and pamphlets and stores a staggering range from scholarly journals to comics and treatises.

And it has been ahead of trends as well: The library was one of the first public buildings in Cape Town to install electric lights 100 years ago.

Few users are aware that they have access to one of the greatest communication networks in the country: Online access is available to various databases; including the South African Bibliographic and Information Network; the National Register of Manuscripts; the Deeds Office database; Beltel; and more than 200 overseas databases via DIALOG.

The library — one of the country's two national libraries — has survived two world wars and numerous depressions.

At the moment, two of the library's main buildings are being restored.

Director Mr Piet Westra said that within the next two to three years the library would undergo a "complete face-lift".

Improvements included general repairs, better security, environmental and fire control and additional office and storage space.

The library houses the oldest manuscript in South Africa — a copy of the four Gospels, handwritten in Latin. The manuscript was made and decorated in the area west of Paris between 875 and 900 AD.

It forms part of Cape Governor Sir George Grey's personal collection of medieval and renaissance manuscripts and rare books. He presented the collection to the library when he left South Africa.

By law, one copy of every South African publication must be deposited free at the library.

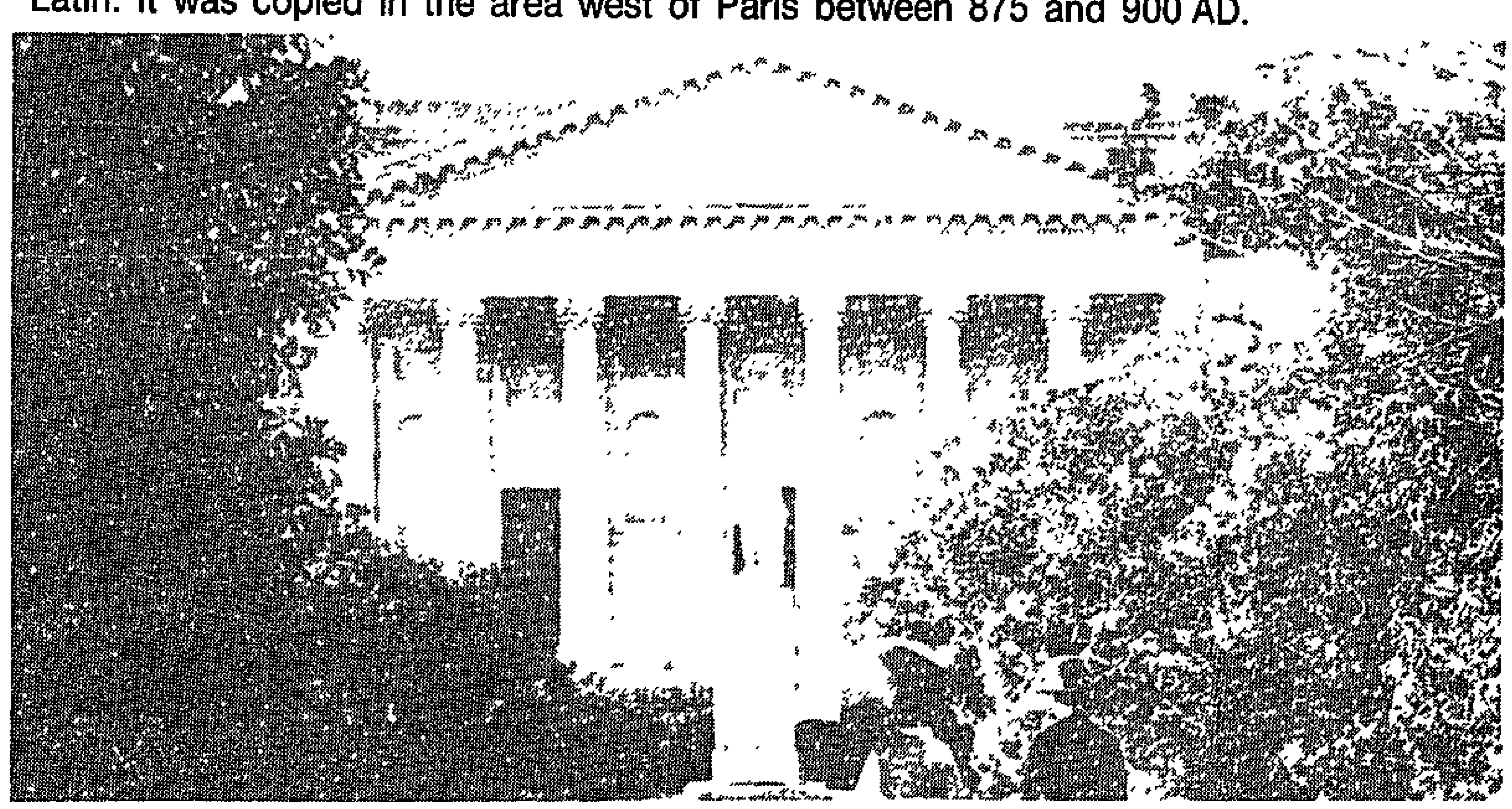
The library's various collections total about 500 000 monographs, 160 000 bound periodical volumes, 35 000 bound newspapers, 1 000 manuscript collections, 20 000 maps and 500 000 photographs and other illustrations.

The general book stock covers mainly the social sciences and humanities, although general reference works on the sciences are also available.

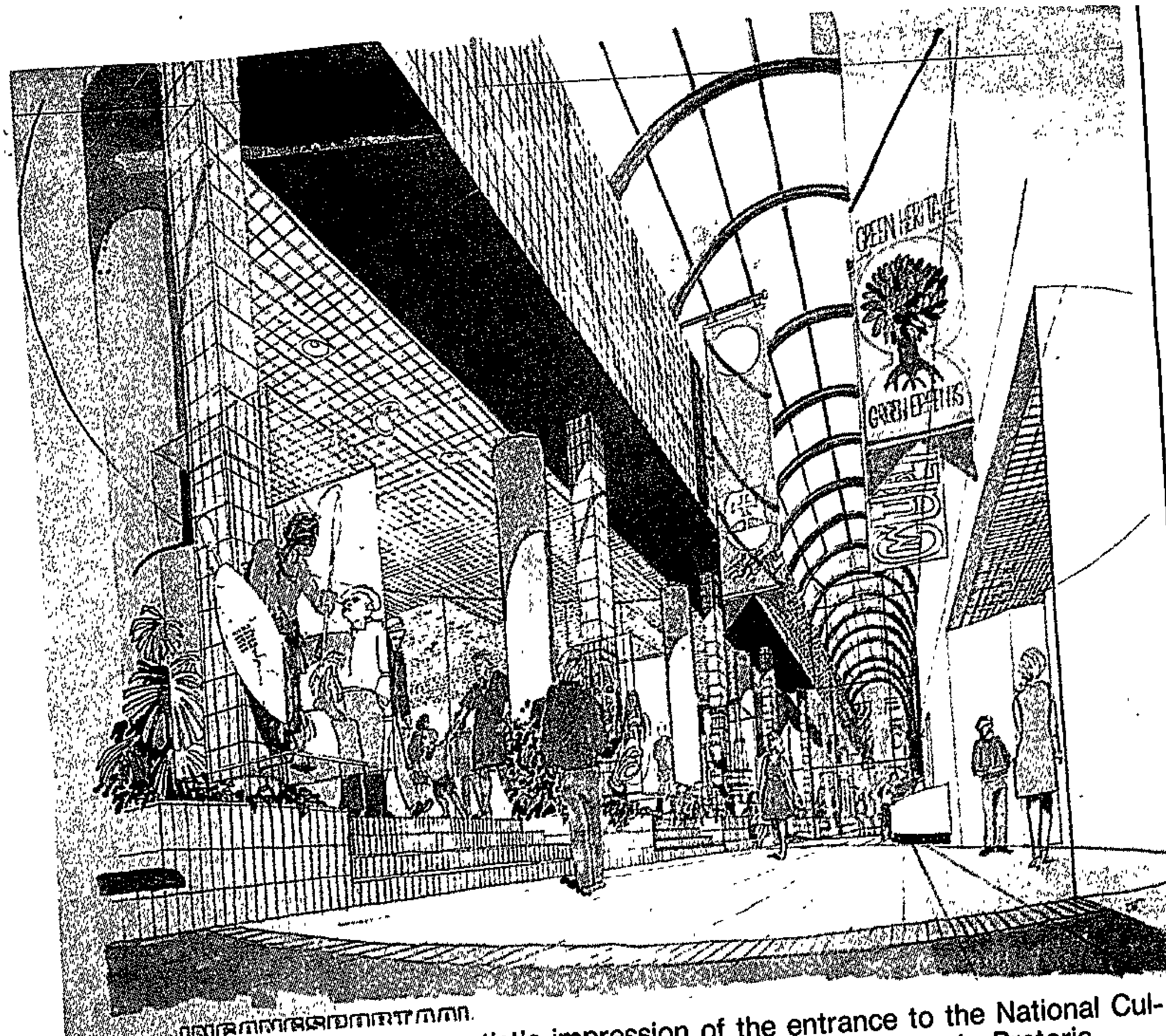
The library relies heavily on state funding, but annually earns between six and 10 percent of its own income through the sale of publications, microfilms, photocopies and other activities.

Picture: WILLIE de KLERK, Weekend Argus.

☐ **PRICELESS:** Reference library assistant Mrs Roni Snitcher holds the oldest manuscript in Southern Africa, kept in the South African Library. The manuscript consists of the four Gospels, handwritten in Latin. It was copied in the area west of Paris between 875 and 900 AD.



☐ **THEN:** The library as it was in the 1800s.



☐ **FUTURE SHOWCASE:** An artist's impression of the entrance to the National Cultural History Museum which will open in the SA Mint building in Pretoria.

S ARG 20/3/93

Pretoria bid to be SA cultural capital

MARCH to Pretoria — that's National Cultural History Museum director Dr Udo Küsel's advice to historians, archaeologists, archivists, conservationists, curators and anyone who has an interest in South Africa today and what it looked like two million years ago.

Pretoria-based Dr Küsel visited Cape Town recently to convince cultural historians, politicians, businessmen and others that Pretoria could provide the perfect home for South Africa's pre-colonial and apartheid history, and could be a dynamic, constantly changing showcase of how the country is shaping up.

Dr Küsel cites the administrative capital's 30 museums, the fifth-largest zoo in the world and the National Cultural History Museum's acquisition of the former Mint buildings as part of the reason why Pretoria's cultural assets could be co-ordinated into a cultural institute modelled on the Washington Mall and Smithsonian Institute in Washington and similar landmarks in Ottawa, Paris, Berlin, Vienna and Amsterdam.

Pretoria also features private homes and public parks of historical and aesthetic import.

Until the end of 1995 Dr Küsel and his staff will be implementing a R35 million plan to transform the formidable Mint buildings in Pretoria into a visitor-friendly, shopping mall-like museum that will review Southern Africa's natural and cultural historical development over the past two million years.

"The Mint buildings were established in the 1960s when money wasn't a problem, and since it is a major industrial building, it is quite intimidating," said Dr Küsel.

"We hope to introduce glass and steel to get away from the notion that civilisation begins with Greek or other classical or colonial architecture. We need to adapt to attract the interest of all South Africans.

"Museums here have been very claustrophobic and static. We hope to change exhibitions continuously, so we can present issues like Aids and informal housing, and so that people can see the interaction between man and the environment, and particularly to depict a modern city like Pretoria as a living, man-made environment."

If under a new government Pretoria were to lose its status as administrative capital and all parliamentary activity was transferred to Cape Town, it would need a new lifeline.

The city could be saved by a cultural institute geared to give South Africans fresh insights into the past and to provide international visitors with representative, current viewpoints on the country's development.

The Mint buildings are scheduled to open as the new National Cultural History Museum at the end of 1995.

While this development continues, Dr Küsel and his colleagues will be lobbying the State, the Pretoria City Council and counterparts around the country to support the Cultural Institute concept.

There's a direct banking link to East

St Times (Buss) 21/3/93

FRENCH Bank of Southern Africa can offer local companies a direct link into Singapore and South-East Asia through its parent Banque Indosuez's international network.

Banque Indosuez, one of France's largest banks, transferred its Asian headquarters from Paris to Singapore in mid-1990, enlarging its functions and scope at the same time.

The headquarters supervise branches and affiliates in Hong Kong, Indonesia, Malaysia, People's Republic of China, Singapore, Thailand, Taiwan, the Philippines and Vietnam. It also covers Burma, Cambodia and Laos.

Renamed

Banque Indosuez's ties to Singapore go back to 1905, when Banque de l'Indochine first opened its doors at Raffles Place. Banque de l'Indochine was merged with Banque de Suez in 1975 and the group was renamed Banque Indosuez in 1981. It is now one of 23 fully licenced foreign banks operating in Singapore.

Banque Indosuez has a 51% stake in FBSA and an active presence in 65 countries. Because of this network, the transactions of SA companies can be handled in-house by FBSA with clear cost and speed advantages, says FBSA assistant general manager Jean-Michel Caffin.

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Further ties between FBSA and Banque Indosuez's Asian operations also exist. Eric Maurin, who spent seven years as head of FBSA's corporate banking division, is now managing director of Indosuez Vietnam. And Mr Maurin's predecessor, South African-born Bruce Fraser, now heads the bank's corporate banking international desk in Hong Kong.

FBSA has been in SA since 1949 and operates largely as a wholesale corporate and merchant bank. Its customers are mainly large corporates, multinationals and parastatals.

BUSINESS DAY, Tuesday, March 23 1993

Sanlam warns on provident fund benefits

BIDAM 23/3/93

THE emerging retirement benefits from fixed contribution provident funds would be disappointingly small, Sanlam senior GM Walter Scheffler warned the Ilpa conference.

He said that despite their popularity, provident funds did not have a "magic formula for creating wealth".

Scheffler also cautioned about the danger of creating unrealistic expectations regarding benefits from the funds, especially as some employees had moved from a pension fund to a possibly less generous provident fund.

Fixed contribution provident funds had been shown to have lower rates of employer and employee contributions than pension funds. Withdrawal benefits were relatively larger "as provident funds are much more generous in dishing out the funds' accumulated assets than are pension funds".

A Sanlam survey had shown that in 20% of provident funds, employers contributed between 0% and 5% of salary and 56% contributed 5,1% to 10% of salary. This compared with 5% and 42% respectively for pension funds where 53% of employers contributed 10,1% or more of salary.

Regarding member contributions, more than half of pension fund members contributed more than 7% of salary to their funds, whereas only 16% of provident fund members matched this rate.

Scheffler said there was no inherent reason why provident funds should offer more generous withdrawal benefits than pension funds, even though this was historically the case.

Endorsed

S8

Likewise, there was no inherent reason why pension funds should be overwhelmingly run on a defined benefit basis and provident funds on a money purchase basis.

He endorsed the view of Sanlam employee benefits GM Francois Marais that the difference between pension and provident funds should be abolished.

"This is a very meaningful proposal and I trust the authorities will include it in their solution when they tackle the politically delicate question of the emancipation of the state pension funds, as well as making the payment of the tax on lump sum payments the same for everyone.

"Pension funds have got themselves a bad name for the wrong reasons and it is important that the negative perceptions are corrected so that retirement funds can be chosen on merit and not on the basis of a historical, "political judgment," Scheffler said.

Pension funds today generally provided significantly better benefits than was the case in 1985.


WALTER SCHEFFLER

Pension funds had also become more aware of the effects of inflation and the period used to calculate the final average salary had been decreasing.

However, while pension funds had been reasonably generous in providing post-retirement pension increases, in real terms pensioners continued to grow poorer each year.

SA living through a 'grab and run' phase

B/DAY 23/3/93

SA was living through a "grab and run" period, Financial Services Board (FSB) deputy CEO Andre Swanepoel said yesterday.

He referred to an article by political analyst Professor Willie Esterhuyse itemising the indicators of a disintegrating society: the erosion of respect for life; corruption, theft, murder and maladministration; crumbling institutions; and a lack of discipline, the lack of a dynamic ethical culture and a lack of public responsibility.

He said all of these sounded very familiar in SA today.

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Discipline

While the FSB could regulate and supervise financial services, it was not the supreme auditor. The real financial discipline lay with the financial institutions themselves and the FSB could only establish the regulatory framework, enforce compliance with the law and investigate complaints.

The FSB was now in a position to undertake unannounced, ad hoc inspections and Swanepoel said he hoped this would contribute to a better system. Fraud and misappropriation of funds was dealt with through the courts after inspection by the FSB.

Swanepoel cited a few aspects of control which might need attention — disclosure of information; protection of investors or retirement fund members; and the need for an industry ombudsman.

Socially desirable investments call for safeguards

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B/DAY 23/3/93.

NEAL CHAPMAN

Reports by LINDA ENSOR

THE Independent Development Unit (IDU) set up 18 months ago by the Life Offices Association (LOA) to investigate suitable socially responsible investments is involved in intensive discussions with Eskom over life office investment in an electrification programme.

LOA and Southern Life chairman Neal Chapman said at the Ilpa conference in Cape Town yesterday that he believed the project would meet LOA criteria of safety, market-related yields and marketable paper.

"The financing mechanism is imaginative in that it meets an early low return, building to an acceptable level and the indications are that the response from the life offices will be enthusiastic."

He said the LOA saw the IDU growing in its activities and structure and said it would like to see the IDU's board of directors inlcuding figures of national importance and representatives from the industry.

"Discussions have been held with the managers of retirement funds and major asset managers and we are confident the participation will include these very important players as we move into the future."

Chapman said it would be a great pity if prescribed assets were to be reintroduced, adding that the LOA would rather see a meaningful response from the industry addressing macro needs in a manner acceptable to policyholders and pension funds.

Assets

He estimated that the total assets of the life industry now totalled about R200bn, that it had a gross income of about R44bn and a net income after paying out benefits to policyholders and administrative costs and commissions of about R20bn.

He noted that Finance Minister Derek Keys had said the date of introduction of the new four-fund approach to the taxation of life offices and the scrapping of the Sixth Schedule of the Income Tax Act still had to be agreed on.

"I cannot stress too strongly how important it is that this should not become the subject of delay. Having taken the step it is now of paramount importance that an effective date is announced and urgently, if we are not to have confusion, dismay and problems."

"The second issue concerns the 15% payable on dividends and we need to debate the level playing fields between mutuals and proprietary offices, and soon."

Chapman said there had been real and meaningful political progress in the last two to three months. He believed there was a new sense of urgency and an increased determination on the part of the key players to reach an agreement on how best to move through transition and take SA to its first full and free elections.

He was encouraged by the broad acceptance of principles such as individual liberty and the rule of law and was also encouraged by the progress that was being made on the economic front with the National Economic Forum and the Business Forum.

Chapman stressed the need to address the question of black empowerment. Expressing his personal view, he said the life industry was predominantly white, whereas the policyholder base had altered its colour dramatically over the years.

Disadvantage

"Unless there is someone in your boardroom, in meetings of general management and people in senior management positions who can give a point of view representative of the bulk of the people in this country, you will be at a distinct disadvantage. I do not underestimate the task of affirmative action programmes, but I do suggest to you that the cost of failure by far exceeds the cost of success."

Quality shares and property safe bets — BOE

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B/DAY 23/3/93

QUALITY shares and selected property investments would prove a mainstay in future uncertain and inflationary conditions, according to Board of Executors (BOE) Cape regional manager Tom Boardman.

Speaking at the Ilpa coference in Cape Town yesterday, Boardman said it was inevitable that inflation would characterise the new SA.

He said BOE research had shown that in situations of hyperinflation such as post First World War Germany, Israel and Brazil, the all share index in those countries had kept ahead of the rampant inflation.

BOE conducted research into the three main SA scenario plans — Clem Sunter's for Anglo American, the Nedcor/Old Mutual scenario and the Mont Fleur scenario — and found that a common characteristic was not only inflation, but also redistribution.

Redistribution could either be of the punitive kind characteristic of the low road and involving destructive taxation, printing of money and welfare handouts, or it could be achieved by means of pragmatic taxation and economic growth and a greater investment in human resources.

Advisable investments in the low road scenario would be financial rand stocks with a foreign hedge element, Krugerrands, collectibles and hard currency assets.

Domestic growth stocks, especially those in the consumer sector, would be the best investments in the high road scenario.

Life industry 'wasting R1,5bn a year'

BDAY 23/3/93 (38)

SA's life assurance industry was grossly inefficient and wasted about R1,5bn of policyholders' money every year through lapses and surrenders of policies, Pretoria University Department of Insurance and Actuarial Science Professor George Marx said at the Ilpa congress yesterday.

He said such wastage could not be afforded in health care and called for the life assurance and medical aid scheme industries to combine forces to create a safe and sound form of financing for private health care.

Neither of the two industries were able to provide such a system on their own.

Marx calculated the R1,5bn wastage of policyholders' money through lapses and surrenders by assuming that, on average, two-and-a-half years' premiums were lost when policies were terminated.

He challenged the life industry to conduct an independent investigation to verify this figure.

"These terminations mean premiums which were contributed did not end up being used for the purpose for which the policies were taken out, namely death and disability protection and for long-term savings," Marx said.

Whereas in 1991, the expenses of life assurers (excluding claims) represented 18% of their total premium income, the figure for medical schemes was 5,7%.

The disparity was largely the result of commissions paid to intermediaries, which Marx said did not benefit the policyholder.

In the same year life assurers paid out R9,4bn in benefits (excluding surrenders) and medical aid schemes R6,9bn.

In favour of life assurers was they possessed skills of risk, financial and actuarial management — skills profoundly lacking in the medical schemes industry.

Right

"When it comes to the medical schemes industry, it is clear it has been doing things right in terms of administering claims efficiently."

But it had not been exercising proper risk, financial and actuarial management principles and as punishment for this, members were subject to runaway inflation.

The over-utilisation of medical aid scheme benefits, overservicing and fraud had resulted in medical aid scheme contribution rates increasing at 25% a year over the last decade.

Marx suspected that, considering general practitioners control approximately 85% of all health care costs, the major culprit in this was overservicing.

He said there was an urgent need for the life assurance and medical aid scheme industries to combine to provide efficient finance for the public's private health care and for the elimination of their respective weaknesses.

The health financing scheme had to get actively involved in medical care and could not continue merely processing pieces of paper.

"The days are past where the financier of health care can sit on the sideline and merely pay claims. He has to dirty his hands and also move towards managing the care, be it by way of utilisation reviews, bulk purchasing of medicines, by initiating Preferred Provider Organisations or whatever," Marx said.

He suggested the use of seven criteria for evaluating health financing schemes.

The scheme should distinguish between less and more serious conditions; encourage self-discipline and cost-consciousness; move towards managed care; provide for long-term funding of pensioners' costs; provide for emergency treatment in private hospitals; provide for a convenient payment system; and disclose all cost elements.

Strong economic growth forecast

BDAY 23/3/93

SA WAS "over the hump" politically and economically and could look to a period of strong economic growth from next year, according to Syfrets Managed Assets MD Leon Campher.

Negotiations were back on track, the drought was broken and propects for the international economy were better.

The one negative threat was the probability of a correction of the US stock market. This usually occurred within 12 months of a US presidential election. As the JSE historically had a 96% correlation with the US market, it was likely the SA market would also suffer a correction.

"Investors should not rush into the stock market at this stage but bide their time and take advantage of the buying opportunities that will emerge later."

Campher said the US economy had emerged from recession in terms of retail sales and manufacturing production. Japan was still in a downturn but hopefully the cut in interest rates there and in Germany would contribute to the achievement of world economic growth next year. This would stimulate the export of SA commodities.

Board needed for community bank

SOWETAN 23/3/93 (58)

WILSON ZWANE

THE National Community Bank, an initiative spearheaded by former SA Perm MD Bob Tucker, will be launched soon.

Cas Coovadia, executive director of the Community Banking Project (CBP) which was responsible for investigating the establishment of the bank, said yesterday the project was looking for suitable people to serve on the bank's board of trustees.

Tucker is chairman of the project whose other members include Kagiso Trust general secretary Eric Molobi, Planact's Mark Swilling and ANC economist Ketso Gordhan.

Coovadia, who is also a civic leader, said the board would consist of 15 to 17 "relatively prominent" people who had a following in black communities.

No representatives of formal sector banks or big business would serve on the board.

Once appointed, the board would launch the bank on a date which was still to be set.

Coovadia said negotiations with formal sector banks on the development of a basis for the provision of infrastructure and systems were in the final stages.

He would not, however, give further details, saying to do so might "jeopardise" negotiations.

The National Community Bank would provide credit and banking facilities to low-income, mostly black customers frustrated by the profit-motivated policies of the formal institutions.

It was envisaged that profits from the scheme would be ploughed back into community advancement projects.

The bank would provide the institutional structures for an initial network of 10 to 15 community banks, each owned by a specific community. The banks would not issue equity and members of a specific community would hold units, which could be redeemed or transferred.

The central bank in this network of community banks would render all returns to the registrar of deposit-taking institutions, with the Reserve Bank acting as lender of last resort.

The central bank would also have access to bulk loan financing from institutions such as the World Bank.

Coovadia has said the bank would provide "low-cost, low-level" services, including deposit accounts, group or housing loans, entrepreneurial investment and project financing.

The community banks would be connected to the electronic Saswitch automatic teller network.

Absa ordered to pay R1,5m Mancer claim

SUSAN RUSSELL

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ABSA was ordered in the Rand Supreme Court yesterday to pay the full claim of R1,5m plus interest and costs to sports promoter Peter Mancer's marketing company, Tytherley Investments.

Judge W J Hartzenberg said he reluctantly accepted that Absa had not abused the court process by fighting the claim to prove liability of some sort against former Allied MD Kevin de Villiers, even though the way Absa had conducted the case did not make business sense. He accepted Absa had not had an ulterior motive in defending the claim, but added that he was still at a loss to know why the banking group went to such lengths to try to prove Allied's former management had been dishonest.

Mancer's claim was for part payment of a R4,5m marketing agreement concluded between himself and De Villiers in September 1990 in terms of which Allied acquired the exclusive European TV advertising rights to the BOC yacht race.

The agreement was one of a number of contracts related to Allied's sponsorship of SA yachtsman John Martin and his Allied Bank yacht. It was signed just months before the successful UBS takeover of the Allied, which was publicly opposed by De Villiers, and the formation of Absa under Piet Badenhorst.

BDAY 23/3/93

Absa disputed liability on the grounds that Mancer and De Villiers had never intended entering into a genuine contract.

It was alleged that the pair devised the agreement as a tax dodge to enable Allied to claim benefits, to which it was not entitled, under Section 11 bis of the Income Tax Act which allows exporters to claim deductions on marketing expenditure abroad. Absa claimed the draft of the R4,5m agreement approved by the Receiver of Revenue did not disclose that R2,1m was actually for local advertising expenditure and did not qualify for the 11 bis deduction.

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Absa

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☐ From Page 1

De Villiers's authority to conclude the contract was also disputed.

Mancer and De Villiers denied that the contract had been drawn up for an unlawful purpose. They testified that De Villiers had agreed that Allied would pay R4,5m for the TV rights on condition that Mancer performed two existing John Martin sponsorship contracts for free.

The judge accepted their version that the contract had been a genuine sale of the TV rights for R4,5m. This was overwhelmingly reflected in the evidence, he said.

He rejected Absa's contention that De Villiers had not had the authority to conclude the agreement. He said minutes of Allied board meetings during August 1990 showed that the directors were aware of the agreement and had approved it.

"Nearly all the directors of the respondent (Allied) are still directors and not a single one has seen fit to come and give evidence challenging De Villiers's authority," he said.

"It is overwhelmingly clear that De Villiers entered into the agreement with the knowledge and blessing of the board."

The judge rejected Absa's allegation that the contract was unenforceable because it was a sham intended for an unlawful purpose. He also rejected Absa's contention that evidence by Mancer and De Villiers regarding the two free contracts was a fabricated afterthought.

The agreement and especially the tax aspects were placed on the board's agenda and discussed, he said. "It was obvious tax was of prime importance."

"For De Villiers it was a condition pursuant to entering into the agreement. It need hardly be stated that there is nothing which prohibits parties from constructing a contract in such a way, if they can do so legitimately, so that tax which otherwise would have been paid, can be avoided."

Hartzenberg said it was difficult to see why De Villiers and other members of his management team would have committed a tax fraud beneficial to Allied for which they would have been criminally liable without receiving any renumeration.

De Villiers had told the court that he was facing an increasingly hostile board at the time after he had voiced his opposition to the UBS offer for the Allied in favour of one from FNB. In the circumstances, Hartzenberg said, it would have been suicide for De Villiers to make such a blunder.

During his evidence, Mancer told the court of his attempts to meet with Badenhorst and Bob Aldworth to discuss the matter. Badenhorst had responded by sending Mancer a message through his wife that he "would see him in court".

Aldworth told Mancer "he didn't speak to crooks". The judge remarked it was ironic that on the day Mancer gave this evidence, newspapers reported Aldworth's dismissal for misappropriating Absa funds.

"One can understand the respondent's embarrassment by not being able to call Aldworth as a witness," the judge said.

He ordered Absa to pay Tytherley Investments R1,5m, interest at 18,5% from September 1991 to date of payment, and costs including the cost of bringing a witness to SA from London.

Stals likely to stay put in new SA

CT 23/3/93 (58)

Business Editor

DISCUSSION with all parties gives the impression that Chris Stals will remain governor of the Reserve Bank while the interim government is in office and probably for some time afterwards, Tom Boardman, GM of the Board of Executors, told the Ilpa conference yesterday.

Boardman pointed out that three major scenarios outlining probable futures for SA — Clem Sunter's, the Old Mutual-Nedcor scenario and the Montfleur scenario with major input from the ANC Economics Desk — all had areas of consensus in spite of the fact that they had been prepared by differing interests from differing viewpoints.

He said that in the new SA, whatever happened, there would be a massive public sector.

If this country took the low road investors would be best off with shares in companies which had overseas listings and operations, Kruger rands, collectables and hard currency assets.

If it took the high road there could be value in bonds but quality equities and selected property investments would still be the best.

It was important to have a balanced portfolio with some property, some fixed investment and some equities.

It was true that equities had not been the best investment in the past year. But he was confident that they would be in the long term.

Stressing the importance of qualifications for younger people, Boardman said that if SA hit the high road "you will need every qualification you can get and if we hit the low road you will need every qualification you can take with you."

He warned that estate duties were likely to be higher in the new SA, and the threshold above which they became payable would probably be lower than the present R1m.

And there would almost certainly be a capital gains tax.

'Probe R1,5-bn insurance wastage'

ARGT 23/3/93 (58)

BRUCE CAMERON, Business Staff

A SELF-EXAMINING inquiry into the wastage of R1,5 billion a year in policy holders' money as a result of policy surrenders and lapses should be set up by the life assurance industry.

The call was made yesterday by Professor Georage Marx, professor of insurance and acturial science at the University of Pretoria, at the annual meeting of the Institute of Life and Pension Advisors at Somerset West.

Professor Marx warned similar "wastage" could not be afforded in the growing medical schemes industry, where there was already a profound lack of risk, financial and acturial management.

He warned the industry was already getting a bad name because of the enormous amounts being "wasted" in surrenders of life policies.

The life offices had to establish whether his estimate of R1,5 billion a year wasted on policvy lapses and surrenders was correct and what shoud be done about it. The cause also had to be established. He rejected arguments that the recession lay behind the surrenders and lapses.

■ At the conference Mr Neal Chapman, chairman of Southern Life and of the Life Offices Association, warned that the industry had to make major changes to empower blacks.

"If the industry stands outside the current metamorphosis it is at our peril."

Mr Chapman revealed LOA plans to fund social responsibility projects starting with proposals that the country's insurance and pension giants should put R3,2 billion into a black township electrification scheme which was currently being negotiated by the LOA with Eskom.

The first tranche of R500 million of a capital markets issue would be announced sooon. The LOA was also discussing guarantees of minimum returns to protect the money of policy holders.

Confidence in business ethics is at 'all-time low'

BDay 24/3/93 (58)

Reports by
LINDA ENSOR

CONFIDENCE in the ethical standards of SA businessmen was at an all-time low, Cape Supreme Court Judge Pat Tebbutt said at the Ilpa annual congress in Somerset West yesterday.

There had been enough defections from the straight and narrow path in recent years to show that there were numbers of individual businessmen who had sought to depart from the ethical standards expected of them by the public. They had also broken the law in doing so.

"Ethical problems arise when government policies give rise to political or economic uncertainty. The tendency under such circumstances for corruption to flourish, not only among those who administer the country but among those who make their living within the politico-economic environment, has manifested itself over the centuries."

Tebbutt said tough economic conditions were also frequently the cause of falling ethical standards. Business often considered it preferable to make a fast buck than no buck at all.

Ethical problems also arose when the law was not as clear as it could be. Where loopholes in the law existed, people and organisations frequently slipped through.

In SA the imposition of sanctions had also led to a lowering of ethical standards. "For the country to survive, many firms had to engage in sanctions busting. We know that many overseas firms sold us their goods through intermediaries or under the counter. Nobody can possibly contend that that was honest. However, it was necessary. Ethics gave way to expediency.

"The trouble, however, is that such a concession must not be allowed to extend too far. It must never be allowed to undermine the very structure on which business is based."

Tebbutt said that in any trade-off between ethics and profits, ethics was still generally regarded as good business.

Commenting on the recently formulated Ilpa code of conduct for its fellows, Tebbutt said while such codes were important in providing guidelines for behaviour, they usually were unenforceable. It was difficult to draw the line between what was obviously unethical and what was perceived to be ethical but what was in fact not so — or between what one person regarded as unethical and what another did not.

Vaguely

Most codes of conduct defined the concept which they wished to legislate against too vaguely, if it was capable of definition at all.

"Our law reports abound with cases where voluntary associations have been unable to enforce disciplinary procedures because they have not been clearly defined, or where members against whom disciplinary steps have been taken have had them set aside on review because the aspect they are alleged to have breached has been held to be void for vagueness."

Housing ripe for investors

B/DAY 24/3/93.

LINDA ENSOR

CAPE TOWN — Property offered a good investment, with weak house prices and relatively low bond rates, Boland Bank economist Louis Fourie said yesterday. 58

Fourie was speaking at a Cape Town Chamber of Industries seminar on the effect of the Budget on the construction industry.

He said the current weak price of existing houses was apparent from the 20% deficit between the cost of existing houses and new ones of the same size — despite low building costs which had not kept pace with inflation.

As the property market lagged behind the economy by 12 to 18 months, and there was no indication of an economic upturn, any improvement in the property market was unlikely for some time.

Fourie said that during the period 1970-1991, no region in SA had recorded annual house price increases higher than the rate of inflation.

Residential building plans passed and buildings completed looked poor but not bleak, Fourie said, but the non-residential property market was weak and getting worse.

"I am worried about the future of the non-residential building sector over the next two years."

Study 'a victory for environmentalists'

B/DAY 24/3/93.

RAY HARTLEY

RICHARDS BAY — Moves to discredit the CSIR's environmental impact assessment of mining and tourism at St Lucia could cause "the greatest harm done in any country" to environmentalism, Richards Bay Minerals officials said yesterday.

Company PRO Barry Clements said the study had been a victory for environmentalists "whichever way the decision went". Inferences that the report had favoured Richards Bay Minerals were totally without grounds because 52 scientists involved had acted independently.

Clements said part of the study had been carried out by the Natal Parks Board and there were "possible buyers on both sides".

The company would compile its objections to the report and submit these to the CSIR. It preferred not to discuss them with the media, he said.

Clements said the report had been misinterpreted to mean that only R153m would be earned by mining the St Lucia dunes. This was a discounted figure. The mine would, at today's rand value, earn R1,1m a day during its 17-year life.

It would generate about R7bn in foreign exchange earnings, R1,3bn in taxes and a further R100m in royalties, Clements said.

The mine would support the firm's entire operation for five years, keeping its 2 500 workers employed and creating 159 new jobs at the mining site.

Richards Bay Minerals mine and works senior GM Jack Goedhals was confident that when mining started in the year 2000, if government gave the go-ahead, the minerals would still be in demand.

"Richards Bay Minerals has a product that is in very big demand internationally. This demand is growing even in recession."

Suggestions that radioactive monozytes would create a health hazard for workers processing mineral from the dunes were exaggerated, he said.

Monozyte levels at St Lucia were "very, very much lower than the west coast of Australia" where problems had been experienced with radioactivity.

Exposure of workers to the radioactive substance was less than 40% of accepted international limits and conformed to the Council for Nuclear Safety requirements.

Of the 2 500 workers in the plant, only eight worked in the controlled area where such exposure occurred, he said.

Retailers raise prices before VAT increase

ADRIAN HADLAND

PRETORIA — Consumer organisations said yesterday that some retailers had already begun to raise prices ahead of next month's VAT and petrol increases.

Some of the price increases had even affected basic foodstuffs scheduled to be zero-rated. B/DAY 24/3/93

The prices of cool drinks, cigarettes and alcoholic beverages as well as some basic foodstuffs had already been raised at some outlets, the organisations said.

Shelves were being cleared in some cases to mark up old stock to new prices, said a Housewives' League representative.

A Consumer Council spokesman announced that incidences of retailers putting up prices on zero-rated foodstuffs in order to announce reductions on April 7 had also been reported.

Calling on consumers to be vigilant and to report incidences of profiteering, the Consumer Council, SA National Consumer Union and the Housewives' League had all stepped up price-monitoring surveys.

NEWS IN BRIEF

Pilatus campaign

THE World Campaign Against Military and Nuclear Collaboration with SA has shifted the focus of its campaign against the SA Air Force order for its Swiss Pilatus PC-7 trainer aircraft from the manufacturer to the Canadian engine supplier, Pratt and Whitney.

The [illegible] organisation's director, Abdul Minty, said yesterday the World Campaign intended asking the Canadian government to prevent the PT-6A turboprop engines from being fitted to the Pilatus trainers.

Heyl case postponed

THE sentencing of Stander Gang survivor Allan Heyl was postponed in the Johannesburg Regional Court yesterday. Heyl, 41, was found guilty in October last year on 47 counts of armed robbery, 17 of illegal possession of firearms, one of car theft and one of escaping from detention after pleading guilty to the charges.

He will appear again on May 28.

Hippo is still stuck

THE Emstroom hippo is still stuck in mud in a farm dam. The TPA nature conservation department yesterday could not say when it would be captured.

Mines 'bosberaad'

THE Chamber of Mines and the NUM are holding a "bosberaad" today to discuss wage negotiations, the main purpose being to evaluate last year's protracted wage round.

Pupils' protest march

THOUSANDS of Cape Town township school pupils are expected to march to Parliament today to demand the scrapping of examination fees for matrics in support of a call made by the Pan Africanist Students Organisation, the Congress of SA Students and the Azanian Students Movement.

Johannesburg pupils are to march on the Braamfontein offices of the Education and Training Department to back the call.

REPORTS: Business Day Reporters, Sapa, [illegible] Correspondent.

Budget 'will hike inflation by 3%'

BDay 24/3/93

LINDA ENSOR

CAPE TOWN — The Budget's immediate effect would be to raise the inflation rate by 3%, but the average rate for 1993 would be considerably lower than last year's, Sanlam chief economist Johan Louw said in the latest Economic Survey.

The budgetary increases in the VAT rate, excise duties and the fuel price would cause the inflation rate to climb to more than 11% in April compared with December's 9,6%.

Louw expected an average rise in the consumer price index of 10,5% this year compared with last year's 13,9% average. He said the underlying inflationary pressures in the economy had reduced noticeably, mentioning specifically the slower increase in labour costs, higher productivity and lower interest rates.

Although the delicate balance of payments' situation would play a significant role in determining monetary policy, Louw said a drop in interest rates from 13% to 12% in the next three to six months could not be excluded. Long-term rates should also tend downwards.

He expected little growth in 1993, with the Budget playing a significant role in retarding economic activity as a result of the smaller deficit, real decline in government expenditure and tax increases.

"There are, however, signs that the rate of weakening in general economic conditions is slowing down. In addition, the declining inflation rate, lower interest rates and possible favourable developments on the political front, together with the soaking rains that fell recently in drought-stricken areas, should have a beneficial effect on the economy."

Louw stressed the importance of financial sanctions being lifted as soon as possible to ease the pressure on the balance of payments. The unfavourable movements of foreign capital since the end of 1992 and the sizeable debt repayments due this year had resulted in an uneasy balance of payments position.

The slackening of SA exports over the past few months had led to smaller trade surpluses. Louw said the sluggish growth in foreign economies could be expected to worsen a sustained low growth rate for SA's merchandise exports. Gold proceeds could be higher because of the weakening of the average rand-dollar exchange rate while improved agricultural conditions would also have a favourable effect on the trade account.

Interest rates 'to bottom out'

58

TIM MARSLAND

BDay 24/3/93

INTEREST rates were likely to bottom this year before moving higher in 1994, SPL Banking Services said in its March forecast yesterday.

The forecasts are carried out monthly among a group of nine economists such as Rudolf Gouws of Rand Merchant Bank, Adam Jocobs of Absa, Eddie Lindeque of Eskom, Ulrich Joubert of Transnet, and Jos Gerson of Davis Borkum Hare.

The forecast shows there is a 53% chance that the prime overdraft rate will be 15,25% by August. This implies a one percentage point cut from its present level, with the rate staying at this level until February.

Twelve-month negotiable certificates of deposit (NCDs) are seen easing to 11,25% by February 1994, which the forecast says will coincide with an early upturn. Whether this lasts depends on the extent to which the Bank applies its "strict monetary policy to the economy".

The forecast sees interest rates moving up again in 1994, which could "limit the upward potential of inflation, as enhanced by the 1993/94 Budget". Given the historical correllation between inflation and the prime rate, the one percentage point drop in prime forecast for 1993 seemed to bring about the end of the downward trend in inflation.

Amended regulations may benefit Telkom

BDay 24/3/93

MELANIE SERGEANT

TELKOM stands to net a quick fortune in terms of new amended conditions which will allow would-be cellular "phone" operators to test their systems.

Until the second licence operator is announced in a couple of months time, companies wanting to test their systems will be charged a "minimum of R10 000 per interconnection period".

Each potential operator is limited to 30 days of testing. Companies believed to be vying for licences include M-Net, Grinel, Vodaphone, Transtel and a newcomer, SunTel.

The tender to select the second operator is expected to be released by month-end. Telkom has been granted 50% of one licence, and is choosing one or more partners.

Posts and Telecommunications Minister Piet Welgemoed said yesterday each new interconnection would constitute a separate period, and the period of connection would be deducted from the 30 days.

Although Telkom will be one of the operators it will, said Welgemoed, "use its best endeavours to connect (potential operators) ... and to assist (them) in testing interconnection to the public switched telephone network, leased lines or data networks in as short a time as possible".

Absa seeks appeal against Mancer decision

58 BD/M 24/3/93

MARCIA KLEIN

ABSA has said it is seeking leave to appeal against Monday's Rand Supreme Court judgment awarding sports promoter Peter Mancer all his claims plus costs in the Allied Bank yacht sponsorship dispute.

Yesterday's announcement came as the Johannesburg sheriff, accompanied by lawyers acting for Mancer's Tytherley Investments, attached two Treasury bills worth R2m at the credit division of Allied Bank in Absa Towers.

After the attachment had been completed armed security personnel were called to escort the sheriff and the attorneys out of the building.

The move to attach the Treasury bills follows the court's ruling that Absa had to pay Tytherley's full claim of R1,5m plus interest and costs.

The Tytherley/Mancer claim was for part payment of R4,5m due in terms of a marketing agreement to sponsor the Allied yacht concluded between Mancer and former Allied MD Kevin de Villiers in September 1990.

Absa said in a statement that Allied Building Society intended to apply for leave to appeal against the judgment, and had instructed its attorneys to set the proceedings in motion. "In the circumstances, Absa Limited considers it inappropriate to comment on the matter."

The bills would remain attached until the appeal was heard. Mancer's attorneys said Absa had 15 days after the judgment in which to apply for leave to appeal.

Merger of industry bodies 'impossible'

B/DAY 24/3/93

B/DAY (58)

Reports by
PETER GALLI

ANY possible merger between the Estate Agents' Board and the Institute of Estate Agents will be problematic, because the board is the industry's statutory body and the institute is a voluntary body with a membership of about 5 500, say industry sources.

A number of leading estate agents said recently they felt their two representative bodies should be merged into a single, self-regulatory entity.

Aida Estates chairman Aida Geffen and De Huizemark chairman Piet Hamman said the board had neglected its brief of balancing the interests of both agent and consumer.

They accused it of being responsible for downgrading the professional standards of the industry through poorly structured policies on educational standards.

"I am totally disillusioned with the board's obsession with consumer protection, often at the expense of the estate agent," Geffen said.

However, EAB chairman Eschel Jawitz said a merger between the two bodies was "impossible" as they had different objectives. But they had been "working together", he said.

"I cannot agree the consumer is being protected at the expense of the estate agent. We cannot be neutral in this regard, but surely what is good for the consumer must be beneficial to the industry?," said Jawitz.

Institute of Estate Agents president Ian Taylor said any possible merger would need government support, and this would be very difficult to obtain.

"The same idea was mooted some years ago and was not well received by government, particularly the Competition Board.

"Also, the precedent internationally is to have two different bodies similar to those we have in SA," he said.

A contentious issue is the fact that estate agents' licensing fees form the primary funding source for the board.

Geffen said this money should be ploughed back into an industry self-regulatory body and be used to improve the educational and ethical standards of the industry.

The dissatisfaction follows rising concern within the industry over the number of charges against estate agents being investigated by the board, and its stance on greater consumer protection.

Jawitz said it was interesting that the only criticism of the board came from those within the industry and not from the consumer.

"The only consumer criticism is that our powers are not great enough. Our fines are insufficient and we have no power of restitution," he said.

Geffen recently resigned from the Institute of Estate Agents.

PROPERTY

CBD Property Fund to change its focus

(58)

PROPERTY trust company CBD Property Fund is refocusing its portfolio by selling off its residential properties and broadening its spread of investments in the office and retail sectors.

The fund, which is managed by Sage Property Portfolio Managers (SPPM), recently sold two residential apartment complexes — The Sentinel in Hillbrow and Kings Ransom in Joubert Park — for R11m. This was more than double their book cost of R5,3m.

BDAY 24/3/93

"One of our objectives has been to dispose of residential components to focus on the office and retail sectors," said SPPM MD Mike Gallow.

Rental income for the portfolio was dominated by offices at 50,2%, while retail accounted for 36,4%, parking for 9,6% and residential 3,8%.

One of the fund's primary objectives was to expand and improve the portfolio through investment in income-producing properties with an emphasis on decentralised office developments, he said. In line with this strategy the fund had recently bought two buildings in Sandton for R32,4m.

The 4 400m² Feralin Park office block in Wierda Valley was fully let. No 5 Wessel Road in Rivonia was being completed and would consist of a 4 600m² office park of four buildings and parking for 146 vehicles.

The fund was also investing about R15m in upgrading two existing office buildings. Zansa, in the Pretoria CBD, was being upgraded for R6m. The property was fully occupied by a government department, which had just signed a new 10-year lease.

Norswall Hall in Braamfontein was undergoing a R8,5m phased upgrade to maximise the potential of the building to the east of Wits University.

On Monday the share gained 5c or 2,2% to 225c as 24 884 shares changed hands. At this price the share has a dividend yield of 14,11%, a p:e ratio of 7,07 and an earnings yield of 14,13%.

The share hit an annual high of 250c almost a year ago on March 31 and a June 26 low of 170c.

Adhering to code of conduct vital

BIDAY 24/3/93

THE Institute of Life and Pension Advisers (Ilpa) has revised its code of conduct to make the standards governing the industry and their implementation more stringent.

Newly elected Ilpa president Gerard Ehmke said yesterday that in recent times the financial services industry had received adverse comment from the public regarding the measure of protection afforded the man in the street.

"Earlier this year Ilpa published its code of conduct whereby fellows bind themselves to adhering to the highest degree of professionalism and integrity in their dealings with the public. I would earnestly recommend that each fellow reaffirm his commitment to the ideals of Ilpa by practising the code of conduct in all dealings in the business world."

Ehmke said the boundaries between the various financial services were gradually blurring and increasing demands were being made by the public for expert advice in the areas of protection for dependents and retirement planning. This trend had been recognised by life assurers in SA and their product ranges had been expanded in recent years to meet these demands. (58)

Ilpa's code of conduct requires members to maintain a high level of professional knowledge and skill in order to advise clients in accordance with all the relevant laws, as well as appropriate technical and professional practice and standards.

The code stipulates that in order for an Ilpa fellow to maintain his integrity, his client should be made aware of his financial interest in what he is advising him to do. Any fees charged in excess of commission scales had to be fully disclosed.

Bill will enable JSE to amend rules

(58)

BDay 24/3/93

LINDA ENSOR

CAPE TOWN — Enabling legislation to allow the Johannesburg Stock Exchange to make regulations on such matters as dual trading, the admission of corporate members and commissions negotiated by stockbrokers was tabled in Parliament yesterday.

The Financial Institutions Second Amendment Bill proposes to amend the Stock Exchanges Control Act to make it possible for the JSE to amend its rules — if this is deemed necessary — though only with the approval of the Registrar of Financial Institutions.

Financial Services Board legal services manager Franso van Zyl said yesterday that the current legislation prohibited the JSE from making rules on dual trading and the admission of corporate members and it prescribed a fixed commission for brokers.

This meant that the JSE was constrained to continue with a single capacity system, with limited access and fixed commissions.

Certain key amendments to the Insurance Act are also proposed by the Bill.

The present prohibition on offering a financial inducement to take out a long-term policy has been extended to cover short-term policies as well.

Van Zyl said short-term policies were being marketed by companies offering inducements such as prizes. People were lured into taking out policies which they had not properly considered and which they might not have wanted in different circumstances.

If the policy was subsequently cancelled, the policyholder could lose a lot of money. The Bill proposes to broaden the ambit of inducements which can be offered to include any benefit whatsoever.

A further proposed amendment relates to the tightening up of the services offered by friendly societies to prevent them from carrying on insurance business outside the control of the Insurance Act.

Van Zyl said friendly societies were not regulated to the same extent as insurance companies. An amendment of the definition of insurance business is proposed to mean life and sickness benefits exceeding R5 000, including bonuses. Previously the cut off was R1 000 excluding bonuses.

The Bill allows prospective policyholders to decide upfront at the proposal stage whether they wish the payment of their policy to be paid inside or outside SA, instead of having to wait until the policy is issued to do this.

A proposed clause would regulate the payment of fees to brokers by people other than insurers, for instance clients who are asked to pay a service fee over and above the commission paid by insurers.

Van Zyl said these regulations were necessary to prevent the exploitation of unwary policyholders.

Amendments to the Pension Funds Act are proposed to provide for the deduction of arrear contributions from benefits payable. The prohibition on reduction of benefits in Section 37A of the Act was previously wide enough to cover arrear contributions, which was unacceptable to pension funds, the Memorandum to the Bill stated.

The Bill also proposes amendments to the Unit Trusts Control Act to allow property unit trusts a wider scope of investment by permitting them to invest in holding companies which have property-owning subsidiaries rather than being restricted to investing in the subsidiaries as was the case in the past.

The proposed Bill promotes the independence of the Financial Services Board and rationalises its functions by transferring to it certain powers exercised in various Acts administered by the board.

Van Zyl said this would enable the board, which was now fully self-funding, to charge fees for services rendered under the different Acts.

LPA CONFERENCE-

PIERRE STEYN

New president is Fedlife's Gerard Ehmke

(58)

FEDLIFE employee benefits deputy GM Gerard Ehmke has been elected president of the Institute of Life and Pension Advisers (Ilpa).

His election was announced at a banquet last night after the institute's annual congress. BDM 24/3/93.

Ehmke is an associate of the Chartered Insurance Institute and an Ilpa fellow who has spent about 37 years working in the life assurance industry, first with Southern Life and then with Fedlife, where he is in charge of the sale, administration and marketing of employee benefits.

He replaces AA Life MD Joe Gates, who said in his address that fellows of the institute were important participants in the financial service industry.

Promote

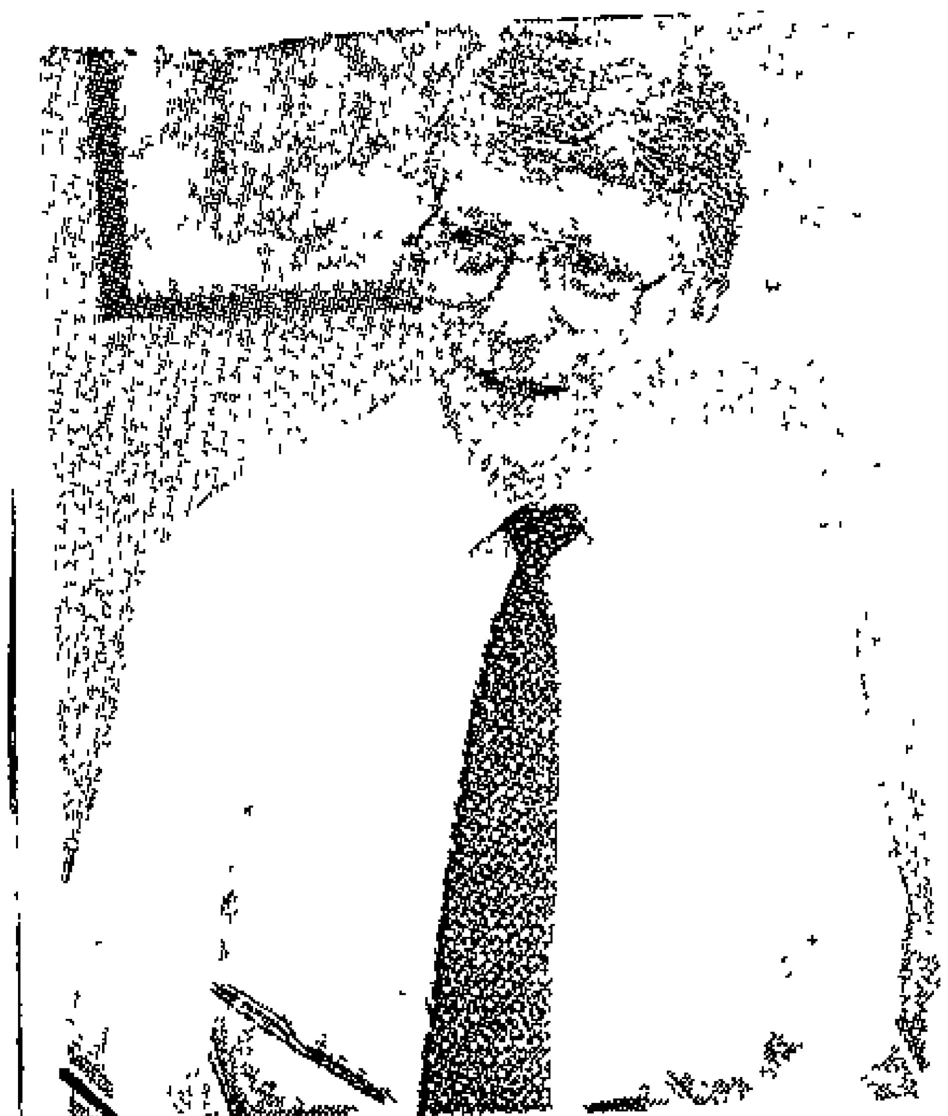
"Our challenge remains to promote a peaceful and certain environment in which we are able to secure consumer expectations in the planning of their personal financial affairs, with certainty and integrity," Gates said.

Ilpa inducted 174 new members, one of the highest numbers recorded in its 11-year existence and a 127% increase in the average pass rate of recent years. It now has over 1 400 fellows.

Seven prize winners received a total of 10 awards for outstanding performance in the examinations, including Old Mutual's Hendrik Franzsen, who was overall winner in the life category and also won prizes for business assurance and estate planning.

SA Banks 'unlikely' to compete with life assurers

BDM 24/3/93 (58)



GERARD EHMKE

Old Mutual's Alison Roode was the overall winner in the pension category and she also won a prize for fund constitution and management.

DP spokesman on pensions Brian Goodall won the prize for investment planning, while Old Mutual's Stewart Spies was awarded the prize for retirement planning in the life category.

Old Mutual's Susan Tosh won the prize for benefit structures, Southern Life's David Steere the prize for fund financing and investment and Southern Life's Rosemary Lightbody the prize for personal financial planning in the pension category.

An additional five members obtained dual fellowship, having passed both the life and pension examinations.

They were Liberty Life's David Davies and Andrew Lamb, Roxburgh Trust's Peter Niewoudt, Old Mutual's Robert Young and Southern Life's Peter Withey.

SA BANKS, unlike their foreign counterparts, were unlikely to set up their own life companies and would happily co-exist with life assurers, says Fedlife MD Morris Bernstein.

Bernstein was inducted as a fellow of the Institute of Life and Pension Advisers (Ilpa) at a banquet last night.

He said at the annual congress that in contrast to the trends in SA, it was expected by some analysts that the "bank assurance sector" in the UK would form about 50% of the life industry market by the end of the century.

Spreading

This development was spreading worldwide and mega-mergers were taking place throughout Europe.

While banks and insurance companies in SA had formed close relationships and cross shareholdings, they would continue to function separately. Banks would move into life business but this would be limited to "commodity" type business — low premium, low value-added business.

Bernstein believed banks and life companies co-existed happily in SA, giving the best of both worlds.

SA's financial services industry was characterised by financial families including banks and life assurers, such as Old Mutual and Nedcor, Sanlam and Absa, Liberty Life and Standard Bank, Southern Life and First National, Momentum Life and Rand Merchant Bank, Fedsure-Investec and Saambou, and Norwich Life and NBS.

The former building societies which had converted to banks mostly had their own captive life companies specialising in bond cover and these had been very profitable.

Bernstein expected these companies to continue to grow but did not believe banks would enter the wider spectrum of life assurance.

He noted the "one-stop money shop" had not been a success and many companies had burnt their fingers following this route.

Different skills were needed to sell different financial products.

Traditionally, banks and insurance companies had pursued fundamentally different business strategies, resulting in radically different cultures.

Bernstein pointed to vital differences between the two industries.

Whereas life assurers took their product to their customers, banks waited for people to come to them.

Protect

And while life assurers were able to protect their clients from the ravages of inflation over the long term through their investment in equities and property, the fixed interest investments offered by banks were suitable only for short-term savings.

Another point of difference was that banks had more customer loyalty than life companies. Life assurance was invariably sold and not bought, with consumers buying the product from the intermediary who offered it to them.

Banks 'strong agents for life offices'

58

CT 24/3/93

Business Editor

BANKS are unlikely to take business away from the life offices in spite of suggestions that they should sell insurance, Morris Bernstein, MD of Federated Life, told the Institute of Life and Pension Advisers (Ilpa) annual conference in Somerset West yesterday.

Pointing out that the skills needed for banking and selling insurance are very different, Bernstein said he thought the banks might become strong agents for the life offices rather than offering their own products.

"In SA we have had groupings of financial families for several years. It has frequently been said that the bulk of the wealth in SA is in the hands of five or six major groups and that is surely true.

"In regard to ties between life companies and banks we have some interesting clear examples:

- Mutual/Nedcor;
- Sanlam/Bankorp and now Absa;
- Liberty/Standard;
- Southern/First National;
- Momentum/ Rand Merchant Bank;
- Fedsure/Investec and Saambou; and
- Norwich/NBS.

"In SA we can say thank goodness for the life assurance industry, as two of the big five banks in the country would probably not still be around if it had not been for vast capital poured in by the two big mutual life assurers in the Cape."

He thought it unlikely the SA banks would start their own life companies in opposition to their family partners.

"The ex-building societies, now banks, mostly do have their own captive life companies who specialise in bond cover and these have been very profitable — I believe these captives will continue to prosper but I do not believe the banks will go into the wider spectrum of life assurance."

Bernstein said that unless there was a dramatic change in the law, such as the Financial Services Act in the UK, independent brokers would increase in numbers and importance.

"Banks will move into life business but through direct selling and what I call commodity type business — that is, low premium, low value added business."

Star 24/3/93

(58)

Sanlam expects 10,5 pc inflation rate this year

Finance Staff

Sanlam has warned that the Budget proposals on indirect taxation could push up the inflation rate by as much as three percentage points in April.

Nevertheless, Sanlam's chief economist Johan Lous still expects the average inflation rate for this year to be considerably lower than in 1992.

Louw estimates in Sanlam's latest economic survey that the consumer price index will rise by 10,5 percent on average this year.

Last year inflation was 13,9 percent, after the monthly figure had dropped to 9,6 percent in December.

He says the underlying inflationary pressures had been noticeably reduced as a result of considerably slower increases in labour costs, higher productivity and lower interest rates.

However, Louw warns that the improvement since late 1992 would be temporarily reversed by the higher VAT rate, increased excise duties and the fuel price rise announced in the Budget.

This could cause the inflation rate to jump to more than 11 percent in April.

In his Budget speech Finance Minister Derek Keys said inflation would rise by two percentage points as a immediate result of his proposals.

Bank shares to rout industrials

CT 24/3/93 (58)

By ARI JACOBSON

BANK shares will outperform industrial shares in the 1993 year — that is the prediction of leading banking analyst Ed Hern Rudolph's Alan McChonnochie.

Speaking at a gathering at its Cape offices yesterday McChonnochie mentioned that on average banks should produce earnings showing a 14% increase this year, while industrial shares in general would show 5% earnings growth.

He said that banks would probably outmatch industrials well into 1994 and added "as an investor rather get out of banks shares too late then too early".

McChonnochie said that it was the story of "the tortoise and the hare" with industrial shares having shown rapid growth after the JSE crash in October 1987 — while bank shares grew more moderately. However by 1992 banks had caught up to their industrial counterparts and this year were set to overtake them, he said.

McChonnochie mentioned that SA Reserve Bank governor Chris Stals "who has done whatever he has said" has been good for banks and allowed them to plan ahead and this has followed through to their overall performance.

Bill aims to ban insurance 'perks'

THE Finance Department proposed in a bill tabled yesterday to prohibit incentive offers in the short-term insurance market. SBCT 24/3/93

A section of the omnibus Financial Institutions Second Amendment Bill proposes to extend rules currently applicable to the long-term insurance market to the short-term sector.

Financial Services Board legal manager Franso Van Zyl said the amendment would mainly affect direct mail marketing and the offer of lotteries, prizes or other incentives.

"The basic idea is that a person should buy insurance because he needs that particular package and not because he hopes to win a trip to Mauritius," he said.

The Bill, which has still to be discussed by the Joint Committee on Finance, states:

"No person shall promise, pay, allow or give . . . directly or indirectly, to any other person, as an inducement to such other person to take out a policy, any valuable consideration or benefit . . . ".

Van Zyl said the word benefit could cover prizes or other inducements not directly linked to the acceptance of a policy.

BANKFIN
VOERTUIGFINANSIERING

A Star corporate survey

Despite numerous mergers and name changes, Bankfin has retained it s good reputation with the motor dealers and moved into the competitive area of industrial finance. It is now contesting the top slot in instalment finance. ANTHEA DUIGAN reports on her interviews with Bankfin executives and motor dealers. LINDA COHEN arranged advertising.

'Look at the long-term when buying a new vehicle'

STAR 25/3/93

58

DESPITE severe pressures on cash flows in the current recession, commercial and professional buyers of new cars should exercise caution before opting for any form of residual-value financing.

So says Dolf Wright, operational head of Bankfin, who adds: "It is tempting and easy to be blinded by an apparently low monthly instalment, however buyers should look further down the track to when the lease or instalment sale agreement comes to an end.

"Any residual-value financing agreement has a far higher interest content than one i out. The buyer pays for the long run, in spite of hi tial monthly instalment lower."

Wright points out that re al value financing is only to companies, close cor tions, recipients of car a ances and professional peo

"The prolonged recession forced many in this mark seriously consider resi value financing, but com tive pressures have fo them to be more discerning to consider the interest a ramifications more clearly," he says.

As a result, many South Africans buying new cars are becoming more cautious and are departing from their old attitude of "forget about the interest rate, as long as the monthly instalment is affordable".

Wright says that increasing competition between the financial institutions has also contributed to a more sophisticated market.

"In the mid-80s, it was not unusual to see a six to eight percent spread between the interest rate quoted to a AAA corporate client on a vehicle-financing deal and that quoted to a small company or professional person Today, that spread can be as little as one percent or less

"Smaller companies and professionals are involving their auditors or financial advisors in these deals and are negotiating keen interest rates."

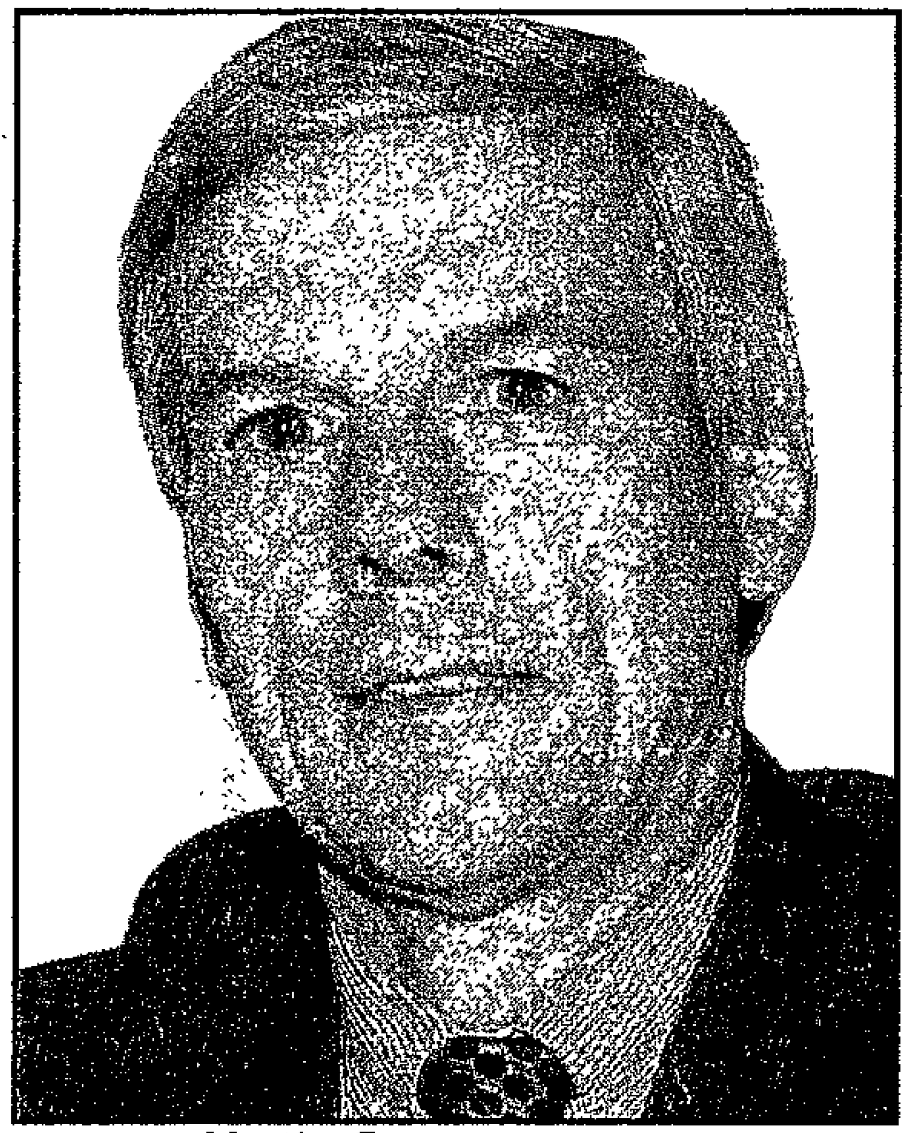
Getting back to residual-value finance, Wright says there are two basic options. One is a rental agreement with a residual value and the other is a lease or instalment sale agreement with a "balloon" at the end of it.

The rental option entails handing the car back to the finance house at the end of the agreement period, with no further financial obligation on the part of the client providing he has remained within the distance covered and the vehicle condition parameters of the agreement.

The other option leaves the client entirely responsible for the balance or balloon at the end of the agreement.

Wright says: "Naturally, any financing agreement must take into account the financial circumstances of the client concerned. As a general rule though, buyers should attempt to minimise the interest content of their deals and to opt for agreements which minimise their risk when there is a balloon at the end.

"They should also opt for a deal that makes buying a replacement vehicle of the same quality and value at the end of the agreement a viable proposition."



Martin Croucamp ... generl manager of Bankfin in charge of industrial finance.

Dream machines ... Approval for vehicle finance can be granted by Bankfin within 15 to 20 minutes providing all the information is supplied and the client is considered to be an acceptable risk.

Focusing on the middle sector of market

58

STAR 25/3/93.

Asset-based finance of fleets and machinery form a growing part of Bankfin's business.

Martin Croucamp, general manager of Bankfin in charge of industrial finance says, however, that there are certain cut-off points.

"Within the greater Absa, Bankfin offers finance to companies with shareholders funds less than R20 million, assets of less than R30 million and turnover of less than R40 million. Absa Corporate handles those in excess of these amounts."

Bankfin's focus on industrial finance is towards the middle sector of the market. This involves the financing of industrial equipment, upmarket professional sector, commercial and passenger fleet vehi-

■ Reborn: Various mergers gave birth to what is now known as Bankfin, and with these developments came the restriction of asset-based financing.

THE BANKFIN functions centre around instalment finance, leas-

COMMUNICATION *with clients has been maintained to avoid confusion*

End of mergers, and

58

tial rates: the more Absa services they use, the lower the loan interest rates. This means that the client with a cheque account, a savings account, a housing loan and a monthly stop order for unit trusts, will be granted lower interest rates than the client with only one of these services.

If the Absa client is a prime client, he will receive prime rates of interest from Bankfin.

The eight debit recovery

STAR 25/3/93.

Risky

Industrial finance is risky business. The middle-market segment is a high risk area but with attractive returns. In this area it is necessary to be able to assess the viability of the company. The average life of a company in SA, including close corporations, is estimated to be three years, which is indicative of the entrepreneurial skills and the economy of this country.

Therefore, in order to assess a company's viability, Bankfin employs graduates with accounting skills and technical knowledge to ensure the equipment to be financed is good quality and will last. Quality equipment can be resold in the market place if necessary. Bankfin encourages its clients to buy the best equipment, even if it means paying more over a longer period.

"We go out into the industrial sector and actively market our services. This has engendered loyalty and respect among our clients because we visit them, rather than the other way round. We are able to assess the company's structure and help executives select the best equipment for their purpose. We wish to be known for this type of business approach. We, as bankers, are there to help our industrial clients. If they are successful, then so are we."

Bankfin's primary industrial finance products are: instalment sale, leasing and rental. They can all be tailor-made, structured and packaged to suit the needs of customers.

Secondary products include fleet management systems. These are basically software packages for fleet owners and include the Absa fleet or Petrocard, which furnishes owners with details such as consumption, mileage and performance.

A company may decide to sub-contract a portion of its fleet management to a specialist in the field. In this case they may opt to use information from the financial institution to assist management; they may buy software packages which provide information on the most effective techniques of fleet management; and they may seek assistance from specialists when buying transport.

All these functions can be undertaken by one FML company. Bankfin forsees that the FML market will expand in future as affordability will necessitate that companies and individuals acquire the use of the vehicle, instead of the vehicle itself. FML ensures proper maintenance of the vehicle and proper control over expenditure.

In Britain 35 percent of financed vehicles are subject to an FML contract. In SA, only 9 percent of vehicles have an FML contract.

"The average cost of a vehicle today is R50 000, so more and more companies will be opting for FML in the future. Fewer companies will be prepared to invest operating capital in company cars.

Burden

"Through FML they are merely paying for the use of the vehicle," Croucamp says.

As an example, he mentioned all the government cars and the administrative burden this must involve in order to control thousands of vehicles.

Bankfin also believes that the vehicle allowance market will be growing as it is in the interest of employers to reduce their company car fleets. The reasons are improved gearing and return on investment ratios, improved use of capital resources, reduced administrative burden and cost savings, simplified budgeting and control, the employee is being given flexibility and a free choice as to the use of his vehicle allowance, and abuse of company vehicles and assets are eliminated.

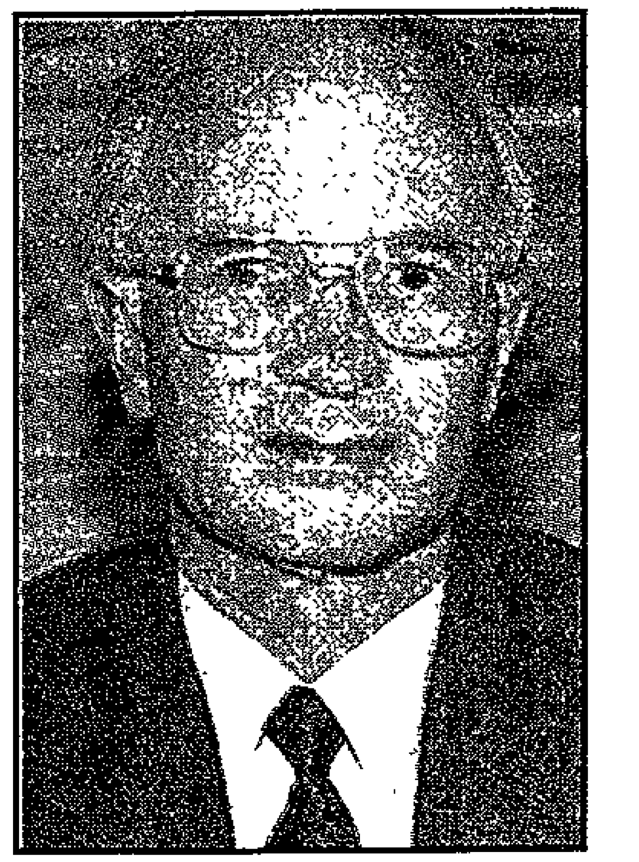
While the term HP is still used occasionally, the official term is instalment sales agreement.

Bankfin was formed soon after TrustBank's instalment finance activities merged with Santambank, but it remained Santambank until the Bankorp merger when the name changed to Bankfin. This also brought about the restriction to asset-based financing.

The old Santambank's functions of cheque accounts, personal loans and mortgage loans were absorbed into the Absa banking functions. Bankfin, which claims a 19 percent share of the market, finances moveable assets on an instalment basis, which includes industrial financing for machinery and, of course, vehicles.

Absa as a group has 28 percent of the national instalment credit and leasing market, including project finance, which is handled by Absa Merchant Bank and the business of MLS Bank. This compares with 27 percent each of Wesbank and Stannic and 14 percent for Nedfin.

The various mergers have brought about considerable reorganisation and restructuring since 1978 when the old Santambank merged with the Bank of Johannesburg, Sasbank and the former Federale Bank.



Dolf Wright . . . the Bankfin operating executive says mergers are over for the time being.

A few years later the group took over Mercabank's assets. In 1985, all the instalment finance facilities of Trustbank were taken over. This string of mergers ended with the merger of the Absa Motorbank in 1992.

However, Bankfin operating executive, Dolf Wright says mergers are over for the time being and his company is concentrating on the business of providing instalment finance through motor dealers and for the Absa group clients — which include Volkskas, Allied Bank, Trustbank Bank, and United Bank — for moveable items such as industrial machines and vehicles.

By the end of April the Bankfin business will amount to about R8,2 billion, with about 500 000 customer accounts.

In common with many senior executives today, Wright has a computer on his desk through which he can access day-to-day financial and new business figures. "We receive management information daily. I can access daily transactions for each branch. This includes the productivity targets set for the 2 520 staff members. We know how many deals each marketer should bring in and how many accounts a debt collector should work on."

Bankfin has 74 branches on the motor vehicle finance side, typically on the first floor of a group retail outlet, eight industrial finance branches in the major business centres throughout the country, eight administration branches and eight debt-recovery branches.

In areas where there are no Bankfin branches, clients can access Bankfin through any one of the other 650 Absa branches in SA.

Bankfin has a sophisticated computer system which has been developed over the years to satisfy needs of their clients. The system interfaces with those of Volkskas and TrustBank and interfacing with United and Allied is being established. Ultimately the group will have one intregrated system.

Wright says the Bankfin clients, specifically the motor dealers, are happy with all the mergers. "As long as the best possible service is provided, the clients are happy.

"Communication with customers has been maintained so there is little or no confusion as to which company is handling the instalment finance. Due to the rationalisation of personnel, which is inevitable following a merger, certain confusion existed, but all identity problems have now been ironed out. Initially there were queries from clients when the statement format changed."

Clients needing Bankfin vehicle finance can approach a motor dealer or apply through any branch of the Absa network. Approval for finance can be granted within 15 to 20 minutes providing all the information is supplied and the client is considered to be an acceptable risk.

To assess the creditworthiness of applicants for finance, Bankfin uses credit-scoring techniques originally acquired from Fair Isaacs, considered an expert in this specialised field.

The bank scores applicants for facilities up to R100 000 using these objective, automatic techniques. Above that level, the decision involves further scrutiny of the applicant and his or her financial circumstances.

Wright considers the SA system in some cases to be more advanced than, for instance, the British methods. However, he admits the large British market cannot be compared to our relatively small market.

The SA instalment finance market is very competitive, therefore the level of service and rates have to be good.

Absa clients receive preferential rates. These branches can store the motor vehicles which have been repossessed for the prescribed 31 days before they are auctioned, tendered for or sold privately — for the best price to recoup costs.

Despite the economic climate where retrenchments are common, Bankfin's level of arrear defaults of clients is acceptable. This is largely due to the initial screening of clients and also effectiveness of collection staff.

The future is difficult to predict because motor car sales are unlikely to grow, due to large price increases. In order to grow, more clients need to be created, but this is dubious in today's economic climate. However, there are segments of the consumer market, including the black taxi sector, which show exciting growth possibilities. The scope in industrial finance is also encouraging. Through Absa's industrial clients, there is an untapped market for instalment finance on moveable industrial equipment.

Wright says the overall Bankfin figures for February 1992 were the best to date, with January (normally a poor month) close behind. He attributes this rise to the expected increase in VAT and vehicle costs.

Buy-backs *work as long as condition, value of vehicle is maintained*

Shaping packages to keep vehicles moving

STAR 25/3/93 (58)

■ Prices rocket: As vehicle prices have risen banks have had to take a long-term view of the values of the vehicles.

OBVIOUSLY banks, and more specifically the motor banks, are a vital link in the delivery chain of moving cars from the manufacturer to the motor dealer, through the finance house to the end user.

Over the past five years vehicle prices have rocketed, posing an affordability problem to the point where people are down-buying. This means they are opting for the cheaper models, forcing the financiers to take a view of the value of the vehicle over time.

Joe Taylor, deputy operating executive of Bankfin says: "Buyers can either obtain support from motor dealers to provide a buy-back of a particular percentage of 40 percent, 50 percent or 60 percent, depending on the vehicle, or the risk can be passed to the client through a balloon payment.

"In order for this to work, the client must know the importance of looking after the vehicle, having it serviced regularly and properly maintained. In my experience, provided the vehicle is cared for, a 30 percent balloon after 48 months is a realistic deal."

The client enters into an agreement and on expiry of that particularly type of financial facility, he has to liquidate whatever is outstanding. Hopefully the vehicle is worth more than the 30 percent, but if not the client has to make up the shortfall.

The buy-back arrangement is where the dealer undertakes to buy back the vehicle at the certain percentage of 30 percent, 40 percent, or 60 percent after a particular period of 36, 48, or 60 months depending on the agreement. He can also opt to buy back the vehicle in between times on a sliding scale since a vehicle is a depreciating asset.

The dealer, being a seasoned trader, is in a better position to give the client a buy-back on a vehicle but he can also make

Joe Taylor . . . deputy operating executive of Bankfin.

mistakes.

The residual value financial arrangement is when the bank is prepared to take back the vehicle after 36, 48, 54 or 60 months and liquidate the client's capital exposure to the bank. The bank in this case is keen to see that the client manages and maintains the vehicle properly and adheres to the limits of mileage, where the bank is exposed to the greatest risk. The bank then tries to sell the vehicle to cover the outstanding capital.

"This has forced us to work closely with the manufacturers to determine the price of the car at a specific date in the future. "Obviously all those involved in the chain must take into account the macro economic movements, supply and demand for that vehicle and the rate of exchange. These impact heavily on the price of the vehicle, so it is important to ensure there is no exposed capital on a residual value basis, or in the case of a final balloon instalment from the customer, which may totally be out of kilter with what the product may realise in the market.

"Vehicle finance has become more sophisticated. It is no longer the straightforward HP, leasing or rental agreement we had in the early '70s and '80s.

"Present agreements are more affordable for the man in the street. Instalments are softer in relation to clients' net disposable income. But somebody still has to take the risk, which is either the dealer, the individual or the bank. This is why it is so important for us to make sure our clients fully understand all the financial arrangements available to them.

"We don't want them to sign balloon contracts without knowing that they will have to settle that account for the outstanding amount at expiry of the agreement. It could be a 40 percent balloon payment and when the client has liquidated 60 percent of the purchase price of the vehicle over the contract period he unexpectedly has to pay up 40 percent. If he sells the vehicle he might redeem more or less 40 percent of the price. Here Bankfin also helps the client to make an advised choice."

The Credit Agreements Act and the Usury Act still apply to such agreements governing the rate of deposit and the duration of the contract. There is a flexibility on leases but for straightforward credit agreements there are rules.

Motor banks are the supermarkets of the financial services industry. Financial risks are at the lowest possible margins. Some mistakes and write-offs are consequently inevitable but this is normal in the industry.

Joe Taylor's business is with the motor dealers' clients. The dealers are the link between the vehicle buyer and the bank.

Bankfin vies for business on the motor dealers' floors with other financiers. It does not have exclusive deals with any motor dealer. While many dealers favour Bankfin, the ultimate choice is with the buyer.

Often motor dealers submit applications to all three of the major motor vehicle finance houses and the first bank to provide a reply gets the business.

Bankfin has a non-recourse agreement with dealers covering the bank against fraudulent information supplied on the application forms.

"We obtain financial particulars from the client, via the dealer. These can be substantiated. Where the client is an Absa customer it is easy to verify financial particulars through interlinked software programs. Verifying particulars from customers of other banks takes longer. It is also possible to verify whether that person owns a house, shares or has additional assets.

"We have a simple philosophy regarding interest rates. We weigh the risk carefully against the return. Interest rates charged also depend upon how many of Absa's services the client uses.

"Insurance is a problem in the sense that the major players basically sell the old coupon policy. The coupon is based on the average experience and consumer. We feel strongly that each risk should be rated on merit and the premium calculated accordingly.

"We are working on a new policy through Absa Insurance Brokers to address the merit aspect but also to cut down on administrative activity. We, as bankers, became involved in the insurance aspect which is becoming less affordable for clients, but by the same token have to protect our financial interests. The premiums get added to the capital amount and are financed over the term of the agreement.

"We cannot force clients to insure their vehicles through us, but to protect our risk, we would like to offer a built-in insurance facility."

Bankfin has 15 000 monthly accounts which might or might not be insured. To verify each account is insured is the administrative burden referred to.

Regular vehicle servicing is obviously encouraged. Within the guarantee period, new owners abide by the service manual but the moment the guarantee expires, owners tend be less vigilant, service the vehicles themselves or take them to backyard mechanics.

A motor vehicle is a depreciating product and should at all times be properly maintained in order to safeguard the owner's interests. Realistic residual values entail regular servicing as prescribed by the manufacturers. If it is not maintained, the value will drop and the trade-in will also drop.

In the case of full maintenance leases (FML), vehicles are carefully monitored to ensure services are regular and the stipulated mileage is adhered to, financial penalties are imposed in case of deviation from contract stipulations.

"Ownership is not that important. I cannot understand why the man in the street has to 'own' his car. It is a depreciating asset. I would much rather pay a softer instalment for the use of the vehicle. Overseas FML is one of the fastest growing segments of our market. Motorists in Europe appreciate the advantages of FML and it has become an important new development in motor finance. In Britain about 18 percent of vehicle instalment finance is FML."

Bankfin also offers finance on secondhand vehicles but warns of the risks of such deals because it is difficult to ascertain for sure whether the vehicle has been paid for by the original owner. If not the secondowner could lose the car. In the case of secondhand vehicles Bankfin screens the dealers if they are not part of a franchise operation. Because of the risk, rates for secondhand vehicles tend to be higher.

People and service that you can bank on

(58) STAR 25/3/93

FOR YEARS, Rand Ford in Randburg, has been dealing with the same instalment sales bank staff, although the name of the bank has undergone three name changes.

Eric Vorster, joint managing director of Rand Ford says: "At first we dealt with Ford Credit, which was taken over by Auto Finance in the early '80s, which in turn was taken over by Bankfin.

"However, the people handling our clients today are the same people I knew from Ford Credit who provided the finance way back in 1975.

"The reason for this long-standing relationship is simple. Service today is one of the biggest aspects in any business. If you don't provide a personal service, you cannot expect business. People don't have to deal with you. They only do so when you provide good service.

"We deal with Bankfin because of the good and personal service they provide. They are very competitive in the market place. Another point in their favour is that their sales girls don't wear the shortest minis.

"One prerequisite for a bank is that it should be consistent. Motor vehicle finance is a long-term agreement and therefore banks should have long-term objectives. Bankfin seems to have this philosophy. Its marketing strategy is on-going."

Vorster, when specifically asked by clients, uses the other motor vehicle banks, but he recommends Bankfin because he says it gives him the best service and the least hassles.

Rand Ford does not arrange FML through Bankfin because the Ford Motor Company has its own facility. Vorster is all for FML providing the company arranging the finance does not try to dictate the motor dealers' discount structure.

"Any discount given, is my decision. It is a private arrangement between me and my clients. Just because the FML company is large, it does not have the right to dictate discounts. Otherwise, FML is an excellent alternative to ownership. A fixed cost is payable for three years which takes care of all parts and service. When servicing a FML car, I am paid full rates on labour charges but asked to discount parts. This suits me. I also know that payment is guaranteed."

Vorster says: "With the sharp rise in vehicle costs, I think financial institutions, motor manufacturers and the government should consider alternative means of financing vehicles.

"Perhaps extending the period of repayment from four years to six or eight years might be a start. Another possibility would be a two phase residual value contract whereby once the first contract is paid off, a second instalment contract for the remaining 50 percent can be negotiated.

"Soon the private individual will be unable to afford to buy a new car and with another 30 million potential car owners seeking their own transport but unable to pay the full price, something has to be done to make cars more affordable to the average South African. Bankfin could well come up with the answer.

"People cannot afford to pay motor vehicle instalments of R2 000 a month when petrol has increased, VAT is up by four percent, but salaries remain the same. If the motor industry is to sell 300 000 vehicles a year as it did in the past, a financial solution must be found," he said.

What's in a name, asks dealer

STAR 25/3/93 (58)

DESPITE the change of name to Bankfin, most of its employees were with Santam Bank before the merger so some dealers regard the change as one of name only.

Bankfin whereby the bank finances all Blackheath Delta's new vehicles and he, in turn, recommends clients seek finance through Bankfin.

...cle ownership will become difficult and full maintenance leasing (FML) will be the answer on a company-sponsored basis.

This will not only provide peace

...ackheath Delta w... opened on DF Malan Drive.

Fourie says he has known and dealt with Santam (now Bankfin) for years through his dealerships.

Fourie has provided Bankfin with a full time dealership floor arrangement with its own cubicle manned 100 percent of the time by Bankfin staff.

This complements the ultra-modern equipment, a business hospitality centre and a fully computerised administration and parts systems offered by Blackheath Delta.

Fourie negotiated a deal with ... ents who have their own financial arrangements.

Customers from Northcliff, Fairlands, Weltevredenpark, Windsor, Randpark Ridge and Honeydew will receive the latest in workshop technology, accuracy and high productivity levels.

Fourteen vehicles can be serviced at a time and between 30 and 40 daily.

As a qualified accountant, Fourie is keenly concerned about the affordability of cars in the future.

Fourie reckons individual vehi- ...

Fourie and his sales staff provide specialist advice to fleetowners as well as individuals buying on a car allowance or subsidy scheme.

This is followed by the Bankfin specialist consultant who can advise clients on the best method of purchase.

A one-stop vehicle credit application facility is available on the floor.

The new Blackheath Delta dealership, which cost nearly R4 million to build, sells the latest Opel, Suzuki and Isuzu models.

'Renewed optimism' in the property market

PETER GALLI

THERE is renewed optimism in the property market, which is reporting increased activity in all sectors, says JH Isaacs chairman Les Weil.

In his first quarter review of the market released yeseterday, Weil said that while prospects for the rest of the year appeared positive, this was tempered by ongoing negative real growth in the economy and a fragility in business confidence.

Much further growth in the commercial and industrial markets over the rest of the year was generally unlikely, a position that was being exacerbated by market offers of rent-free periods and other incentives to fill the larger available space, he said.

"However, since December the commercial and industrial leasing and sales market has proved resilient to economic conditions and, in Johannesburg, those divisions reported improvements in demand," he said.

The strongest demand for new office space continued to come from local companies in the Johannesburg CBD.

Rosebank reflected strong demand, commanding rentals of between R28/m² and R35/m², with occupancies rising to 97%. The decentralised Sandton office nodes of Woodmead and Epsom Downs also reported increased interest.

However, the Durban office letting market remained "very quiet", with an abundance of stock and little demand, while gross rentals in Cape Town ranged from R18/m² to R27/m², the report said.

Bank to free R1,6bn in reserves

TIM MARSLAND

THE Reserve Bank has taken steps to free up R1,6bn in reserves held by banks, according to confidential papers released to the banks yesterday.

The Bank said from April 1 liquid bankers' acceptances would no longer be eligible as collateral for overnight loans from the Bank. It also announced details of its new policy on short-term lending to banks.

By June 1994 the banks' holdings of liquid assets against liabilities would be reduced by about R1bn to R3,1bn. The documents said this was calculated against the banks' January financial statements.

In June last year it was proposed that the ratio of liquid assets to liabilities be reduced to 12% from the current 20%. Under the new rules, the assets would consist only of government-guaranteed paper.

The minimum reserve requirement which banks had to hold at the Bank would be reduced to 1% from 4%, which would free up about R650m.

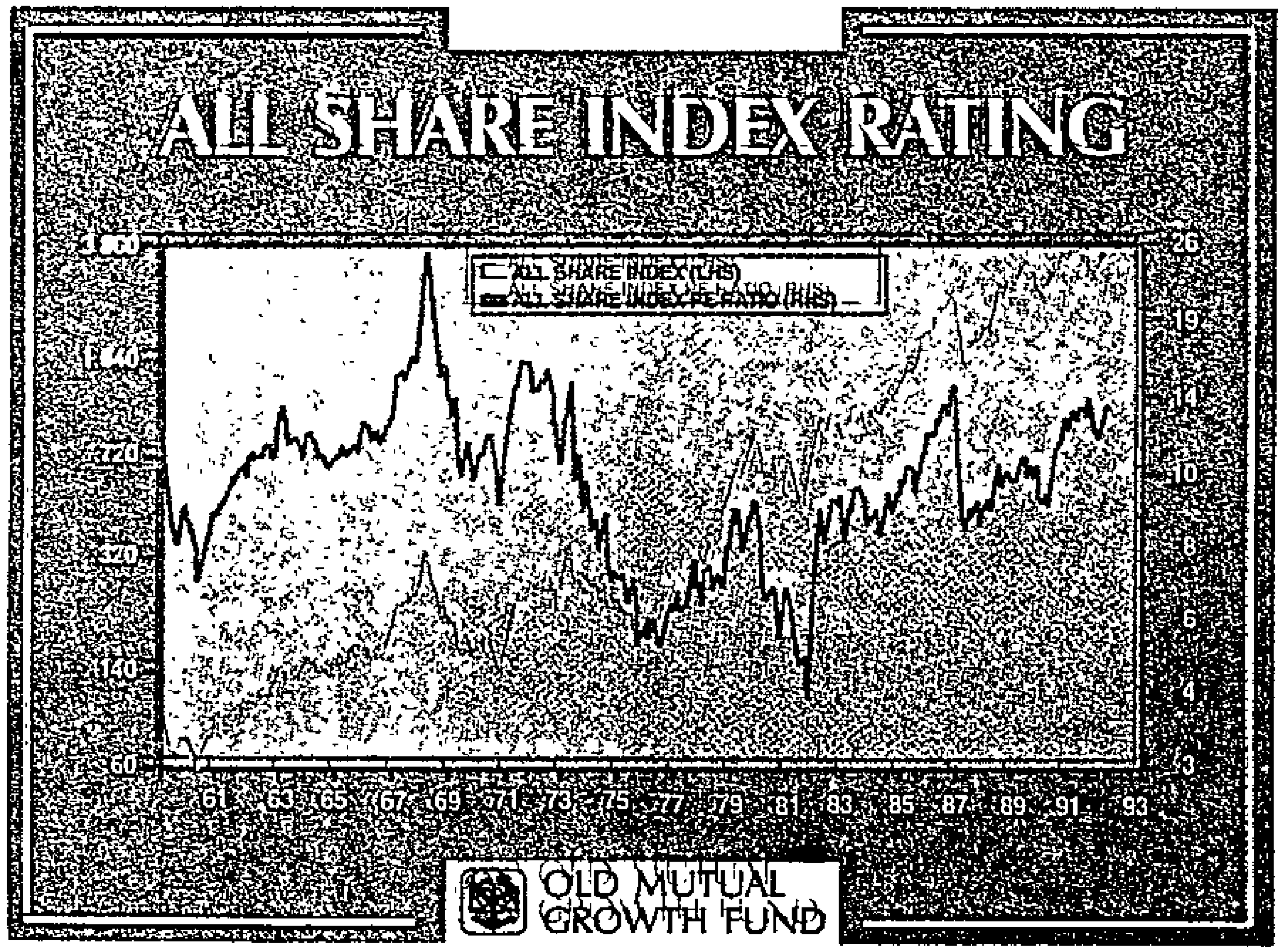
On its discounting policy, the Bank said paper, such as Treasury bills, Land Bank bills and SA Reserve Bank bills with a maturity of less than three months, would qualify for overnight loans at Bank rate — currently 13%. Paper assets with a maturity of between three months and three years would attract an interest rate one percentage point higher than Bank rate.

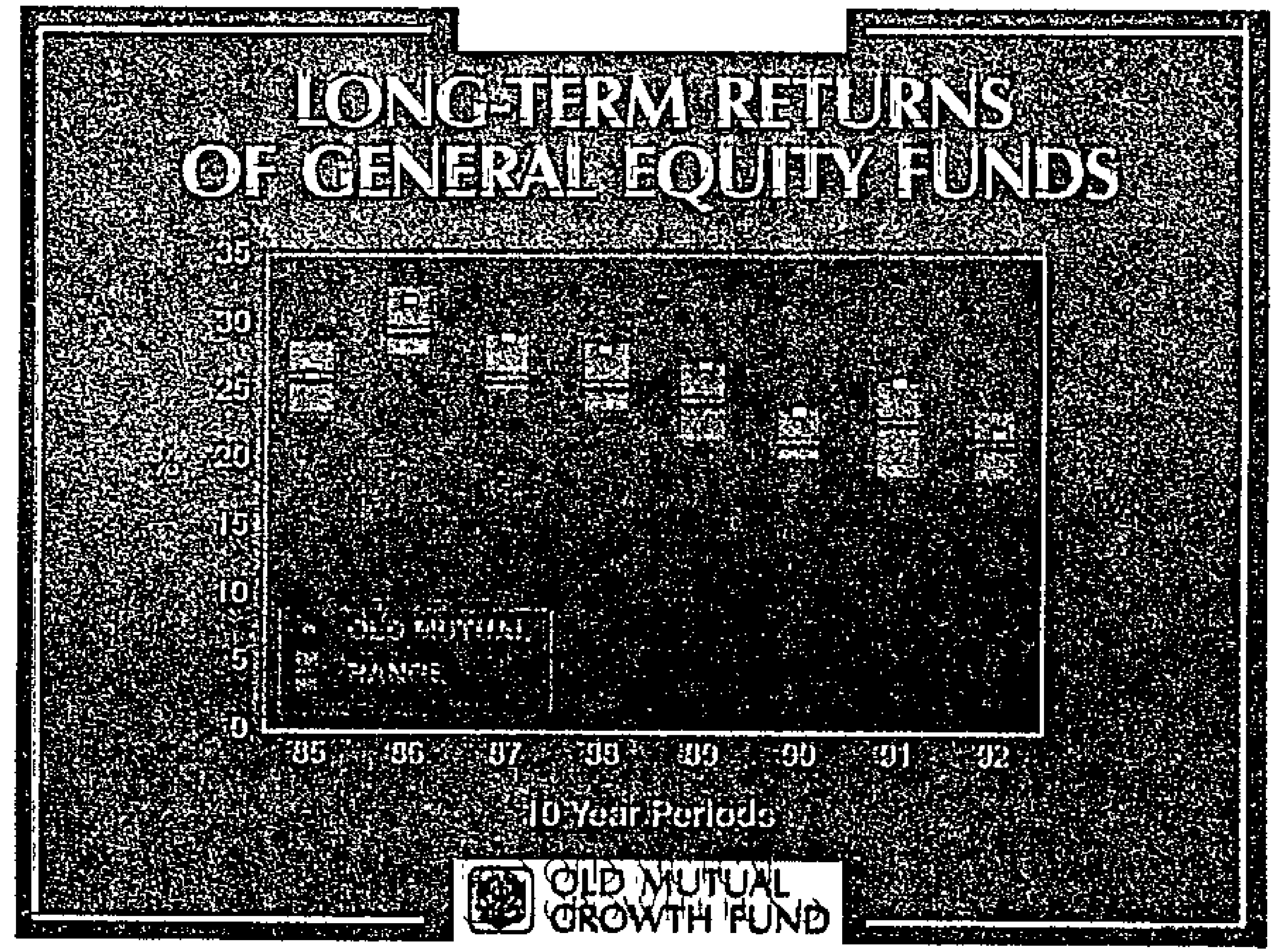
Other assets such as long-dated government paper would be accepted as a last resort. The interest rate would be negotiated with the Bank and the loans would be granted for a minimum period.

Bank Governor Chris Stals is expected to release further details this week.

(58)

25/3/93





New growth fund launched

(S8)
CT 25/3/93

By ARI JACOBSON

OLD Mutual launched a new "aggressive" unit trust into the industry with the introduction of its Growth Fund at a media function yesterday.

In line with this more "active approach" to investment management, a policy of promoting younger management has seen 30-year-old portfolio manager Arnold Shapiro take the reins.

"I guess my personality best fits the fund's style," said Shapiro in repsonse to a question about the selection process that put him in charge.

Shapiro said that the small size of the fund, with about R100m earmarked, would allow for a greater choice of JSE-listed companies.

"We are looking for those stocks which perform well and those that will perform over the next ten years."

Shapiro said that state of the art computer systems, which are comparable with those worldwide, would provide the life assurer with the edge against other competitors in the role of active managers.

"It allows for superior decision-making," he said.

However he painted a bleak picture of near term prospects for world economies saying "the only bright spot is the US" for 1993.

In addition he said that a panel of economists canvassed had "negative expectations" about SA in the year ahead.

"They are forecasting a high of 1% gross domestic product (GDP) for the country and a low of negative 1%," which Shapiro described as "inadequate".

However he added that the JSE was signalling "optimism — even with all the uncertainty".

Talking of strategy, Shapiro pointed out that earnings growth remained a fundamental indicator although he was on the look out for niche businesses that were "bullet-proof".

In this regard he said that a gut feel about good businesses which would also act as a guide.

"Selectivity will be the key to investment performance over the next twelve months."

Shapiro added that it was a challenging time to construct a portfolio "with SA facing a new political and economic environment".

To increase the attractiveness of the new fund the management company is offering a 40% discount on the 5% initial charge on all new investments during the launch month of April.

The minimum investment will be R50 monthly with the lump sum minimum R500.

DBSA to fund Rand water treatment

(58)

STAR 25/3/93

Finance Staff

The Development Bank of SA has extended a R380 million loan to the Central Witwatersrand Regional Services Council for the upgrading of a waste water treatment facilities in the Klip River basin south of Johannesburg.

The agreement, signed yesterday, paves the way for the start of the project, whose total value is estimated at R625 million at current prices. It will be completed over five years.

The DBSA said in a statement that the project would establish the infrastructure to sustain long-term urban development in the region and to cope with the impact of urbanisation.

It would also optimise waste water treatment for a sub-region serving an estimated four million residents in 16 local authorities and protect the water resources of more than seven million people in the lower Vaal River catchment area.

The Johannesburg City Council would be the implementing agent of the project and would also deal with the institutional, developmental and constitutional arrangements, the DBSA said.

Joburg pupils run amok

(52)

CT 25/3/93

JOHANNESBURG. — Renegade pupils damaged three vehicles, robbed a bystander and smashed shop windows in the city centre yesterday, marring a march in protest against examination fees.

The protest, called by the Congress of South African Students, the Pan-Africanist Students' Organisation and the Azanian Students' Movement, turned ugly when most of the marchers ignored marshals' warnings and charged through the streets.

Journalists were threatened and a photographer was beaten.

The organisations later distanced themselves from the unruliness.

The marchers, estimated at 3 500, were on their way to the DET's offices to deliver a memorandum when groups broke away and rushed toward the DET offices, ululating and taunting police stationed outside.

The memorandum, which was handed to a DET representative, outlined reasons for not paying exam fees. It said the government was unrepresentative, was misusing taxpayers' money and the DET had failed to deliver library and laboratory equipment or to renovate some schools. — Sapa

Bridging finance admission from Stals

58 CT 25/3/93

From GRETA STEYN

JOHANNESBURG. — The Reserve Bank had to use more than R1,4bn in foreign bridging finance in February to shore up dwindling foreign exchange reserves, Bank Governor Chris Stals said yesterday.

This followed foreign debt balances of R882m in December and R767m in January, reversing a year-long trend of not needing to use foreign bank "overdrafts" to top up currency levels.

Stals said SA's reserves had been under pressure since the end of August last year and the Bank had made use of short-term foreign credit facilities since December to tide it over cash flow problems. The Bank had a further R4bn-R5bn in unutilised credit that could be called up if the cash crunch intensified. It was possible that increased credit facilities could be arranged if needed.

He added that pressure on the foreign exchange reserves appeared to have continued into March, but there would be some benefit from the easing of the drought-related squeeze on the current account of the balance of payments (BoP).

Economists said the Bank's use of foreign "overdrafts" meant the monthly foreign exchange reserves figures were overstated. Instead of the published R8,3bn in February, the real level of foreign exchange reserves was only R6,9bn. This meant the reserves had plunged by a massive R4,6bn, or 40%, since its peak at the end of August. On a year-on-year basis, there has also been a substantial decline.

Stals ascribed the squeeze on the reserves to the drought's effects on the current account, adverse "leads and lags" in foreign payments and the country's inability to roll over foreign debts.

The dollar bull run had spurred adverse "leads and lags" as importers rushed to buy dollars and exporters delayed dollar sales. The phenomenon had recently led to Bank rate increases in Ireland and New Zealand. The dollar would, however, eventually stabilise — the pressure on the BoP was not a structural problem, he said.

NBS warns on bond boycotts

CT 25/3/93 58

By AUDREY D'ANGELO
Business Editor

POLITICAL leaders must drive the message home to their supporters that the use of bond boycotts "as a semi-political weapon" is depriving many innocent people of the chance to buy their own homes, NBS chairman Brian McCarthy said at a cocktail party in Cape Town last night.

Brian McCarthy

"The damage done by these small minorities using these tactics is immense because, as a consequence of the losses suffered as a result of these actions, financial institutions are wary — or should I say more cautious — about excessive investment in low cost housing.

"They are therefore compelled to raise the standards under which credit is granted, thereby making it more difficult for many first time owners to acquire the necessary finance to buy or build a home."

McCarthy said in an interview that although there had been bond boycotts in a few areas, including Khayelitsha, "we are pleased with our lending to black home-owners. It has been successful, over-all, and has enabled 20 000 black families to have their own homes.

"More than 90% of our black home-owners are up to date with their payments. There are some areas where blacks are paying better than whites at present."

McCarthy said the NBS was understanding when people could not meet bond repayments because they had lost their jobs, and did its best to help.

The number of repossessions had grown, "but they are not by any means out of control.

"Vandalism is a major problem when a house is repossessed and left empty. This is so in all areas but particularly in black townships. We generally rent a house out for a year as soon as possible when it has been vacated."

The NBS itself is having to reduce staff. McCarthy said this was not only because of the recession, but because streamlining the organisation and making it more efficient had made some jobs unnecessary.

But, on the advice of overseas consultants, retrenchments have been kept to a minimum by offering attractive packages to people who volunteer to leave or retire early. "Only about 40 will be retrenchments.

"The restructuring and use of new systems will increase productivity and make the NBS a more focused business."

Although its main business is still home loans and the Cape its second largest market, the NBS is moving more into insurance and merchant banking.

"Four years ago home loans were 90% of our business and a year ago they accounted for only half of it."

NBS Insurance currently has a limited licence. It concentrates on insuring the homes of bond-holders. "But this licence could be extended.

"We took a decision that we wanted to retain our independence and we could do that only by offering a personalised service in niche markets.

"There was no point in fighting the big banks with cheque accounts. We don't offer them.

"But we saw an opportunity in the corporate sector. Four years ago that was only a fringe activity. Now it is a major part of our business. We see scope for growth in our corporate business in the Cape, although it has not been as rapid here as in the Transvaal.

"Our assets have grown by 500% since we went public in 1987. We have got a 40% stake in the French Bank and we recently made an investment in a new securities trading company.

"We own 30% of Norwich Life and they own 25% of the NBS. Barlows has 20% of the NBS."

Agreeing that this might not guarantee safety from a hostile takeover, McCarthy said: "There is no such thing as a total safety against predators.

"The NBS might not be against a takeover by a large group which was not in banking. But we wouldn't want to become the home loans division of one of the major banks. We don't see that as good either for borrowers or staff."

Call to negotiate insurance rates

By ARI JACOBSON

CONSUMERS are advised to shop around for the best rates on insurance, says Compuquotes MD Dave Hersch.

Hersch points out that short term insurance companies have made "huge profits" as premiums have more than doubled over the last two years.

"But things are changing because of competitive pressures."

Hersch suggests shopping around or negotiating for "the best rate".

He says that "the rotten SA economy" and the ensuing unemployment had led to less and less disposable income with consumers cutting back on their insurance commitments.

However Hersch says that there would be no major price increases in the insurance market in the near term although there were expectations of "slight adjustments due to risk and inflationary increases".

Compuquote offers an instant shopping-list of short term insurance rates.

Absa has Allied yacht tax dilemma

INSIDER TRADING
edited by Mervyn Harris

BDAM 26/3/93 (58)

SOMETHING of a dilemma, we hear, in Absa's boardroom. Should the banking group persist with plans to appeal against the judgment which awarded sports promoter Peter Mancer his full claim plus costs in the Allied Bank yacht dispute?

Absa, which assumed Allied's liabilities after the merger of UBS, Volkskas and Allied, argued that it was not liable under the sponsorship contract agreed by Allied's former MD Kevin de Villiers and Mancer. It described the sponsorship contract as a sham devised simply to avoid tax.

Even the judge said he could see no commercial logic in Absa opposing Mancer's claim and that he only accepted with "reluctance" assurances from Absa's counsel that opposing Mancer was not a means of pursuing Badenhorst's fight with De Villiers.

Absa insiders now wonder if the board's clear view of the contract's invalidity would preclude the banking group from claiming the tax allowances which the contract clearly (and legitimately according to the judge) envisaged.

If Absa still believes the contract was a tax evasion sham, should it now refund the Receiver of Revenue all tax benefits received for the promotion? In its heads of argument ahead of the hearing, Absa said it would refund the Receiver if a sham was proved.

Attorneys and accountants estimate that the Mancer case and ancillary investigations into De Villiers' management of Allied have cost Absa about R10m.

Investigations over nine months by outside accountant Steve Ochse, assisted full time by about eight of Absa's internal auditors, completely cleared De Villiers of any suspicions of mismanagement at Allied.

Ahead of last Monday's judgment, Absa approached Mancer to settle on at least three occasions, but Absa's settlement proposals were turned down as they contained demands that Mancer should declare the yacht promotion a sham. Effectively he would have declared that his court testimony was perjured.

Some Absa executives are asking whether the banking group should commit more money and further risk losing the yacht promotion tax allowances by appealing against the Mancer judgment.

We hear that one of Absa's attorneys (carried away with hyperbole perhaps) pointed out that Mancer might be advised to settle as Absa had R80bn it could use to fight the case.

□□□□

STILL on the subject of Absa, why did Tollgate liquidator Chris van Zyl reject editor Allan Greenblo's initial unqualified R65 a share offer for Tollgate's shareholding in Finance Week?

Rejection is unlikely to have displeased Piet Badenhorst, who is at odds with Greenblo over Finance Week's publication of a statement from Greenblo's old friend and fugitive banker Bob Aldworth and impassioned editorials for Absa to take the heat off Aldworth.

The dispute came despite the fact that, back in 1991 when the Mancer issue was emerging, Finance Week sided with Absa and published highly critical and possibly defamatory articles about Mancer and Kevin de Villiers, implying that Mancer's commercial relationship with the SABC was "a R2m sting".

After the liquidator's refusal, Greenblo came back with a R35 a share offer, which was again turned down.

If Greenblo's initial offer had been accepted, Tollgate's creditors would have received R0,5m.

It is unlikely that a realistically higher bid will be forthcoming, particularly as Greenblo has now strengthened his control of the magazine and raised extra capital through the 702 deal.

□□□□

YET again, we hear that some Absa directors and legal advisers have advised Piet Badenhorst to drop an appeal in the Mancer case.

Apart from the likely cost, there is the adverse image of the country's largest banking group acting the Goliath against the Mancer David. More to the point, the Supreme Court judgment was founded on the facts of the case and thus leaves little room for leave to appeal being granted.

We also hear of contingency plans by some directors to find a replacement for Badenhorst should Absa's present CEO decide to take early retirement or leave banking to pursue his own interests.

Talk is that if an appropriate candidate could not be found in SA, a senior banker would be recruited from abroad.

The ultimate irony, we also hear, is that some Absa directors have considered approaching Kevin de Villiers, the former Allied MD ousted from the group after he had supported FNB's bid for Allied against the UBS bid led by Badenhorst.

De Villiers' background has already been thoroughly investigated at Badenhorst's instigation, and his record at Allied speaks for itself.

□□□□

DE BEERS has notched up a surprisingly strong third diamond sight worth more than $0,5bn at the upper end of some estimates, we hear.

The market's excitement at the news can perhaps be detected in De Beers' share price which has surged on good local and overseas demand to R72,50, its highest since the share collapse last October.

De Beers is always coy about the sights — the CSO releases only mid-year and year-end diamond sales figures — but the market is patching together an encouraging picture of the diamond business.

The March sight — diamond industry terminology for the 10-times-a-year meetings at which the CSO offers rough diamonds for sale to diamond dealers — finishes today, and analysts put the value of the diamonds sold at between $420m and $550m, in line with the first two this year.

Even if diamond sights in the rest of the year subside to $300m a time, the CSO is looking at at least a 5% increase in sales at $3,6bn compared with $3,42bn in 1992.

The key to the good CSO sales lies in the evaporation of supplies from war-torn Angola and the impact of the 20% export tax imposed recently in Russia, curbing Russian diamond supply.

The "deluge" of Russian material De Beers expected to happen has not and, we hear, De Beers' directors hope quotas limiting sales through the CSO can be lifted by year's end.

□□□□

OLD Mutual is closing in on its former head trader Colin Harper, who was offered indemnity from prosecution for his testimony in the Greg Blank share-dealing irregularity scandal.

Harper has been offering restitution to Old Mutual, which is determined to recover money from him even if that involves court action.

The Reserve Bank is said to be holding money seized from Harper, and Old Mutual's eventual claim will depend on the profits made by Harper and the damages incurred because of the fraud.

Quick action by Old Mutual froze the offshore accounts of the assurer's former investment fund managers David Schapiro and Marco Celotti, who were key players in the fraud. As they fled the country and remain at large, the investigation is still open.

The recovery of money from Harper will please, among others, policyholders who have been incensed by the fact that Harper is still living in luxury and may still be operating a casino at his palatial home in Hermanus.

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MARKET speculation is that Rand Mines Properties is considering selling its highly profitable property holdings and operations to Barlow Rand Properties (Barprop) in a multimillion-rand deal.

Sources said it was likely that Barprop would take over its township land holdings, Cape farmland and investment land and buildings.

If the negotiations were successful, RMP would retain only its gold recovery operations and these would most likely be taken over at a later date by Randgold and Exploration — part of Barlow Rand's mineral resources division — and the listing terminated.

Barprop would benefit significantly from such a move as RMP's land is well located and reflects active demand — more than R30m has been sold over the past few months.

Such an acquisition would position Barprop well for a property upturn and increased demand for commercial, industrial, retail and residential land.

As a developer it could also add value to the land by developing office blocks and industrial parks rather than just selling undeveloped land.

Unless RMP intends to sell its gold recovery assets later, or the land is sold at realisable market value, the benefit of the imminent deal with Barprop is unclear.

While RMP's property interests generated only a quarter of group turnover at R48,13m, compared with R141,34m from gold recovery operations, they posted a pre-tax profit of R22,48m compared with a R3,2m loss on gold recovery operations in the year to end-September.

Profits from property operations were 35% up on the previous year because of township land sales to major institutions and a rise in rental income.

According to its 1992 annual report RMP had 26ha of investment land and buildings valued by the directors at R28,92m, 27 529ha of mining and undeveloped land and mineral rights valued at R6,4m, 782,9ha of partially developed land worth R17,89m, and 47,5ha of township land holdings valued at R6,39m.

Of the 27 529,5ha of undeveloped land, 24 390ha is vacant farmland in the Cape. A sale would necessarily involve the preparation of an independent and audited valuation of the property portfolio.

Of the balance, 45% is land permanently encumbered by deposition areas and other mining infrastructure, 9% is reserved for underground mining, and 15% encumbered by material viable for reclamation mining.

□□□□

WE HEAR government is about to respond to a JSE request for an increase in the minimum capital requirements of stockbroking firms.

An amendment to the Stock Exchange Control Act will bring capital requirements in line with the rise in inflation.

For one-man operations, capital requirement will be lifted to R50 000 from R20 000, while a joint partnership faces an increase to R100 000 from R40 000. Every additional partner will have to put up R25 000 rather than the R10 000 at present.

The JSE has its own rules for liquid asset requirements of firms to exceed liabilities on a daily basis and these requirements are more stringent than the new changes to the Act.

As part of its long-term research project, the JSE is also considering reviewing these requirements because of the increase in the number of products handled by brokers, such as futures and options. But any changes will not take place for many months.

Another amendment tabled in Parliament this week will make the Stock Exchange Act neutral in regard to matters such as fixed commissions, corporate or individual membership and dual or single capacity trading.

This will place the JSE in a position to change its rules, if deemed necessary, when it receives the results of its research project into the future structure of the market.

Harsh economy whacks Sasfin earnings

DUMA GQUBULE

TRADE finance and equipment company Sasfin reported a 17% drop in attributable earnings to R1m for the half year ended December 1992.

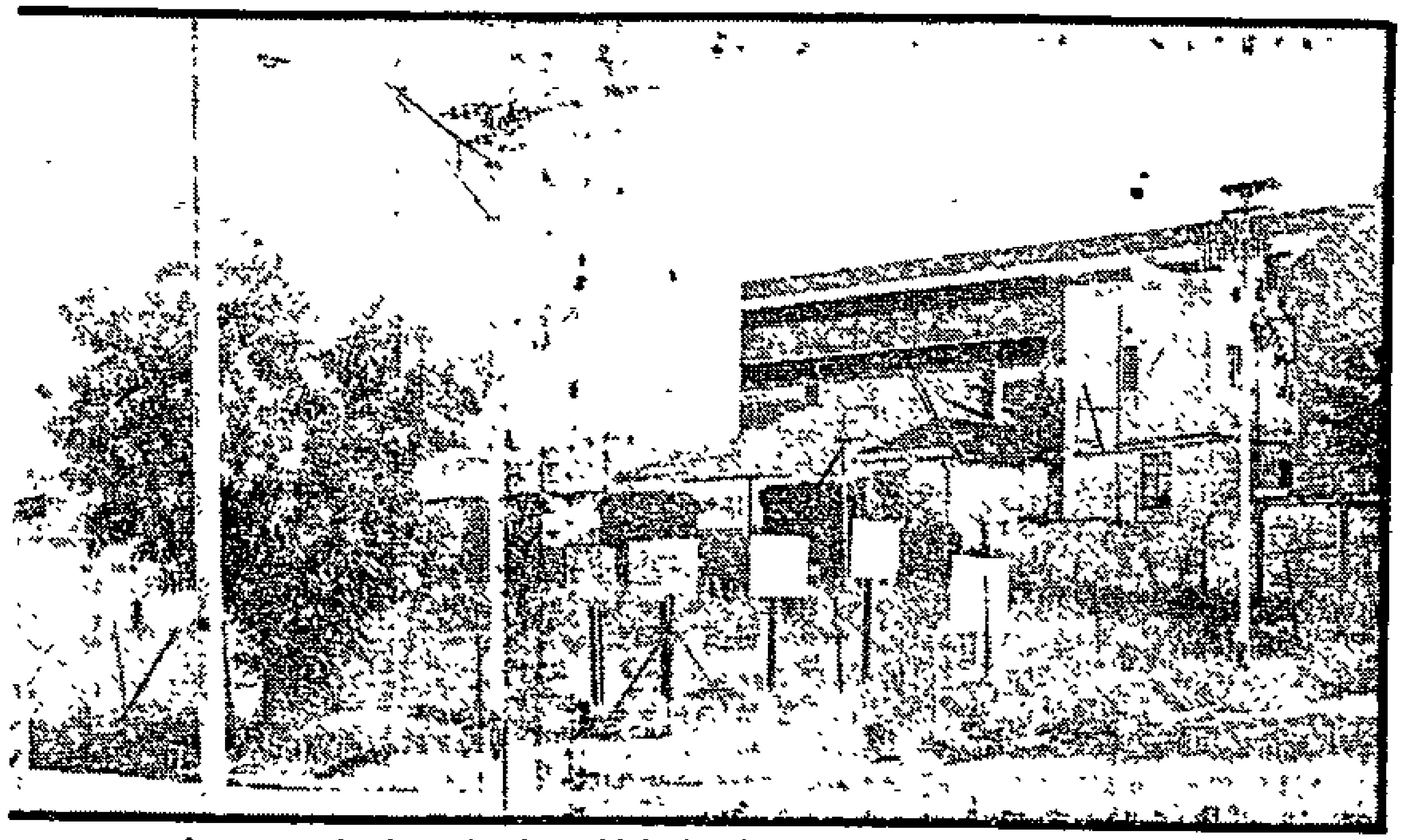
This was equivalent to earnings of 9c (10,8c) a share. The company pays a single dividend at the end of the year.

MD Ronald Sassoon said adverse economic conditions continued to affect levels of business and bad debts. BDAY 2/3/93

He said the group had adopted a cautious stance towards new business because of the recession, resulting in a drop in accounts receivable to R32,2m from R34,1m.

The economy was, he hoped, at the bottom of the downturn. But Sasfin would continue to take a defensive approach until the economy showed definite signs of bouyancy.

During the period, the company acquired the entire share capital of Irvine International Trade finance and Quorum Leasing services.



A proposed urban site for a high density housing development.

Informal approaches adapt to market needs

BDAY 26/3/93 (58)

INFORMAL solutions to the housing crisis are the natural consequences of inadequate institutional response.

What sets them apart from the formal approach is a fuller understanding of the needs and dynamics of the market. Their initial role in the housing crisis will be to promote a greater sense of stability in the marketplace. This will eventually release natural market forces and draw back the developer and mortgage lender.

Community Banking Project (CBP) CEO Cas Coovadia says the basic differences between the institutional providers of credit and informal operations are that the latter rely on:

- ☐ Character-based assessment;
- ☐ Pragmatic and flexible concepts of collateral (including non-collateralised lending);
- ☐ Simplified documentary requirements;
- ☐ Small amounts of credit or savings per transaction;
- ☐ Rapid and decentralised approvals; and
- ☐ Easy accessibility to the client.

The CBP is to be a full-scale bank, aimed at SA's inappropriately banked communities.

It would acquire an existing banking infrastructure and modify its institutional capacity to service the specific banking needs of the market. The infrastructure would support the development of community banking units to service the unique needs of each community.

The units themselves would become part of their community. The initial consultation process would involve extensive socio-economic research in the community to establish affordability and unemployment levels as units would be established only where they would be viable.

The lending function is central to the bank's operation. Lending criteria would be constructed according to the client's need profile and would differ from unit to unit.

The Metropolitan Housing Finance Co-operative (Metco) is another informal financial operation. Metco's Ben Pieters says the key is in being unlike a banker.

Only Metco members can become clients and membership is gained through the purchase of shares, with the lending process being simplified.

Two basic products are to be provided: personal loans to a maximum of R3 000 and housing loans to a maximum of R10 000

"Hot loans" to a maximum of 10% of the capital value of a loan will also be available for immediate short-term advances.

The Central Johannesburg Partnership is a joint venture, grouping Johannesburg's business, council and community interests. It operates by consensus and aims to catalyse and facilitate CBD regeneration by addressing issues such as public safety, inner-city housing, trading, transport, urban design and management districts.

The Inner-City Housing Upgrading Trust, a subsidiary of the partnership, hopes to induce stability into the inner-city housing finance market through active intervention on risk and education fronts.

The trust acts as a bridging mechanism. It engineers First World financial principles into a community-friendly product — taking the risk from the institution and bringing affordability to the community. It operates through assembling finance in the form of grants and soft loans and investing it into guaranteed stock which can then be used as collateral for the formal mortgage lender. The trust then acts as the collecting agency from the borrower.

The trust's primary aim is to promote a stable inner-city housing market to encourage the return of developers and finance.

Residents vow to maintain bond boycott

BDAM 2/3/93

WILSON ZWANE

THE conflict between the government-sponsored SA Housing Trust and residents of the Vaal Triangle township of Palm Springs has deepened, with residents vowing to continue with their bond boycott unless the trust meets their demands. 58

Palm Springs Civic Association chairman Mpho Molefe said yesterday the boycott, which was supported by 95% of the residents, began last August after it had become clear that the trust was unable to fulfill promises it made to residents that schools and health centres would be built in the area.

Molefe said numerous discussions had been held with the trust. But these had yielded no results, he said.

He said unless "basic amenities" were provided in the township the boycott would not be lifted.

Nor would it be lifted until the trust agreed to the residents' demands for the "re-evaluation of houses".

Molefe said there was a feeling among residents that the houses were of an inferior quality and were not worth what they were charged for them by the trust.

He added that mushrooming squatter settlements in the vicinity of the area also depreciated the properties.

It is estimated that there are 3 850 houses in Palm Springs. All the houses are part of the SA Housing Trust's low-cost housing project.

The SA Housing Trust said it would be premature to comment on the matter at this stage as "sensitive" discussions were taking place between it and the civic organisation.

Tackling causes of red-lining

BIDAM 26/3/93 58

THE refusal by banks to invest in particular areas is a consequence of the downward spiral caused by the under-development of specific issues, says the National Housing Forum's Matthew Nell.

The downward spiral, evidenced by severe overcrowding, high crime and diminishing property values, is more than enough reason not to invest. But withholding funds will perpetuate the decline.

FHA Homes' John Weaver says a number of inner city projects are being assessed.

"Hopefully the upgrades will encourage further refurbishment and reverse the downward spiral of CBD areas. The key, however, lies in the transfer of ownership to residents."

Financing these initiatives remains a problem, particularly with the often unrealistic price expectations of owners.

But the bond boycott cannot be reduced simply to a political event. The Civic Association of Johannesburg's Cas Coovadia says that in many cases the boycott is the result of over-lending by institutions and individuals passing the affordability threshold.

There is a dire need for education on the contractual issues pertaining to bond finance. Many bondholders regard the institution as the owner of the property and a common reason for non-payment is: "I couldn't afford the rent."

Defective

Delivery of defective products is another major reason for boycott action. After the development has been completed, the mortgage lender is the only player left against which a dissatisfied customer can take corrective action.

Clearly, client and lender need to come together and address the situation. The recent progress in talks between Sanco and the Association of Mortgage Lenders is an encouraging start.

Assurer finds 80% HIV rise

LINDA ENSOR

CAPE TOWN — Southern Life had identified 348 HIV-positive applicants for life assurance, representing assurance cover of R36,3m, since it began testing in August 1990, GM Paul Truyens said yesterday.

Human immunodeficiency virus, or HIV, is the precursor to AIDS.

The rate of HIV infection was 1,01% of applicants for the six months to end-December 1992 — a "staggering" increase of 80% over the same period the previous year. Prior to July 1991, the total sum assured of HIV positive applicants who were denied life cover by Southern Life was R4,7m. This increased rapidly to R6,4m in the six months to end-December 1991, R10,3m to end-June 1992, and R14,9m in the six months to end-December 1992.

Truyens said infection was most prevalent in the 25 to 35-year-old age group where 1,2% of applicants tested HIV positive. "Infection rates show a marked decline after the age of 40 and only three Southern Life applicants over 47 have tested HIV positive. Female applicants have a higher HIV incidence than their male counterparts — 1,17% versus 0,8%."

He said Southern Life's firm stance on HIV testing appeared to have paid handsome dividends." (58)

He said life companies that adopted stringent HIV testing requirements for new policy applications protected new and existing policyholders against cross-subsidising infected clients in the future. Uninfected policyholders had the right to this protection and should not have to face rate increases or reduced payouts because of cross-subsidisation.

B/DA 26/3/93

Rabie battles to break even

LINDA ENSOR

CAPE TOWN — Property developer Rabie Investment Holdings barely broke even in the six months to end-December, with a 93% drop in earnings a share to 0,1c (1,4c).

The 40%-held, pre-built accommodation business Kwikspace Holdings which previously contributed to Rabie's operating income, had incurred losses of R160 000 and was sold for R6,5m to joint venture partner Murray & Roberts Suppliers & Services with effect from end-December. Excluding Kwikspace, Rabie's operating income would have been R951 000.

Had the sale been effective on July 1 1991 and the proceeds invested, Rabie's earnings would have been 174% higher.

Chairman John Rabie said the interest bill had been cut by 32% and the cash realised from Kwikspace's sale would further improve gearing and profitability. An extraordinary capital loss of R4,2m arose from the sale of the Kwikspace interest.

Rabie said the group's residential developments had traded well during the first quarter of this year. This, together with the available commercial and industrial opportunities, boded well for the future. However, the recently announced VAT increase would have a negative impact.

"Our portfolio of current projects, with development opportunities in the residential and commercial/retail sectors, constitute a sound base for improvement in earnings," Rabie said.

Claims against Estate Agents' Board down

BDAY 26/3/93 (58)

PETER GALLI

SO FAR this year 56 claims worth R951 637 have been lodged with the Estate Agents' Board for misappropriation of money held in trust by estate agents.

Board figures show R123 995 has been paid and, of the R789 237 pending, about R400 000 will be paid in the next week.

The claims are against 34 estate agents and are paid out of the board's fidelity fund, which stands at about R100m at present.

Last year, 574 claims worth R7,98m were lodged against 151 firms. Claims worth R3,33m were paid by the year-end, R2,53m is still pending and R2,12m was rejected.

While the average of claims lodged for the period is much lower at 19 a month compared with 48 a month last year, chairman Eskel Jawitz said, given present economic conditions, it was difficult to estimate how high the claims would eventually be.

The fidelity fund has traditionally been boosted by interest on deposits from home buyers and people who leased properties.

As the new code — which comes into effect on April 1 — now required the agent to inform them of their rights to interest on the money, Jawitz said the interest on the capital amount would hopefully grow faster than the rise in claims.

The latest edition of the industry newsletter, The Estate Agent, said an unfortunate spin-off from tightening trading conditions was an increase in the number of claims against estate agents marketing multi-unit developments.

Instead of retaining deposits, agents were prematurely releasing this money, without authority, to assist developers finish the project. Some of these deposits were then lost as the developer was liquidated.

The board was also concerned at the recent rise in the number of fraud cases involving the sale of building contracts among less privileged communities.

People posing as building contractors — and sometimes estate agents — have been fraudulently collecting deposits for houses to be built on land not belonging to them. Inevitably the so-called builder eventually absconds with the deposits.

CENTRECITY/CAPITAL 58

Dull but reliable

Centrecity Property Fund
Activities: *Holds a property portfolio concentrating in prime office and retail developments.*
Control: *Southern Life.*
Chairman: *S Pather.* FM 26/3/93
Capital structure: *163,5m units. Market capitalisation: R425m.*
Share market: *Price: 260c. Yields: 9,5% on dividend; n/a% on earnings; p:e ratio, 10,3; cover, n/a. 12-month high, 300c; low, 240c. Trading volume last quarter, 2,6m shares.*

Year to Dec 31	**'90**	**'91**	**'92**
Interest as % of total income	35	28	16
Total capital employed (Rm)	239,8	239,8	247,7
Distribution (c)	25,9	25,3	24,7
Distribution as % of cap employed	16,7	17,3	16,3

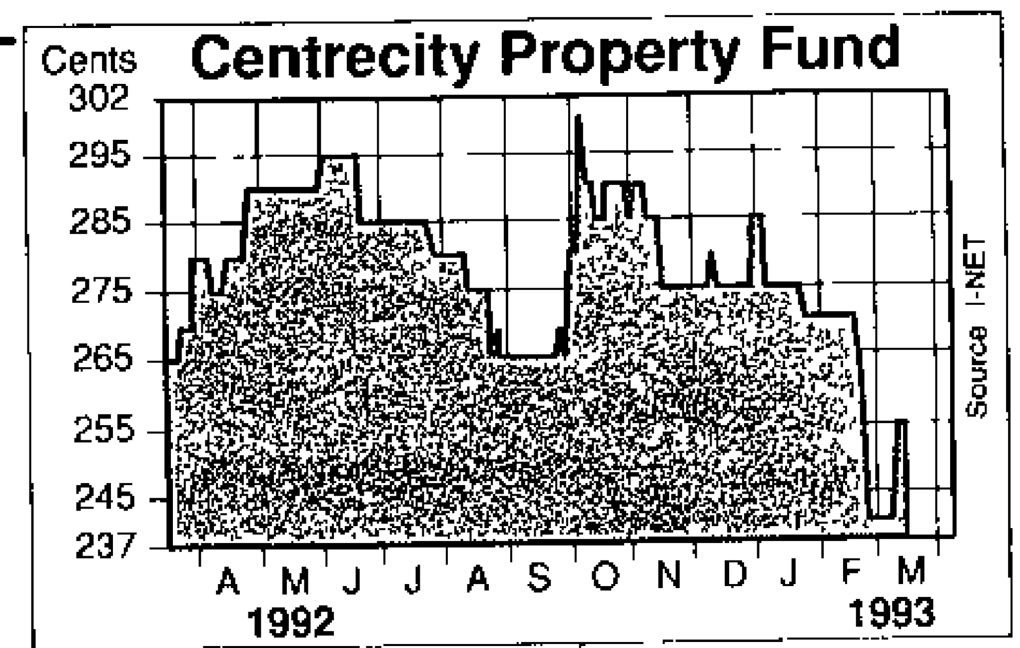
Capital Property Fund 58
Activities: *Invests in broad spread of industrial, warehouse, office, parking and retail buildings.*
Control: *SA Mutual.* FM 26/3/93
Chairman: *S Pather.*
Capital structure: *129,3m units Market capitalisation: R310m.*
Share market: *Price: 240c. Yields: 13,3% on dividend; n/a% on earnings; p:e ratio, 7,5; cover, n/a. 12-month high, 290c; low, 240c. Trading volume last quarter, 428 000 shares.*

Year to Dec 31	**'90**	**'91**	**'92**
Interest as % of total inc	17,6	22,8	17,0
Total capital employed (Rm)	177,1	266,0	266,9
Distribution (c)	29,99	32,11	31,8
Distrib as % of cap employed	15,6	13,7	15,4

Property funds are not the most exciting of investment vehicles. This is not to say they are not worthwhile, they are merely rather dull, especially in the circumstances of the present moribund property market

These two, Centrecity (Cenprop) and Capital, are closed-end and obliged by law to distribute all income earned each year. They have no borrowings; they are highly predictable. As such, they play an important role in the portfolios of many investors who need to be assured of reliability and constancy.

Cenprop has a premium rating relative to other property trusts. This derives largely from the quality of its buildings, which include the Mall in Rosebank, Johannesburg, and the NBS centre in Johannesburg CBD,



FM 26/3/93

which houses the Edgars flagship Cenprop has a neat, easily indentifiable portfolio of buildings considered prime quality.

One of Cenprop's buildings in Rosebank, JHI House, has recently been the subject of much attention by residents' groups, which allege contraventions of municipal building regulations. J H Isaacs CE Les Weil, whose company is responsible for providing management to Cenprop and Capital, says an investigation is under way but adds that any financial impact isn't likely to be material.

Capital, on the other hand, holds an industrial portfolio and concentrates on providing decentralised office and warehouse buildings. Capital's properties — there are about 90 in all — are widely spread. The vacancy level is about 7% and Weil says this is not high "particularly given the present state of the market."

58

Capital is considered by some analysts to be undervalued relative to its total asset base and may present an opportunity. *David Gleason*

FIRST NATIONAL BANK

FM 26/3/93

How serious?

58 [redacted]

Management of First National Bank is being required, under oath, to reveal whether information pertinent to creditors of liquidated KPL Etsa was available to FNB but not to creditors in general. Two senior general managers and one other official of FNB have been subpoenaed to give evidence to the Office for Serious Economic Offences (Oseo), arising from the liquidation of KPL.

FM 26/3/93

58 [redacted]

Creditors of KPL have claimed (*Economy* March 19) that the company was trading recklessly — possibly a Companies Act Section 424 offence — and that FNB might have been party to this. Attorney Hugh Eiser of Eiser & Kantor has stated that, on the instructions of the liquidator, a summons for the recovery of R28m will soon be served in connection with this allegation.

But Phillip Reynolds, the provisional liquidator, says he can only instruct summons to be issued after a further meeting of creditors who must give him, in turn, the necessary instructions. For that purpose, particulars of the claim have been drafted. He is not sure the sum involved will be R28m. "The amount depends on matters to be settled including disputes on several major KPL contracts."

Viv Bartlett, one of the FNB senior general managers involved, says the bank will not back down on the principle that it has the right to try to save a client in trouble: "Otherwise, there could be twice the number of liquidations we've been seeing."

No hope

Reckless trading is commonly defined as trading in circumstances where there is no hope of trading back to profit, combined with the concealment of facts which might affect a creditor's judgment about the extension of credit facilities.

Reckless trading charges are usually reviewed by the liquidators. Investigation with a view to any possible prosecution has conventionally been the responsibility of the SA Police commercial branch. Oseo was formed a year ago to handle big cases of white-collar fraud and its decision to become involved in the KPL liquidation, when the office admits to being short-staffed, raises some key issues.

The Investigation of Serious Economic Offences Act does not attempt to define what constitutes a "serious economic offence." That seems to be in the competence of the office's director. Unofficially, Oseo explains that the discretion is invoked when any allegation might involve the public interest. When a major institution, in this case FNB, is implicated even marginally, Oseo could deem investigation to be in the public interest. This would be compounded by the amount, R28m of creditors' money. But an amount of R10 000 or less might be a matter for Oseo's attention, if it represented a discrepancy in the accounts of a government department.

Oseo, apart from confirming that it has asked for evidence from the three officials, will not discuss the case. During the liquidation proceedings, there was a hearing held in terms of Section 417 of the Companies Act, which may not be reported.

Some sources close to the dispute say KPL, which was a longstanding client of FNB, traded at a loss and ran up a substantial overdraft with the bank. In an effort to rescue the situation, FNB undertook to subordinate enough of its overdraft to restore technical solvency, though this aspect was not finalised. Allegations of reckless trading flow from that position, though bank sources suggest that many details of the company's full situation, which might have caused the bank to act differently, were not available to the bank.

Creditors, on the other hand, claim they would not have extended credit had they known the facts which they allege were available to the bank. *Bryan Deans*

REPUBLIC OF SOUTH AFRICA — REPUBLIEK VAN SUID-AFRIKA

8 APR 1993

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BOARD NOTICE

BOARD NOTICE 33 OF 1993

FINANCIAL SERVICES BOARD 58

FINANCIAL SERVICES BOARD ACT, 1990
(Act No. 97 OF 1990)

AMENDMENT OF NOTICE OF LEVIES ON FINANCIAL INSTITUTIONS

The Financial Services Board referred to in section 2 of the Financial Services Board Act, 1990 (Act No. 97 of 1990), hereby under section 15A of the said Act amends the Notice referred to in the Schedule to the extent indicated therein.

By Order of the Financial Services Board.

D. A. MELAMET,
Chairman: Financial Services Board.

SCHEDULE

Definition

1. In this Schedule "the Notice" means the Notice of Levies on Financial Institutions published by Government Notice No. 694 of 28 March 1991, as amended by Government Notices Nos. 1284 of 7 June 1991 and 1105 of 16 April 1992, and Board Notice 323 of 1 October 1992.

Amendment of item 1 in Notice

2. Item 1 in the Notice is hereby amended by the substitution in subitem (1) for the expressions "R50", "R1,00" and "R20 000", wherever they occur, of the expressions "R75", "R1,35" and "R25 000", respectively.

Amendment of item 7 in Notice

3. Item 7 in the Notice is hereby amended by the substitution for the expression "R11 000" of the expression "R13 750".

RAADSKENNISGEWING

RAADSKENNISGEWING 33 VAN 1993

RAAD OP FINANSIËLE DIENSTE

WET OP DIE RAAD OP FINANSIËLE DIENSTE, 1990
(WET No. 97 VAN 1990)

WYSIGING VAN KENNISGEWING VAN HEFFINGS OP FINANSIËLE INSTELLINGS

Die Raad op Finansiële Dienste bedoel in artikel 2 van die Wet op die Raad op Finansiële Dienste, 1990 (Wet No. 97 van 1990), wysig hierby kragtens artikel 15A van genoemde Wet die Kennisgewing vermeld in die Bylae in die mate daarin aangedui.

Op las van die Raad op Finansiële Dienste.

D. A. MELAMET,
Voorsitter: Raad op Finansiële Dienste.

BYLAE

Omskrywing

1. In hierdie Bylae beteken "die Kennisgewing" die Kennisgewing van Heffings op Finansiële Instellings gepubliseer by Goewermentskennisgewing No. 694 van 28 Maart 1991, soos gewysig deur Goewermentskennisgewings Nos. 1284 van 7 Junie 1991 en 1105 van 16 April 1992, en Raadskennisgewing 323 van 1 Oktober 1992.

Wysiging van item 1 in Kennisgewing

2. Item 1 in die Kennisgewing word hierby gewysig deur in subitem (1) die uitdrukkings "R50", "R1,00" en "R20 000", oral waar dit voorkom, onderskeidelik deur die uitdrukkings "R75", "R1,35" en "R25 000" te vervang.

Wysiging van item 7 in Kennisgewing

3. Item 7 in die Kennisgewing word hierby gewysig deur die uitdrukking "R11 000" deur die uitdrukking "R13 750" te vervang.

Amendment of item 8 in Notice

4. Item 8 in the Notice is hereby amended by the substitution for the expression "R150" of the expression "R6 317".

Amendment of item 9 in Notice

5. Item 9 in the Notice is hereby amended by the substitution for the expression "R150" of the expression "R2 500".

Amendment of item 11 in Notice

6. Item 11 in the Notice is hereby amended—

(a) by the substitution in subitem (1) for the expressions "R7 568" and "R21 831" of the expressions "R9 480" and "R12 420", respectively; and

(b) by the substitution in subitem (2) for the expression "R6 875" of the expression "R7 906".

Wysiging van item 8 in Kennisgewing

4. Item 8 in die Kennisgewing word hierby gewysig deur die uitdrukking "R150" deur die uitdrukking "R6 317" te vervang.

Wysiging van item 9 in Kennisgewing

5. Item 9 in die Kennisgewing word hierby gewysig deur die uitdrukking "R150" deur die uitdrukking "R2 500" te vervang.

Wysiging van item 11 in Kennisgewing

6. Item 11 in die Kennisgewing word hierby gewysig—

(a) deur in subitem (1) die uitdrukkings "R7 568" en "R21 831" deur onderskeidelik die uitdrukkings "R9 480" en "R12 420" te vervang; en

(b) deur in subitem (2) die uitdrukking "R6 875" deur die uitdrukking "R7 906" te vervang.

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14684—1

BOND MARKET [redacted]

FM 26/3/93

Deriving support

58

Derivative instruments are playing an increasingly important role in stimulating trade in underlying instruments on the bond market.

While a bond issue's size is important in determining its popularity (level of trade), the range of underlying derivative products, particularly options, linked to the bond is becoming more significant.

The more derivative instruments that are linked to a bond, the greater the trade levels of the underlying instrument. This is because a transaction occurs in the underlying stock each time an option is exercised (where an option-holder chooses to exercise a put or call option, the other party has to buy or sell the underlying paper). cont →

ECONOMY & FINANCE

FM 26/3/93

The RSA 150 and Eskom 168 stocks have a wide range of derivative instruments linked to their bonds, which helps to explain their high levels of trade. The RSA 153's derivative market is less developed. 58

However, trade in the domestic bond market is dominated by sheer size — that of the RSA 150 with around R32bn in issue. Next issue in size is of E168 paper (roughly R16bn), the RSA147 (R14,8bn) and the RSA153 (R22bn). In February, around R13,7bn of the RSA 150 was traded on the JSE, which reflects about 30% of total market trade, according to Simpson McKie's Marilyn Visser. [redacted]

The bigger the bond issue, the more players will be attracted to the paper in the knowledge there will be many other buyers and sellers. Also, in the bigger issues, the issuer makes a market in the paper, which assures traders there will always be a player trading in the stock. Eskom and the Reserve Bank are significant makers in their stocks.

But, despite the Eskom 168 issue being smaller than the RSA 153 issue, the 168's February turnover on the JSE was around R8,3bn and the RSA 153's R5bn.

A bond's maturity also determines its popularity because, for mathematical reasons, long bonds are more attractive to hold (assuming the investor reads interest rate movements correctly). Mathematically, shifts in the capital value of these bonds are greater, given any movement in rates. The RSA 150 expires in 2005, Eskom's 168 in 2008, the RSA 147 in 2000 and the RSA 153 in 2010.

Considering their size, term and linked derivatives, these four stocks, with February trade on the JSE worth almost R44bn, dominated all other stocks. JSE trade in the other six most active stocks totalled less than R12bn last month. ■

First community bank on way (58)

SOUTH Africa's first community bank is to be launched. Sowetan 26/3/93

The executive director of the Community Banking Project, Mr Cas Coovadia, says financial negotiations are at a crucial stage and "when the time is ripe the necessary statement will be issued."

Talks with formal banks were aimed at determining the role these institutions would play once the National Community Bank had been launched. Launch details would be issued later.

Insurers' HIV screening pays off

Star 26/3/93

Finance Staff (58)

Life assurance companies who have adopted stringent HIV testing requirements for new policy applications are protecting policyholders against cross-subsidising infected clients in the future, says Paul Truyens, general manager of Southern Life.

Southern Life reports that since the company first introduced testing in August 1990 it has identified 348 HIV positive applicants, representing total life assurance cover of R36,3 million.

In all these cases, life cover was declined.

The rate of HIV infection was 1,01 percent of all applicants for the six months to December 1992, a staggering 80 percent increase over the corresponding period in the previous year.

"Southern Life's firm stance on HIV testing appears to have paid handsome dividends," says Truyens. "By declining life cover to infected people, we are protecting the interests of our current policyholders."

Before July 1991 the total sums assured of HIV positive applicants who were declined life assurance by Southern Life was R4,7 million.

Increasing

This figure has increased rapidly, rising from R6,4 million (July to December 1991) to R10,3 million (January to June 1992) to R14,9 million (July to December 1992).

Infection is most prevalent in the 25 to 35 age group, where 1,2 percent of applicants tested are HIV positive.

"Infection rates show a marked decline after the age of 40, and only three Southern Life Applicants over 47 have tested HIV positive," Truyens says.

FOCUS: *Forged bank notes — it seems consumers must pay unless it's ...*

Back to the barter system

W/Mail 26/3-1/4/93.

(58)

CRITICAL CONSUMER

Pat Sidley's weekly column on controversial issues

BEFORE *Weekly Mail* photographic editor Kevin Carter travelled to the Sudan on assignment this month, he ordered both travellers' cheques and hard currency in dollars from the Simmonds Street branch of the United Bank.

When Carter arrived at Nairobi airport, he gave a $100 note to a cashier, who placed it in a "dollar verifier" machine.

The machine rejected the note as forged and Carter was detained by the airport authorities for attempting to "defraud the state".

He managed — with some difficulty — to talk his way out of trouble. He was lucky. He could quite easily have spent a few years in a Kenyan jail.

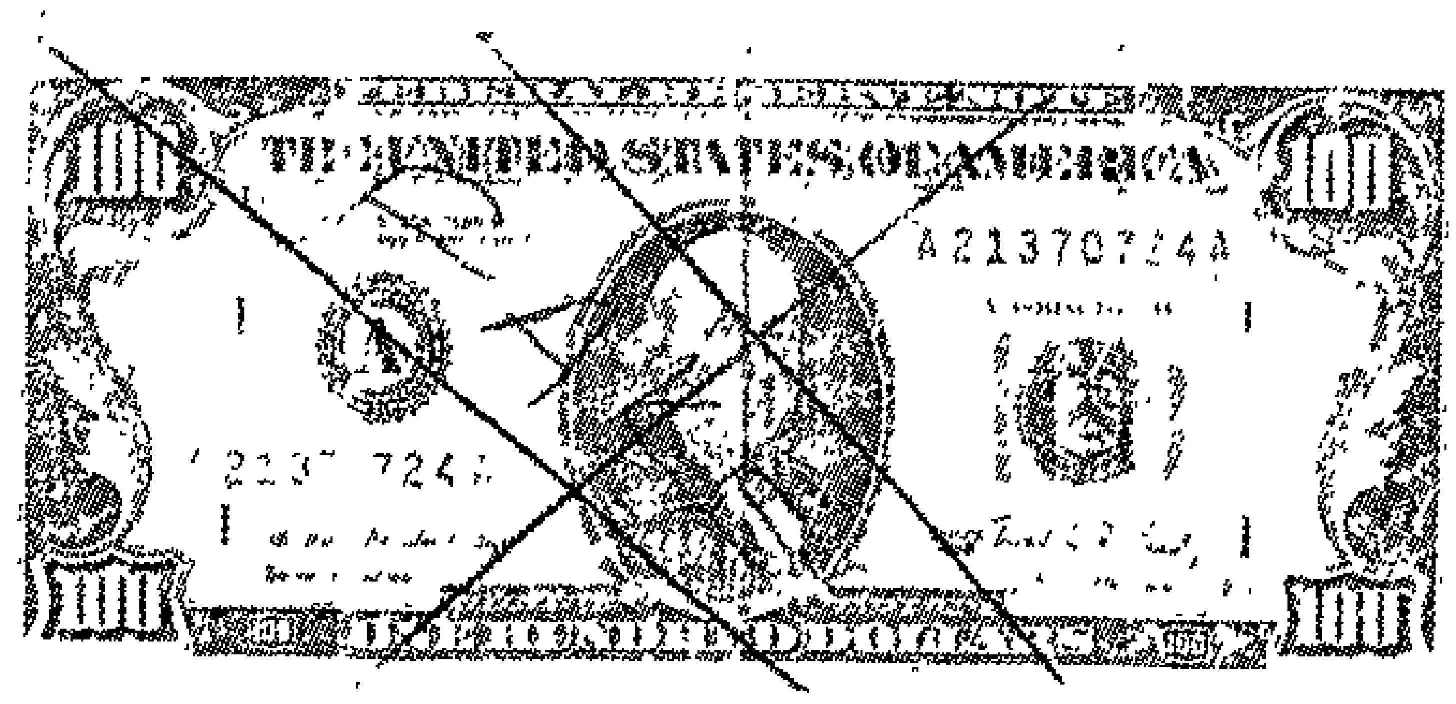
On Carter's return, he went to his bank to demand compensation. Various officials told him the problem was his, not the bank's.

So Carter turned to the Critical Consumer, who took the matter to the top of Absa, whose senior managers agreed to refund Carter. But they stressed that the position of most banks is to take no responsibility for forged currency. They will give some individual complaints a second look, but only if the complaint is from a valued customer.

This Critical Consumer checked the position out with another bank, asking the foreign exchange teller what would happen if that bank dispensed a forged note, either local or foreign. The teller was not told he was speaking for the record, and his reponses were similar in essence to those at Absa. The problem would be mine. Even if I had noted the numbers on the dollar or R50 notes at the bank, they would disclaim responsibility.

From the banks' point of view, the issue is: How can the consumer prove that the notes were given out by the bank?

It's all a question of consumer philosophies. In this country, the philosophy is "let the buyer beware". In many other countries, which perhaps have product liability built into their consumer laws, manufacturers and other commercial enterprises have to ensure that the product or service they sell does no harm to consumers.



Forged $100 note ... but the bank's not interested

Absa were eloquent in explaining the problem, which is admittedly severe. General manager Kevin Gibb and media relations manager Gavin Webster went as far as to call in the bank's forgery expert to show this Critical Consumer a collection of forged notes, many of which could not be told from the real thing by consumers. The notes had all been passed to the bank by consumers and represent a minute chip off the tip of the iceberg. But for this, the bank — unlike consumers — is ultimately insured.

It emerged in the meeting that Absa has sent a circular to all its branches stating that they should not give compensatory banknotes when customers bring in forged notes, even if they claim the note was given by the bank.

Gibb and Webster said each issue is treated on its merits. If the customer has been valued and is known to the bank, and has taken other appropriate measures, like gone to the police and laid charges, the bank may view the problem more sympathetically. Despite this possibility, it is clear the position stated in the circular is the policy at most banks, including Absa.

Most notes that come into the bank when they are bought in bulk or through other channels are checked to see if they are forgeries. But the system is far from foolproof. Mostly, the notes are checked by hand and eye and not by electronic detection systems of the kind used at Nairobi Airport. At month end or other times of great banking congestion, millions of notes come into the bank through the tellers and inevitably these cannot all be checked before they, too, are given out to customers. But then why should an innocent customer carry that can?

What if Finance Minister Derek Keys asked the financial institutions to come up with a solution which would not leave the consumers out of pocket; what would Absa propose? Gibb said the question made certain assumptions, and he failed to come up with any answers.

But whatever the assumptions, it is the question most consumers would ask. And they would suspect that if it were the bank that was the end-point victim, the banks would find a way of addressing the problem.

The government, through the Reserve Bank, allows only certain types of institutions to deal in currency, either local or foreign. In the opinion of this column, both the government and the insitutions then bear the responsibility to see to it that consumers do not lose out.

In the absence of any suggestions from the banks, which are protected by insurance, their own edict and their power over consumers, perhaps legislation is the only way around this: some system, perhaps, in which banks are obliged to record the numbers of notes they give out and keep a record of those numbers for a set amount of time.

Bank policy is blunt enough, even on this point: even if the consumer could prove, by citing numbers, that the bank gave the note, the bank would not compensate. Perhaps it is time for consumers to take legal action against their banks in the civil courts to establish their rights.

Meanwhile, a joking remark by Absa's Webster may hold some answers: a return to a system whereby consumers bring their cows to town and trade them for pots or pans may be the only way around currency forgery.

Star 27/3/93

Race to beat VAT increase

DAVID CANNING reports on the ways in which the higher VAT rate will be applied and impact on everything from property transactions and insurance to hotel bookings.

FINANCIAL institutions could experience a lift over the next two weeks as buyers of residential property from registered vendors (mainly developers and builders of new units) rush to beat the 14 percent VAT deadline on April 7.

According to Peter Maxwell, a tax specialist with Deloitte and Touche, transitional rules published by Inland Revenue regarding the VAT change to 14 percent have a number of implications for business and consumers.

Condemned

Consumers need to be aware of these rules to avoid any risk of being ripped off, while business people must take care they implement the relevant regulations properly.

The rules allow "concessions" to residential property not accorded to non-residential property.

Registered sellers of residential property (which includes residential land and contracts for the construction of dwellings) need account for VAT at only 10 percent if the sale is concluded on a date prior to April 7.

However, sellers of non-residential property need to pay VAT as at the date of registration of transfer of the property.

In effect, this condemns any of the deals now being concluded to a 14 percent tax rate.

Maxwell feels many people "on the edge" of making deals for residential property will be pushed into making up their minds before April 7 – thus "saving" 4 percent and creating more business than usual for the financial institutions.

The changes with regard to short-term insurance are confusing in some respects, and consumers are advised to read the policy wording very carefully

For example, an annual short-term insurance contract falling due for renewal before April 7 incurs VAT at

Housing likely to lead way

58

only 10 percent, even though it may be paid in equal monthly instalments through to March 1994.

However, a policy based on the notion of delivery of the service over 12 months would be levied differently. The portion of service levied to April 7 1993 would be levied at 10 percent and the portion delivered thereafter at 14 percent.

Meanwhile, prior bookings of hotel and other accommodation could also cause confusion.

Maxwell says the rules are clear – there are no VAT advantages to be obtained by early payments, or from prior payments of deposits.

The relevant date for VAT purposes – and this is a thread that runs generally through the transitional rules – is that VAT is applied "when the goods are delivered or services provided".

In other words, a holidaymaker may now pay a deposit on a hotel booking for July. In July the hotelier will add 14 percent to the bill, and take off deposit already payed.

Turning to shopping, he says consumers may find it difficult to check whether shops are "playing the game" by charging the 14 percent VAT rate only from April 7, particularly where prices are "inclusive".

In theory shopkeepers should keep to changeover schedule, marking up only on April 7. In practice, for practical reasons some shops may include two price tags, one with VAT at 10 percent and the other at 14 percent.

When in doubt, shoppers should query the way prices are made up.

Invoice changes

Maxwell says the VAT changes will have far-reaching effects on vendors, particularly those who supply non-vendors.

"Besides resulting in price increases, it will mean system adjustments, changes to documentation, cash flow implications and planning opportunities. In general, invoices have to be amended to reflect the increased rate of VAT.

"Inland Revenue will no doubt allow vendors simply to use rubber stamps, stickers or similar measures to alter the old VAT rate on existing stocks of invoices."

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Banks storm into the mortgage market

Star 27/3/93 (58) (IIA)

FINANCE STAFF

THE competition in the home loans market is hotting up, and so far the banks have made vast inroads into the market share previously held by building societies. First National Bank and Standard Bank, in particular, are growing their market share at a rapid rate, mainly at the expense of ABSA, which has experienced a drop of almost 10 percent in its total market share.

According to a study conducted by Standard Bank's economic division, demand for mortgage finance remained strong last year, although overall growth in private sector credit demand was at its lowest in five years.

Analysing 1992 bank returns, Standard Bank reports that demand for mortgage finance was up by 18 percent last year on 1991, while total credit demand increased by only 3 percent.

Recession

"This is in stark contrast to the sharp decline in property market turnover and the fall in housing plans passed and average house prices," says Standard.

The bank ascribes this trend to three factors, each reflecting the effects of the recession on the demand for mortgage finance:

- More individuals are consolidating personal debts into their mortgages as mortgage finance is currently the cheapest form of consumer credit.
- Individuals increase their mortgage facilities to meet other expenses because other credit lines are not available.
- Banks are competing more intensely for lower-risk credit business, including home loan advances.

Standard does, however, expect the demand for mortgage credit to be subdued this year for a number of reasons, including a cut in the bond rate of only one percentage point, compared with four percentage points over the past 12 months, and a real increase in house prices as the economy picks up and builders try to improve their slender profit margins.

The figures also show that Standard Bank and FNB continued to make inroads into the home loan market.

Between the fourth quarters of 1991 and 1992, FNB raised its market share from 9,5 to 10,8 percent and Standard from 13,3 to 16,5 percent.

Wednesday March 24 quotations for unit trusts:

General Equity Funds:

ABSA:	142,55	133,37	5,54
BOE Growth	156,70	146,41	3,46
Community Growth Fund	111,47	105,29	na
CU Growth	120,43	112,44	4,22
Fedgro	127,22	118,79	4,83
Guardbank Growth	2543,01	2367,33	4,74
IGI Life:	130,34	121,97	3,52
Metfund	194,37	180,54	4,24
Metlife	116,74	109,05	6,42
Momentum	250,59	234,75	4,23
NBS: Hallmark	947,34	894,79	5,16
Old Mutual Investors	2601,83	2424,78	3,69
Sage	2388,57	2229,41	4,06
Sanlam	1640,67	1537,57	3,37
Sanlam Index	1233,36	1155,58	3,92
Sanlam Dividend	457,90	429,91	4,68
Southern	205,09	192,11	3,95
Standard	1184,02	1112,47	6,98
Syfrets Growth	298,00	279,15	4,40
Syfrets Trustee	117,73	110,36	4,50
UAL	2080,07	1953,26	5,17

Specialist Equity Funds:

Not available at time of going to press

Potential High Growth Unit Trust for Old Mutual

SOUTH 27/3 - 31/3/93.

58

Old Mutual Unit Trusts is launching a new potentially high performance general equity fund, which will be aggressively managed.

Old Mutual Growth Fund, which begins trading on April 2, will focus on providing maximum performance through active liquidity and investment management. The fund manager is Arnold Shapiro.

Old Mutual Unit Trusts' manager Selwyn Feldman predicts a strong inflow into the new fund."General equity funds have traditionally provided the best returns on the JSE and this new flexible fund will have the additional advantage of being actively managed for maximum returns.

"One of its key advantages is that it will be able to accumulate meaningful stakes in smaller and medium sized companies with impressive potential, while the fund manager will actively manage liquidity. The investment mix will be continually ~~altered~~ in the light of expected market conditions with the fund manager continually seeking tactical and strategic opportunities, especially among the lesser known names on the JSE. In short the Old Mutual growth fund will attract investors who wish to entrust the Old Mutual investment team with their complete discretion in growing their wealth."

To increase the attractiveness of the new fund still further, the management company is offering a 40% discount on the 5 percent initial charge, on all new investment during the first month.

The Growth Fund is easily affordable, with the minimum monthly of R50 and the lump sum minimum of R500. The management fee is 0,7% per year with distributions payable in August and February.

Old Mutual already attracts some 42% of investments in South Africa's Unit Trust industry with total funds under management of more than R3,5 billion.

The new fund will bring the number of Old Mutual unit trusts to seven — well ahead of competitors — and Old Mutual now offers a wide spread of funds with varying risk and performance profiles.

OLD MUTUAL UNIT TRUSTS

Helping you make the most of the stock exchange

POSITIONING OF FUNDS

LOWER RISK	MEDIUM RISK	HIGHER RISK
INCOME	INVESTORS GROWTH TOP CO	INDUSTRIAL MINING GOLD

Home is where the heart is

C I Press

28/3/93

OWNING your own home is probably the most important decision you will ever make.

Home ownership ensures you have an asset which increases each year in value and makes it possible to borrow money against the security of your house to finance, perhaps, an additional room or even education for your children.

It also means you have peace of mind in that as you are not paying rent, and the landlord cannot increase the rental on your house each year.

However, many homeowners ask how they can pay off their home loan sooner than the 20-year period, which is the normal repayment term offered by financial institutions financing home loans.

Homeowners are horrified that over a 20 year period, having paid correct monthly instalments each month, they have paid approximately three times the original home loan amount!

Paying a little bit extra each month over and above your home loan instalment, will result in you not only paying your home loan off a lot sooner than the 20-year period, but will also save you a large amount of money.

Assume a home owner has a home loan for R24 000, with the interest rate at 14 percent resulting in a monthly instalment of R300 a month. By regularly paying correct monthly instalments of R300 a month, the home loan will be repaid in approximataely 20 years and the total amount paid for the R24 000 home loan will be approximately R72 000! As one can see, the interest portion over the 20-year period is to R48 000.

Holiday

If this same homeowner had paid R330 instead of R300, he would have paid his home loan in only 13 years instead of the full 20-year period, resulting in a saving of approximately R20 520.

It is possible to pay your home loan off very quickly and save a large amount of money.

Irrespective of whether you pay R30 or R300 extra on your home loan each month, the financial benefits to the homeowner are considerable. Also, by being in advance on your home loan repayments gives you peace of mind if unexpected expenses suddenly occur.

Another way to reduce monthly bond interest payments is an Accessbond. Standard Bank was the first financial institution to introduce Accessbond. It is a special facility which enables clients to invest surplus money into their home loan account. By using this facility, you save on monthly interest and pay off your bond faster. Should you need money urgently you may draw from your Accessbond at R1 000 a time. Accessbond can be used for home improvements or even for a holiday.

A house is not only an asset, it also represents security, warmth, comfort and acceptance into the community where you live. It is the dream of all of us to own our own house, but most of all, to have it fully paid up. Why not start now and commit yourself to paying that extra amount each month on your home loan?

of protest.

Pay R25 extra and save R30 000 on your bond

S1 Times (Cape Metro) 28/3/93

I DON'T suppose you've ever worked out exactly how much you will actually pay on your bond over its 20 years. Well, I've done it for you — and I hope you're sitting down because you're in for a shock.

If you have a bond of R100 000, and that's not a large one these days, you will pay back more than three times that amount.

At an interest rate of 16,75 percent your 240 monthly bond payments will amount to R347 476,80, of which R247 476,80 is interest. In other words almost a quarter of a million rand paid to the bank or building society to swell their profits.

But there is a way to bring that huge sum down.

Pay an extra R25 a month — which will make your payment R1 472,82 instead of R1 447,82 — and you'll save a massive R33 766,14 over the life of your bond. And it will be paid off in 17 years and nine months instead of 20 years.

Put in an additional R50 a month — about what a family night at the cinema costs — and the saving comes to R56 899,72. Your monthly payment will still only be R1 497,82. But the millstone round your neck will be removed in 16 years and two months.

Find yourself an additional R200 a month — and for that you may have to make a few sacrifices such as cutting down on eating out or not buying that new outfit — and the rewards are really great.

You would save a whopping R125 021,10 in interest and your bond would be cleared in almost half its normal length of time — 11 years and three months.

Calculations

These precise figures don't apply to every home-buyer because bond sizes differ. To find out exactly what you can save, pop down to your bank or building society and ask them to make the calculations for you.

There are other ways to keep your total bond payment down. At the Standard Bank (which kindly did these calculations for me), you could, on a R100 000 bond, save R2 453,46 over 20 years just by paying your bond two days earlier each month. Pay it 15 days earlier and the saving jumps to R17 386,08.

Another scheme is to transfer money you have temporarily (perhaps cash you've saved to pay the taxman at year end) into your bond account for a short while. Put in R5 000 for six months and you'll save R467,54 in interest. Leave the same amount there for a year and the saving is R904,86.

Remember, even if the wolf is at the door, don't ever extend your bond to a 25 or 30-year period. You will pay hundreds of thousands of rands extra and your payment will be just a few rands less a month.

To make really big savings you must start paying extra right from the word go. So, if you're thinking of buying a house now, make sure your bond repayment is low enough to afford a bit extra each month.

City Press
PROPERTY

C/Press

BONDS: The pros and cons

28/3/93 (58)

By NOMVULA KHALO

RENOVATING, extending or just improving your house? To get a bond or not is the question.

City Press spoke to two enthusiastic homeowners about the pros and cons of raising a loan to improve the property.

A resident of Pimville Zone 5 in Soweto, Dora Makoti does not have a bond. She said: "I have never believed in a loan, I always told myself that doing it from the pocket is better. I have never come across a person who has finished paying their bond. Everybody seems to owe until they die."

Makoti said before moving to Pimville she stayed at Naledi Extention and thought of moving to a quieter place.

Privacy

Her husband bought a site in Pimville and they started building their own home.

They then sold the house – at a profit – and moved to the new one which was more spacious.

Makoti said: "I believe in bigger rooms instead of small and over-decorated rooms. Another thing that made us move is that we have three children, and they too need their privacy. I could not see myself sharing a bathroom with them."

Makoti's house is furnished expensively and is beautifully decorated.

"The recipe for a beautiful home is patience," said Makoti

Makoti's home is easy to maintain. The bedroom walls are covered with wall paper and she never needs to paint.

The dining-room walls are face brick, while the kitchen and two bathrooms are tiled from top to bottom.

Makoti's advice to people who would like to build houses or buy them is not to apply for a loan.

"Save your money until such time that you have enough money to buy it," she said.

Nontando Simelani has been staying in a four-roomed house in Meadowlands since 1956.

"I had only one problem – no money to extend it," she said.

Simelane has three grown-up boys who could no longer sleep in the diningroom. That is why she opted for a loan and had the house built within six months by a contractor.

She said paying a bond has its own advantages.

Making the house a 'home' can be easy

"It is a matter of sacrifice, and juggling some bills around. I do not feel it much, because my loan paid my contractor who did everything in the house – including carpeting and tiling.

"The only thing that makes me angry about paying a bond is that when you have skipped a month your arrears become impossibly high," she said.

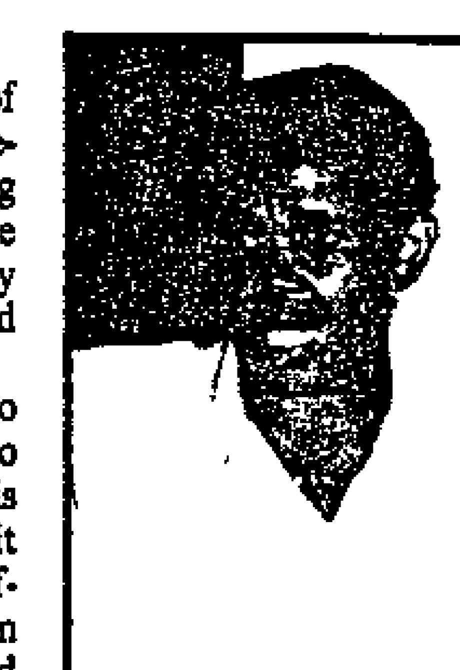
A mortgage bond, she said, is a lifetime commitment. Some weeks you have to live on cabbage to meet payments.

She has been paying her bond for three years and has got used to it.

"I enjoy entertaining friends so I made sure that space was left for a garden," she said.

Penny McAlpine of Buildex Home Improvement said: "Improving your home increases the value of your property and it makes you proud of it."

McAlpine's advice to people who would like to improve their homes is that they should visit home improvement offices where they can gather lots of ideas and choose from the wide range of building materials.



PAYING OUT ... Nontando Simelane took out a loan.

S/Times (Buss) 28/3/93

Absa to buy in Frankfurt

ABSA is close to buying a bank in Frankfurt, Germany, to strengthen its European influence.

A source tells Business Times that although Absa has a representative office in Germany, it plans to increase its influence in this centre. The company, however, would not comment on any plans to expand its operations overseas.

Absa already has an office in Frankfurt, but it is believed its presence will be enhanced by the purchase of a small bank. Absa recently consolidated its TrustBank and Volkskas Bank activities in London and also has a subsidiary in Hong Kong.

Lawyers' fidelity fund won't pay out

S Times 28/3/93 (58)

By CARMEL RICKARD

THE multi-million rand lawyers' Fidelity Fund, intended to guarantee the safety of public money held in attorneys' trust accounts, does not always live up to expectations.

Continuing problems experienced by Durban businessman Bernard Lancaster illustrate the shortcomings of the fund and the need for the law to be changed.

Under the Attorneys Act, the fund is used to reimburse clients who put their money in a lawyer's trust account, but lose their money because the attorney steals it.

The law says quite plainly that the fund will give money back in case of "theft". As the law stands, it does not cover losses because of malpractice or negligence.

When he sold his Johannesburg home in May last year, Mr Lancaster arranged for Transvaal attorney Frank Meaker to see to the registration and hold the funds until transfer had taken place.

However, when he tried to get his money back after transfer, Mr Meaker was unable to deliver. He told Mr Lancaster he had paid out a large cheque from his trust fund on the strength of an incoming cheque, which was later returned by the bank.

Expensive, year-long legal correspondence has so far proved fruitless. Since he did not get the money from his previous house, Mr Lancaster had to take out a much larger bond than he intended, and must make greater monthly repayments than he can afford.

Mr Lancaster said that early on in the course of efforts to get his money back, his lawyers were informed by the Fidelity Fund that they would not pay him out because "theft" had not been involved.

The Transvaal Law Society also appeared unable to help Mr Lancaster. He even took the matter to the Supreme Court. The judge ordered Mr Meaker to pay Mr Lancaster's claim and referred the matter back to the Transvaal Law Society, which has begun disciplinary proceedings against Mr Meaker.

Now the Fidelity Fund has told Mr Lancaster he must begin steps to have Mr Meaker's estate sequestrated. A letter from the fund two days ago said that once Mr Lancaster had gone through this step the fund would consider reimbursing him the money which had been "stolen".

For Mr Lancaster, this is still unsatisfactory. It would involve further delays and costs, and at the end of the process there is no guarantee the fund would rule the money had been "stolen" and pay up.

Lawyers say Mr Lancaster's case illustrates the need for a change in the law. If guarantees to the public are to mean anything, the law must ensure the safety of a client's money held in trust, even if it is not stolen in the strict definition of the word.

It must also ensure a client is not out of pocket trying to get the money back. In Mr Lancaster's case, a fund official could not give a guarantee.

He said the fund would "in all probability consider reimbursing Mr Lancaster all the legal costs he had incurred" since he first started trying to get his money back a year ago.

Views

However, he stressed the fund would only pay should the board determine that the money had indeed been "stolen'.

Mr Lancaster said he did not know how much longer he could continue fighting the matter.

"I have run out of money and there are times I feel like giving up. My views on the legal profession in this country are, however, unprintable."

Ensure there ar: misunderstandi:

S Times (Cape Metro) 28/3/93. (S:

Sunday Times SURVEY

Short-term insurance is a subject which affects most South Africans. SEAN VAN ZYL, FRED ROFFEY and GWEN GILL look at the issues

INSURANCE is defined by the Oxford dictionary as "anything done as a safeguard against loss or failure".

Along these lines, I recall having seen a cartoon in an insurance journal which depicted an insurance client discussing a claim with his agent/broker. The insurance representative was explaining to the insured party why his claim could not be met due to certain legal technicalities. The client asked the insurance representative why he had been paying for insurance if he could not collect against his loss. "For peace of mind".

Although the majority of claims are met by insurance companies, the public's misunderstanding of what they are buying and the conditions contained in the contract often lead to claims being refuted or exceedingly high premiums being paid for a product which does not suit the insured's needs.

The short-term insurance companies are often accused of hiding behind legal jargon in insurance contracts. As a result, products which appear to offer the same benefits can turn out to be "comparing apples and oranges", according to Rod Pearson, managing director, technical division, of MIB Insurance Brokers.

Minor

A seemingly "cheap" comprehensive cover policy will not necessarily provide the same extensive cover as a similar policy underwritten by a different insurance company. Mr Pearson points out that the first product is not inferior but, on a value for money basis, provides cover for a certain need. "People need to be aware of their risks and what they are buying, price is not the only yardstick to be considered when taking out a policy."

He says insurance should be used to ensure against major, unexpected costs. Some of the obvious risk areas which should be covered include fire, theft and third-party liability.

He adds that people should consider self-ensuring minor expenses to keep premium rates down. This can be done by including higher excesses or deductibles in policies. Insurance companies require an excess on policies which is paid by the insured in the event of a claim. The higher the excess, the lower the premium rate will be on the policy.

The policyholder can also reduce his premiums by excluding certain risks, "for instance, additional cover on low value items such as pool-cleaning equipment, all-risks cover on items that are not removed from the house".

Furthermore, some insurers provide clients with a "no-claim bonus" — effectively a discount on premiums — as an incentive against claiming. If a claim is submitted, the policyholder normally lose his no-claim bonus which will push up his premium rate. Policyholders should therefore establish that the cost of a claim will exceed his excess before claiming.

Mr Pearson says the wisest move for the individual would be to approach a reputable insurance broker. "The broker would be aware of what products are available in the market relative to the client's needs. He could also recommend ways in which the insured could reduce his premium costs."

As a general rule, Mr Pearson says, people should look at comprehensive cover on house-owner and household content insurance.

On the motor side, he recommends that third-party, fire and theft cover be taken on older vehicles. This would cover the major risks and is considerably cheaper than comprehensive insurance.

Unrealistic

Mr Pearson adds that insurance companies also offer discounts on linked household and motor cover. "It is generally cheaper to keep your insurance with one insurance company."

Heritage Financial Holdings CE Ronald Gordon points out that people often end up paying more insurance because of extremely high values being attached to the property insured. He adds that the insurance company will only pay the market value of a loss. "As a result, a person attaching an unrealistically high value to his property will not be paid the equivalent amount."

Compuquote MD David Hersch also points out the need to "shop around" as rates vary considerably between insurance companies. Compuquote provides brokers and private subscribers with regularly updated electronic data on industry rates.

Mr Hersch says motor comprehensive rates can vary from the bottom end of the market up to 130 percent, depending on the company concerned.

He adds that tailored insurance "schemes" are also becoming popular. A number of the larger brokerages have designed products — underwritten by both local and international underwriters — to suit particular client needs.

Cheaper

Premiums on these schemes can be considerably cheaper than the standard products available from the insurance companies. Classes of risk cov-

Watchdog protects the insured

SI Times (Cape Metro) 28/3/93 (58)

EFFICIENT claims management is a vital component in the business of insurance, short-term insurance ombudsman Bill Schreiner believes.

He says a successful insurance company relies not only on bringing in new business but also on "good insurance relations". This is achieved by prompt claims settlement and not repudiating claims on technical legalities.

The ombudsman's office was created by the short-term insurance industry in 1989 following the collapse of the short-term business of AA Mutual when "it was felt that an ombudsman was needed to protect and assist the public".

Although the ombudsman's authority is restricted to recommendations, Schreiner says a large number of cases taken up with the industry are settled in accordance with his suggestions.

The Ombudsman Bureau in London found in favour of the insured in roughly 30 percent of cases undertaken last year. Schreiner says the ratio in SA is much lower, but points out that authentic grievances are nominal. Most complaints, according to Schreiner, are merely "misunderstandings" on the part of the insured.

Ombudsman Bill Schreiner ... 'good insurance relations are a must for success'

He adds that many of the problems encountered involve confusion regarding sums insured and replacement values; lost cover resulting from changed bank accounts and failure of premium debit orders; and conditions and clauses contained in policies.

To facilitate a smoother relationship Schreiner recommends the following:

- Answer all questions in an application precisely.
- Confirm that the answers contained in an application prepared by a broker are correct.
- Realise that, in most policies, the "sum insured" is not the amount received in the event of a loss. The insurance company will only pay the "replacement value".
- Ensure that the sum insured is adjusted regularly in accordance with inflation.
- When submitting a claim, see that it is lodged within the time stipulated in the policy;
- The insurance company should be notified of any change in address.
- Vehicle defects can result in a policy being rejected. See that vehicle parts are in good condition.
- Some insurers require that a vehicle be inspected by an assessor before cover is effected — have this done immediately, as in all likelihood, the vehicle will be uninsured regardless of whether a policy has been approved;
- Also ensure that security systems are installed in your house immediately if these are policy requirement conditions.

Schreiner's office was established by the SA Insurance Association and the SA Insurance Brokers' Association. As a result, he can only handle personal insurance-related claims against members of these associations — unless a non-member is prepared to agree to his acting on their behalf.

Public awareness of Schreiner's office has increased considerably since its inception. In 1992, 599 new cases were handled compared with the previous year's 347.

Get adjustors to help with claims for losses

S Times (Cape metro) (S8)

28/3/93

BEING burgled — or suffering any type of loss — is bad enough. But then householders have another hurdle to jump — getting their money from a reluctant insurance company.

In the past there was no option for the often inexperienced consumer but to battle through to a settlement on their own.

Recently help has been available from public loss adjustors who do for the client what insurance company loss adjustors have long been doing for big insurance houses.

Roodepoort's Ben Groenewald crossed the floor from insurance company to client six months ago after a 35-year career in insurance.

Ben says he changed sides after seeing hundreds of insured people, during his work as a company loss adjustor, who needed help.

"People fill in an application form — or half the time it's filled in for him by the agent or broker selling the insurance. He signs in good faith.

"But don't forget that agents earn their daily bread from the insurance companies and that's whose side they're on.

"For instance, the new client will be asked how much the contents of his home is worth. The client probably has no clear idea and vaguely estimates, say, R60 000. Little does he know, when it comes to making a claim, the company loss adjustor could say he's under-insured and only pay out a percentage of the claim.

"Another question that's asked is: 'Have you had previous losses?' The client immediately translates that as, "Have you ever claimed before?" and says no.

"But come claim time, the insurance company drags up an incident where he was burgled 20 years previously without claiming, because he wasn't insured at the time.

"The insured hasn't mentioned this, thinking he was only being asked about earlier claims. The insurance company rules that he hasn't made a full disclosure and the claim is repudiated."

Ben says he managed to get a settlement offer of R32 000 upped to R56 000 for one client.

He believes strongly that the insurance industry is doing nothing to educate the man in the street.

Randburg's Martin Curran, another public loss adjustor, agrees.

"The insurance industry is very fond of saying that claims are its shop window. But it's apparent to the public that this shop window is in need of vigorous cleaning.

"The cost of short-term insurance is now a substantial part of the householder's and businessman's budget and it is essential that they get value for money for their insurance. The use of a public loss adjustor should ensure this."

The cost of using a public loss adjustor varies. His services can cost up to 10 percent of the settlement figure depending how much work is involved.

Keep an eye on risky business

S Times (Cape Moto) 28/3/93. (58)

PROFESSIONAL practitioners, small businesses and the major corporate groups share at least one thing in common: risk.

Insurance companies note that every form of business has to have assets in order to generate an income, whether it be a human resource, office equipment, manufacturing plant or even display shelving in a shop.

Resources

The loss of such an asset, which could be worth a fairly minor amount, would be as devastating for a small business as a loss running into millions of rands would be for a huge corporate.

Insurers say the small businessman has to dedicate as much care and thought to insuring his assets as the bigger players would.

However, unlike the big groups which can afford to employ risk managers to access their risks, small businesses have to rely on their own resources.

Small businesses and professionals should therefore contact a broker who would be able to assess the client's risk and recommend the appropriate insurance required, insurance brokerage PFV Commercial & Industrial MD Dave Beezer says.

Beezer points out that the type and scope of insurance cover required would be dependent on the nature of the business concerned.

However, he says insurance should be regarded as a crucial operating expense. In this regard, he adds that the Receiver of Revenue allows companies and professionals to deduct insurance expenses against income.

Beezer says a professional practitioner or businessman should identify his major risks, "in other words losses which would wipe out his business," for insurance purposes. The minor risks could then be self-insured which would help to keep insurance costs down.

He adds that higher excesses could be included in a policy which would result in lower premiums.

Beezer cautions, however, that consultants or one-man businesses operating from home should realise that their personal insurances will not cover any business-related losses.

Value

The SA Insurance Association says the important areas which need to be insured include the destruction or loss of property, loss of income, liability and claims arising from situations whereby one has subcontracted to other parties.

Stangen product and research manager Malcolm Marshall says comprehensive, all-inclusive insurances afford better value than insurance purchased on a "piece-meal" basis.

"It is possible, when a client is buying an all-in-one package, for the insurer to reduce individual rates."

Brokers scared of being sued

St Times Cape Metro

THE insurance business is worried that "sue the broker" may become as common in South Africa as it is in the US and UK.

"America was the first country where brokers were sued at the drop of a hat, and this spread to the UK," said a South African broker. 28/3/93

"There is a real fear that with the growth of consumerism in South Africa the same thing may happen here."

58

The South African Insurance Brokers' Association (Saiba) and the Insurance Brokers' Council of South Africa (IBC) say both have received an increasing number of complaints about brokers from the public — though few of them related to their members.

The two bodies say they vet prospective members "very carefully".

Menu

Complainants are referred to the SA Insurance Association, the Life Offices Association or the Ombudsmen which have been set up for life assurers and the short-term industry.

Saiba and the IBC, as well as the College of Insurance at the Insurance Institute of SA, emphasise that training people to levels of competence brings positive results.

Des Tobin, principal of the College of Insurance, the industry's main training centre, says it has a comprehensive menu of courses at relatively low cost, where one of the things emphasised is the insurance person's responsibility to his or her client.

Consumer resistance blocks rise in rates

S/Times (Cape Metro) 28/3/93. (58)

SHORT-TERM insurance rates — which have doubled in the last two years — are not expected to rise in the next few months.

So says Cape Town broker David Hersch who supplies brokers, some banks and the public with continually updated comparative insurance rates.

The reason why, just for once, something isn't going up? Consumer resistance.

"With insurance less affordable and money tighter, there is added pressure on family incomes. This is well illustrated in motor theft statistics, where only 22 percent of stolen vehicles are insured,"

Mr Hersch says short-term insurance companies have in the last year made huge profits, despite increasing crime and motor accidents. However, there have been no major natural disasters.

He also believes companies over-reacted to previous losses during bad years and premiums could be too high.

"It's also common knowledge that business portfolios are being subsidised by domestic business."

Although the broker believes it does not pay to be without insurance, he admits the cash to pay for it is becoming harder to find.

But shopping around for the best deal can help. This is made easier with his computer comparisons, which are also available on Beltel.

"It may not even pay to insure both your cars with the same company or to have your domestic and motor insurance in one package," he says.

Mr Hersch believes insurance companies will have to become substantially more consumer-oriented and to be seen to give service and value to survive.

The table above gives a guide to the cost of householder's insurance from the big insurance companies in Johannesburg, Durban and Cape Town.

Excesses differ from company to company and should be checked.

The cover consumers will get for these premiums is a sum insured of R85 000, and it assumes they live in a house with burglar bars and alarm, but do not employ a response company.

Specified all risks of R12 000 and R5 000 unspecified are included.

Bank rate cut unlikely — Nedcor

TIM MARSLAND

THE Reserve Bank is unlikely to cut Bank rate again this year because of an expected increase in inflation, balance of payments constraints and the Budget deficit, Nedcor Bank says in its latest Economic Profile.

Prime overdraft rates are unlikely to change. However, tightening liquidity in the money market for balance of payments reasons could nudge up money market rates.

The 90-day bankers' acceptance rate could hit 12,5% by year-end, compared with its current 12,10%.

Capital market rates could be pushed higher by factors such as the Budget deficit being understated. Moves by Eskom and other public sector bodies to bring offshore loans onshore as they are unwilling to seek rollovers could also affect rates.

February's inflation rate of 9% is likely to persist for March, then return to double digits in April after increases in VAT, the fuel price, postal charges and rail fares. The report forecasts a 2,8% rise in inflation in April from March, pushing year-on-year inflation to just less than 11%.

Star 30/3/93

Estate agents still grappling with deficit

By Meg Wilson
Property Editor

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A new executive committee has been appointed to run the troubled Institute of Estate Agents (IEASA) — and find ways to reduce or eliminate its expected R475 000 year-end deficit.

This follows the resignation last week of national president Ian Taylor and his committee at an emergency meeting.

This had been called in the wake of a letter to members, signed by Taylor, outlining the institute's financial predicament and appealing for help.

As previously reported, the letter said the institute had approached the Association of Mortgage Lenders (AML) for help, and that this organisation would probably match the money raised by members rand-for-rand.

However, speculation has been that the AML would only help on condition the institute implement budget and staff cuts, and that it cut its links with multi-listing organisation Comprehensive Property Services (CPS).

New IEASA president Colin Sidelsky said yesterday the new executive committee had not decided whether to accept an AML loan, although one was on offer.

He claimed the institute's "temporary cash flow problems" had almost been resolved, through the restructuring of subscription rates, and early payment.

changing this policy; if not, why not; if so, (a) in what manner and (b) when;

(3) whether she will make a statement on the matter? D122E

The MINISTER OF EDUCATION AND CULTURE:

(1) *General Policy*

The policy for the introduction of Indian languages and Arabic, with effect from January 1984, is clearly set out in Paragraph 5.2 (pp F5 and F6) in the Principal's Handbook. In summary the policy is as follows:

The initial choice between an Indian Language and Cultural Studies rests with the parent/guardian of the pupils concerned.

The institution of an Eastern language teaching unit at the Std 2 level in a school in any year shall be conditional on:

(i) A minimum of 15 pupils being enrolled for the language chosen; and

(ii) A teacher for the language chosen being available at the school concerned.

If there is a viable demand for an Eastern language, but a teacher is not available at the school, the principal may arrange to engage the services of a part-time teacher in consultation with the Superintendent of Education (Management) for the school and Staffing Section.

With the appointment of Language Promoters the responsibility for approving institution of teaching units and the appointment of part-time teachers are handled by them.

(2) (a) and (b)

No, in respect of the following policy issues:

The policy in respect of the following will not be changed in the immediate future because of their relative effectiveness in promoting Eastern languages.

Size of teaching units

Where economic units cannot be established class sizes of 7 pupils (and in some special cases even lower) will be permitted.

Use of part-time teachers

The use of part-time teachers will also continue although it is preferable to have academically and professionally qualified educators.

Rate of payment

The present rate of payment will be retained to ensure that we do not lose the services of these teachers in the course of the year.

Yes, in respect of the following policy issues:

Giving Indian languages a more curriculum-based identity:

Over the years, Eastern languages had acquired a more culture-oriented identity. The result was a general approach that stressed both culture and language competence, often to the detriment of the latter. Pupil motivation often tended to weaken with each passing year.

Therefore, serious attention is being given this year to the task of ensuring that Eastern languages are given a curriculum-based identity. This is a matter of great urgency as an educational language policy is currently being discussed nationally in preparation for a revised curriculum for a unitary education system.

(3) Up till 1991 class units for Eastern languages were constituted and commenced within the first month of the school year. In 1991 creation of class units continued well into the latter half of the year. This was:

— educationally unsound in that there was no possibility of uniform syllabus coverage for all pupils;

— organisationally disruptive to the school;

— detrimental to the image of Eastern languages as a subject in the curriculum as no other subject was organised in this manner;

— fiscally irregular in that funds could not be accurately budgeted.

The accelerated creation of class units will minimise the consequences noted above. Nevertheless, adequate time was allowed to Language Promoters in that the task of creating class units was extended into March. The effectiveness of this policy can be inferred from the fact that as at 13 August 1992 the Department had employed 460 part-time teachers of Eastern languages. The number projected for 1993 was 511 part-time teachers. But, as at 24 March 1993 the Department has employed 644 part-time teachers for the 1993 academic year. The pupils in the charge of these teachers are thus guaranteed at least three full terms of instruction in Eastern languages.

State financed dwellings: hardships

*6. Mr G MARI asked the Minister of Local Government, Housing and Agriculture:

(1) Whether the Durban City Council has approached his Department in respect of hardships allegedly experienced by persons occupying State financed dwellings as a result of the application of the 1987 rental formula; if so, when;

(2) whether any steps have been or are to be taken to deal with this matter; if not, why not; if so, what steps;

(3) whether he will make a statement on the matter? D141E

The MINISTER OF LOCAL GOVERNMENT, HOUSING AND AGRICULTURE:

(1) No.

(2) Falls away.

(3) Yes On 3 March 1993 the Durban City Council made an application to the Department to transfer an amount of R1 million from the Community Facilities Fund to the hardship fund to assist tenants who are experiencing difficulties in paying their rentals. This matter is being investigated at present and should there be sufficient monies in the Community Facilities Fund, the matter will be referred to the Housing Development Board for a decision.

For written reply:

General Affairs:

Short-term insurance: regulation by legislation

21. Mr M RAJAB asked the Minister of Finance:

(1) Whether he intends introducing legislation to regulate the short-term assurance industry; if not, why not; if so, (a) for what reasons, (b) when and (c) to what extent will such legislation amend existing legislation in this regard;

(2) what (a) persons and/or (b) bodies have been consulted in this regard;

(3) whether he will make a statement on the matter? D108E

The MINISTER OF FINANCE:

(1) (a), (b) and (c)

The insurance industry is presently regulated in terms of the Insurance Act, 1943 (Act No 27 of 1943). Due to the fact that this Act is outdated and in need of reform it has been decided that draft bills to regulate the short-term and long-term insurance industry should be formulated to replace the Act.

(2) (a) and (b)

The representative organisations of the long-term and short-term insurance industries, academics and other interested

cont

parties such as the Association of Mortgage Lenders of South Africa, the South African Coordinating Consumers Council and the National Black Consumers Association.

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(3) It is envisaged that the aforesaid bills be finalised in the course of 1993 with a view to submit the bills for consideration by Parliament during the 1994 Parliamentary session.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Pollution in rivers in Eastern Transvaal

109. Mr A A B BRUWER asked the Minister of Water Affairs:†

Whether there is any pollution in rivers rising in the Eastern Transvaal; if so, (a) in which rivers, (b) what is the (i) nature and (ii) extent of this pollution in each case and (c) what steps are being taken to combat the pollution? B238E

The MINISTER OF WATER AFFAIRS:

Yes, wherever human activities and land use occur there will be an impact on the water quality of rivers and other water resources. The difference lies in the level of acceptability. All rivers in the Eastern Transvaal are presently being affected to varying extents by pollution and to give more detail the question will be answered individually for each important river.

(a) Komati River Catchment

(b) (i) Mainly salts and acid mine water emanating from closed coal mines and opencast mines in the Highveld area. Partially treated sewage is discharged from some underdeveloped towns.

(ii) Most of the pollution cases entail small volumes of water with an unacceptable quality. The water quality of the water resources in general, and certainly in the Vygeboom Dam and downstream thereof, is considered to be of reasonably good quality and acceptable for use.

(c) Each individual mine is involved in an environmental management program. Towns in the catchment are currently upgrading their effluent treatment works.

(a) Crocodile River Catchment

(b) (i) Mainly salts and non-toxic industrial effluent. Low concentration of arsenic emanate from gold mining operations in the Kaap River catchment.

(ii) Industrial effluent quality in the catchment is improving but further improvement is needed.

The water in the river remains fit for use.

(c) Industries are co-operating in efforts to improve their effluent quality. The gold mines in the Kaap River valley are implementing measures to prevent further contamination of the river. Permits for the discharge of effluent by major industries are currently being reconsidered and this entails comprehensive impact studies. The Department is currently developing water quality strategies and objectives for the Crocodile River catchment, which also entails comprehensive studies.

(a) Sabie River Catchment

(b) (i) Partially treated sewage reaches the river. As in other Eastern Transvaal catchments exceptional population growth occurs without the necessary waste water management systems.

The breakage of the Zoeknog Dam resulted in silt being deposited in the river.

(ii) The extent of the pollution in the immediate vicinity of the points of discharge is unacceptable. Generally, however, the quality of the water in the river is very good. The Department strives to maintain the quality of the river so that the river will continue to sustain the largest specie diversity of aquatic life in the country. This area has been identified as a priority area to develop and implement water quality management strategies. Comprehensive studies have been commenced and water quality requirements for nature are being developed in co-operation with the National Parks

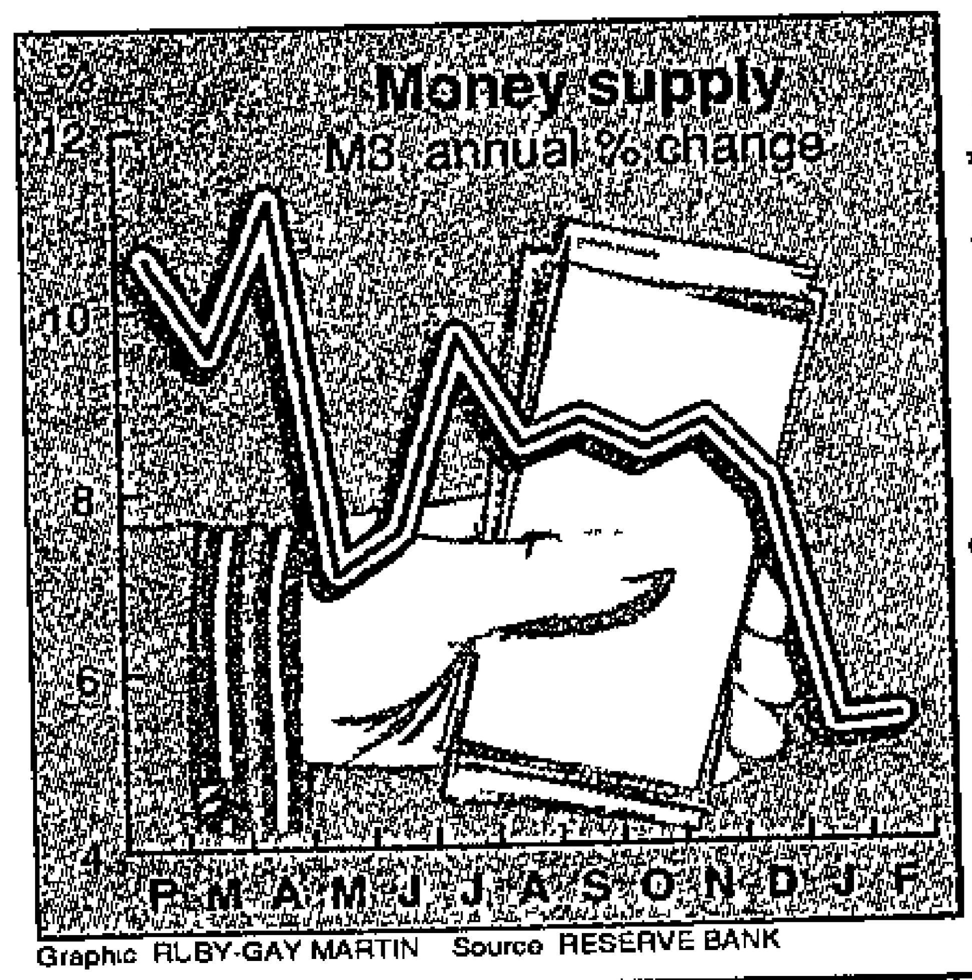
cont/d

Slow growth in money supply

TIM MARSLAND

MONEY supply growth continued at a slow pace in February, reflecting the recession's depth, economists said yesterday.

The broad M3 measure — cash in circulation and all deposits at banks — grew 5,41% in the 12 months to February compared with 5,33% in January, according to Reserve Bank figures released yesterday.



Graphic RUBY-GAY MARTIN Source RESERVE BANK

BDM 31/3/93

Growth from the guideline year (the fourth quarter of 1992) was 1,44% after a 4,81% fall in January. In February, the Bank set the guideline for acceptable growth in broad money supply at 6%-9%.

AHI chief economist Nick Barnardt said the figures indicated the next few months would be tough for retailers. "Credit-intensive retailers could be facing the coldest winter in post-war SA."

(58)

An economist said growth in credit extended to the private sector slowed to 8,4% from 8,8%. While this was bad news for the economy, it was good news for Bank Governor Chris Stals since it showed that credit was under control.

☐ To Page 2

Money supply

BDM 31/3/93

(58)

☐ From Page 1

Barnardt said the downward trend in money supply was a signal that inflation was in a "fundamental downward trend".

Credit-intensive industries such as car retailers faced a tough year. There would be a kick-up in spending ahead of the rise in the VAT rate, but thereafter credit businesses would feel the squeeze.

The economist said slower growth in the narrower M2 and M1 measures could be ascribed to investors switching to shorter-term deposits to take advantage of better interest rates. In the year to January, M2 slowed to 8,07% from 10,85%, while M1 slowed to 14,4% from 17,5%.

Barnardt said February's M3 figure confirmed that January's number had not been simply a "statistical blip".

Estate agents' body elects new leadership

ANDREW KRUMM

LEADERSHIP of the Institute of Estate Agents changed hands last week, following the resignations of president Ian Taylor and two committee members.

Rand Realty chairman Colin Sidelsky has been installed as the new president and two new members were appointed to the five-person executive committee.

Sources said Taylor had won a no-confidence debate centred on the institute's R400 000 deficit and its support for listing service Comprehensive Property Services, but had nonetheless elected to resign.

Sidelsky denied allegations of partiality to Comprehensive Property Services. He said the link had been useful in promoting competition and had provided benefits to estate agents. BDM 31/3/93.

Sidelsky said the institute had met on Monday to decide on measures to address the deficit and improved benefits for its 6 200 members. "The institute will now rededicate itself to serving estate agents by providing information, education and application to its members."

Taylor denied he had resigned the presidency through disillusionment and would remain as a member of the institute's 20-member council.

Industry sources said the Comprehensive Property Services issue had to be resolved soon, as a prospective R300 000 bailout of the institute by the Association of Mortgage Lenders depended on the institute's neutrality. But Sidelsky said the institute had not ruled out obtaining funds from other sources.

Stals warns on interest rates

58

CT 31/3/93

JOHANNESBURG. — Interest rates were currently under pressure to rise because of the squeezing of liquidity in the domestic money and capital markets, Reserve Bank Governor Chris Stals said yesterday in Johannesburg.

He told the agm of the Johannesburg Afrikaanse Sakekamer the country's declining foreign reserves had led to liquidity being drained from the money and capital markets and had also placed pressure on the exchange rate.

"There is consequently strong upward pressure on interest rates now, and a greater demand for accommodation at the Reserve Bank's discount window.

"The Reserve Bank would not want to oppose these trends for much longer, especially as the capital outflow over which we have no control will continue," Dr Stals said.

CDC debt battle

THE Consolidated Diamond Corporation (CDC) further losses for the six months to end December.

The loss of R1,4m was down from the same period in the previous year's loss of R28,1m but pushed the accumulated